



THE CANADIAN CHAMBER OF COMMERCE  
LA CHAMBRE DE COMMERCE DU CANADA

**The Innovation Challenge – for Business *and* for Government**

**Notes for an address by**

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(Check against delivery)

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Thank you Gordon for that kind introduction. It's a great pleasure for me to be here today at the Canadian Club of Toronto.

I believe that the Canadian Chamber of Commerce has a message that must be brought to fora such as this. We are the largest, most important and influential advocate for business in Canada. We seek to create a business climate of competitiveness, profitability, and job creation for businesses of all sizes in all sectors across Canada and for the benefit of all Canadians.

For those of you not familiar with the Canadian Chamber, we are the only national business group with a membership that covers the entire spectrum of private enterprise. We are the only non-political, non-profit association with an organized network of community chambers in every single federal riding.

The Chamber is made up of a network of companies, community chambers, boards of trade, including the Toronto Board of Trade and the Ontario Chamber of Commerce, and more than 60 trade and professional associations. With over 350 chambers of commerce in Canada, the Chamber speaks for over 170,000 members.

As many of you know, we speak on a variety of national issues that are vital to the well-being of the Canadian business community and to Canada. It would come as no surprise then that I have something to say about innovation and in particular Canada's Innovation Strategy.

### ***Canada's Innovation Strategy***

This February, the Chamber hosted Industry Minister Allan Rock for the launch of *Canada's Innovation Strategy*. I would like to take this opportunity to applaud this initiative.

I would however caution the federal government that Canada's business community does not want this to be an opportunity for the government to make a series of expensive spending announcements.

I have heard from many business people who are skeptical about the strategy and believe that the most effective thing the government could do is to just get out of the way. For those of you who missed the poll last week in the *Financial Post*, Canadian Chamber members gave the federal government an average mark of 45% for its handling of innovation.

I sympathize with this frustration but I still think that the strategy is an essential first step in preparing the way to improve our innovation climate.

In the same poll, 85% of business leaders indicated that innovation was a pressing matter, particularly in our ability to compete with the United States. That is why we should take a close look at the government's strategy.



Today, I will focus on what I think are the most relevant or critical of the innovation targets, and how the government and business can work to achieve them. But first, let me take a few minutes to define what we mean by innovation and explain why we need an innovation strategy in the first place.

When I think of innovation, I see the process of developing and applying new knowledge, new technology, and new skills to improve a product or service, or to improve how that product or service is produced. Innovation is not a one-time event, it is a dynamic process that we must do everyday.

It has been stated<sup>1</sup> that, if globalization were a sport, it would be the hundred metre dash, over and over and over. And, no matter how many times you win, you have to race again the next day.

This may be a daunting concept for many people but it is a very apt analogy. We must all be ready, willing and able to run this race again and again and again. The same can be said about innovation.

### *So where does Canada Stand when it comes to innovation?*

I believe that innovation is at the heart of economic growth, for our companies and for our economy. The returns or economic benefits from maximizing our innovative capacity are tremendous. These include increased productivity levels, higher wage levels, better return on investment, more profits, higher employment and ultimately, an increased standard of living for Canadians.

There is no question that Canada has a solid innovation foundation. We are starting from a very positive position with our world-class connectedness infrastructure and our very highly-educated population and labour force, just to mention two key elements.

However, when we look at how Canada compares to other countries in the G-7 and in the OECD, we see that Canada must continue to enhance its innovative capacity if we are to remain globally competitive. And since we rely on our international trade for over 40 per cent of our GDP, winning in the global marketplace is key to our economic growth and quality of life.

According to the OECD, Canada has the seventh highest standard of living among the 30 member countries. However, if we compare ourselves to the world's benchmark economy – the United States – real per capita income in Canada has been steadily falling over much of the last two decades.

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<sup>1</sup> Thomas L. Friedman, *The Lexus and the Olive Tree* – one of America's leading interpreters of world affairs - National Book Award for *From Beirut to Jerusalem*, two Pulitzer Prizes for reporting for *New York Times*.



This is mostly due to Canada's lower levels of productivity. Productivity growth has become the single most important determinant of a country's standard of living and is a direct result of a country's ability to be innovative.

Unfortunately, Canada's overall innovation level is, at present, near the bottom of the world's leading economies. In fact, we are about 20 per cent less productive than the United States.

