



Budget 2007- Current Perspective

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**By: Dr. Art Olson,
CFBS Executive Director**

We were asked to provide our best guess of what's likely to happen on Budget Day 2007 (expected March 19th) – when the Government tables their financial plan for the coming year or so. The decision process is actually an ongoing process – with announcements of direction built into last spring's Speech from the Throne, further defined by Budget 2006, tweaked by various announcements, all brought up to date with the Economic and Fiscal Update issued last fall and then further supported by a variety of announcements this spring. It's not a simple process either with a new government, demands from every corner of our society and from our international commitments that result in the large number of new initiatives that Departments and agencies put forward either individually or collectively for financial support. Shifts in the Government's priorities can have major impacts.

The Government has made it clear in the Economic and Fiscal Update that they intend to:

- Focus government on what it does best.
- Create new opportunities and choices for people.
- Invest in sustainable growth through investing and seeking partnerships with the provinces and the private sector in strategic areas that contribute to strong economies, including primary scientific research, a clean environment and modern infrastructure.
- Free business to grow and succeed by creating the right economic conditions to encourage firms to invest and flourish.

While we're about 5 weeks away from the event, we suspect that we're going to see tax and support initiatives to encourage industry to expand their investment in innovation, significant change in the structure of Federal-Provincial equalization payments, limited growth in support for the granting councils and relatively little change in funding for non-regulatory government laboratories this spring.

- **Equalization payments:**
Canada's economy has changed – we only have to look at the massive migrations of talent and shift from “have-not” to “have” provinces in past few years. As a result, the relatively polite equalization approach just isn't working – and the consequences in terms of education, health care and infrastructure visible to all of us. We expect to see change with provinces assuming more of their responsibilities although moving as far as dedicating a portion of transfer payments to higher education does seem a bit remote.

- **Granting Councils:**

Everything suggests increases in line with inflation with any further increases likely targeted to either commercialization or specific areas of strategic interest to Canada such as the environment. Some scholarship support and some internship funding for work with industry is likely as well. The Government has stated explicitly that it intends to “Maintain Canada’s leadership in the G7 for public sector research and maximize its value by focusing on excellence and increased linkages with the private sector”.

- **Government support programs:**

We can anticipate change in the nature of government support to industry being announced this spring.

1. Government has already stated that they intend to have the lowest tax rate on new business investment in the G7, to improve the competitive framework and to be open to trade and foreign investment.
2. Studies over the past few years have emphasized that the investment in innovation and development by industry in Canada is not as strong as in many OECD countries – actually, we’re at 17th. At the same time, Canada ranks first in the G8 in terms of government investment in academic research. One could expect this government to try to find new ways to encourage the industry side given the economic impact.
3. At the same time, they are under significant pressure to provide some means of direct government support to industry.
 - I. The Technology Partnerships Canada (TPC) has expired. Some form of replacement is likely. The previous government’s replacement programming (an incubator fund and an aerospace/defence technology development program) never got off the ground) and the current government when in opposition challenged both the split in TPC into two programs and TPC’s poor repayment record.
 - II. Government has been inundated with recommendations encouraging innovative industry investments – for instance, the Rotman report stresses that government has not been dealing with the demand side of commercialization. The report recommends a variety of proposals to encourage industry to use the talents available in Canada, to create a commercialization superfund, to enhance seed and “angel” funding, enhancing our commercialization capacity and reducing barriers to foreign venture capital.

- **Government research programs:**

While essentially anything remotely related to research has been under review by Departments and by the central agencies, don’t expect major change this year for a number of reasons.

1. The senior science managers across government have been looking at what are the Government of Canada’s research needs. While this may have been the reason for the numerous strategic research plans developed across government, it appears unlikely that significant change will happen unless funding for joint programming is made available. There just isn’t much room to play given that the budgets for the federal labs have been essentially frozen for the past 7 years and as a result, the ability to meet national S&T challenges in health, environment, energy, etc., are

seriously at risk. As well, as long as the structure of government encourages stove-pipe approaches, effective, long term cooperation between departments appears unlikely.

2. The Treasury Board's Federal Laboratories Infrastructure Program (FLIP) is just starting to look at the physical condition of the labs and their equipment. Some of the labs have reached the stage where closure is the only alternative and joint ventures such as the Winnipeg lab shared by Health Canada and the Canadian Food Inspection Agency become the norm.
3. The Government has indicated that it would explore opportunities to transfer non-regulatory labs to the university sector. Identifying how to make such moves win-win for both sides will take some work.

- **Environmental research support:**

Recent announcements including this week's Canada EcoTrust have focused on technology adaptation by provinces and industry. Given the uncertainties implicit our current levels of knowledge, support for research targeted towards environmental issues ranging from toxicology through to long term baseline studies could be expected.

*To reiterate, in about 5 weeks we'll find out if the new Government will put in place tax and support initiatives that encourage industry to expand their investment in innovation, how much change they and the provinces are agreeing to make in the structure of Federal-Provincial equalization payments, whether we'll continue to see limited growth in investment for the granting councils, the time frame for changes in government laboratories