The perception is that we continue to exhibit what is referred to as an "innovation gap". We do not compare well to leading industrial countries across a range of traditional indicators. This includes R&D spending as a percent of GDP, number of external patent applications and number of researchers relative to the size of our labour force.

So if innovation is so important to our productivity, our jobs and our standard of living and we are lagging internationally, then we had better do something about it.

The innovation strategy is a good place to start – it is a rallying point for government, business and academia, challenging us all to do our part to make Canada one of the most innovative countries in the world.

We at the Canadian Chamber are taking up the challenge and we are engaging our members to think and do innovation. I will come back to that, but I would like to talk about what the government has proposed.

### *Taking up the challenge*

I feel strongly that the most appropriate role for governments at all levels is to establish a supportive business environment. The innovation strategy does contain a commitment from the federal government to do this.

Clearly the government has recognized that while innovation must be driven by the private sector, the government also has a critical role in making Canada an attractive place for investment and entrepreneurs.

Specifically, the government strategy recognizes that competitive business taxes and streamlining the regulatory and legal environment are prerequisites for innovation. This is an important recognition.

So I want to talk first about taxes. Not a popular subject this time of year.

If the government is going to convince the business community that it is serious about innovation, then lowering tax rates is the place to begin. Now I know that some critics of the Chamber say that this is a narrow point of view and that innovation should be about education, skills training and research. Well, it is all those things, but it is also about having a competitive and attractive business climate.



We must allow a fair reward for the risk taker and incentives for the innovator. Allowing individuals and corporations to keep more of their hard-earned money is the best incentive and the most meaningful reward. We shouldn't be afraid to believe it and to ask for it.

So while the federal government has made significant progress with Canada's tax regime – particularly corporate taxes – there is more to be done. Making our business taxes more competitive than the G-7, especially the United States, is imperative to attract and retain investment and talent.

We need to recognize that there are some taxes that are worse than others, such as capital taxes. Canadian governments rely much more on capital taxes than do those in the United States. Taxes on capital have a negative impact on economic growth since they increase the cost of capital, creating a deterrent to business investment. Ultimately, capital taxes discourage investment in new technology and stifle innovation.

Moreover, Canada is facing the increased challenge of attracting and retaining skilled workers, a prerequisite to maximizing our international competitiveness and innovative capacity. In order to attract and retain highly-skilled and productive human capital, much more needs to be done in providing fair taxes for all individuals.

If we look at Canada's top marginal personal income tax rate, it is well above that of the United States. In addition, the Canadian rate takes effect at a substantially lower level of income than in the United States – at about Cdn\$100,000 to their US\$300,000.

Therefore, when the federal government says that it wants to ensure Canada's business taxation regime continues to be competitive with those of the other G-7 countries, we have some work to do on eliminating capital taxes and reducing the high marginal personal income tax rate.

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In addition to competitive taxes, the federal government must work to ensure that the legal and regulatory environment is efficient, flexible and transparent. Let me translate this – we need to make Canada a place where it is easy to do business. So often we hear the reverse.

The Canadian Chamber fully supports the government's plan to implement a systematic regulatory review that will hopefully reduce the regulatory burdens that currently inhibit our economic and innovative activity. This is in fact one of the most difficult challenges for the government, and one which is driven by political will, not budgetary limits.

Many of our regulatory complexities are self-inflicted. One only has to think of examples such as our lengthy drug approval process, to realize how much we could improve if we wanted to. We still have many inter-provincial trade barriers, in spite of the enthusiasm of provincial premiers to be free-traders abroad.



One concrete example is the fact that we have 13 security commissions in Canada. Just two weeks ago you heard from Barbara Stymiest, CEO of the Toronto Stock Exchange, who is leading the campaign for a national securities commission.

I applaud her vision and hope that all provinces and the federal government will come together to make it easier for our markets to compete effectively for global capital. If we want to be innovative, then Canada should allow companies and investors to list and trade with the least possible obstacles.

Cutting through the regulatory jungle is one area where we as business leaders can be helpful to government. When Minister Rock comes looking for our comments and input into the innovation strategy, we should all have ready our proposals for regulatory reform. There is no lack of input on this issue.

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I am also glad that the skills issue is being addressed in the innovation strategy. Human capital has become the core input of the twenty-first century – it is the primary element to the innovation process. Analysis from the US Department of Labour shows that a one per cent increase in skills has the same effect on output and productivity as a one per cent increase in hours worked.

It would seem to me that a commitment to invest in education and training – to increase skills – should be a priority for Canada for both the public and private sectors.

Firms in many different sectors are already telling us that they are experiencing difficulties in recruiting and retaining highly skilled workers in specialized areas. We're going to need a lot more than a five per cent increase per year in the number of Masters and PhD students – the target put forward by the government. At best this will be a stop gap.

In addition to producing the best and the brightest in the world we must encourage highly-skilled people to immigrate here.

Immigration has always been a major source of qualified workers for Canada, but as the global competition for skilled labour increases we must become more aggressive in our approach.

Unfortunately there seems to be a contradiction between this goal and the new more restrictive immigration regulations currently before Parliament. If Canada does not fix its system and cannot compete in a positive way for people looking to emigrate, then our members cannot continue to grow the country's economy or compete globally on a level playing field.

We must also make it easier for skilled immigrants to obtain employment in the profession or trade for which they hold foreign credentials. Too many highly-skilled



people faced with the costs of repeating their studies or undertaking further training have simply given up, resulting in a significant productivity loss to Canada. The government can help to ease this problem by working with industry and professional associations to develop national and international accreditation standards to evaluate foreign credentials.

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The innovation strategy, in considering research and development, has set 2010, as the date by which the federal government wants Canada firmly established as one of the top five countries for R&D performance. For its part, the government will at least double its spending in R&D.

And, as the largest research investor in Canada, the private sector has work to do. Currently, the amount of R&D performed by Canada's private sector lags behind major OECD countries. Despite having one of the best R&D tax credits in the G-7, Canada ranks 13th in business spending as a share of GDP, well below internationally competitive levels. That's not good enough. We must do better.

It should be noted that, in recent years, the federal government has made significant improvements to the administrative process whereby companies apply for, qualify for and receive (Scientific Research and Experimental Development) SR&ED tax credits. I will be encouraging more of our members to take advantage of these credits by investing more in research and development.

The government must do its part by ensuring that all Canadian businesses know about and have access to this tax credit system. It is imperative that more be done to raise awareness among SMEs and to help facilitate their access to the system. We should not think that the job is done by doing more R&D. It is a means to an end, that end being the adoption of R&D technology and the improvement of productivity. Together, business, government and academia need to diffuse the benefits and results of R&D into the economy and throughout the different sectors.

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One final point about innovation. We know that productivity is derived not from simply creating new ideas, processes and technology but from implementing them within individual firms and on a nation-wide basis. At the Canadian Chamber, we are committed to taking innovation to the individual firm level.

If individual firms do not leverage the technologies and processes produced through innovation, then our society and economy will not experience the maximum benefits from this process. This is particularly so for the adoption of e-business in small and medium sized enterprises.

While Canada has reached an important milestone in small business connectivity of about 50%, we continue to lag well behind the U.S., where 77% of small businesses are online.



And if we look at online sales, in 2000, small Canadian businesses did slightly over 2% of total sales, still well behind their US counterparts who were at 10%.

Through our participation in the Canadian e-Business Opportunities Roundtable, the Chamber has done extensive work in the area of e-business and we are working to help firms get around the barriers that impede e-business adoption. We will be continuing this work with the newly formed Canadian e-Business Initiative of which I am a co-chair, along with Pierre Paul Allard of Cisco Systems.

### *Conclusion*

If we are going to compete globally, we will need to move faster and work smarter than our competition. We cannot afford to rest on our laurels. The status quo is no longer acceptable. If Canada is going to remain one of the best places in the world to live, innovation must be more than an ideal – it must define who we are.

At the launch of the innovation strategy, Minister Rock stated that there would be a series of regional and sectoral consultations to ensure that the final form of the strategy meets the needs of all Canadians.

This is a chance for the voice of Canada's business community to be heard. I hope that all of us here today will take advantage of this opportunity.

We will be looking to the government to set out detailed deliverables as part of their consultations leading up to the fall "Innovation Summit." These should include specific innovation benchmarks, timeframes and targets. I have touched on some of these today such as competitive taxes, streamlined regulations and increased immigration of skilled people.

For our part the Canadian Chamber will continue to challenge the business community to invest more in research and development, ensure that the benefits of R&D are diffused in the economy, do more to train workers and to increase investment in e-business.

If both government and business take up the innovation challenge we will all reap the rewards. Our firms will be more productive and more profitable. The benefits to our country will be increased economic growth, enabling us to create a higher standard of living for all Canadians. The Canadian Chamber has accepted the innovation challenge and we invite you to join in.

Thank you.

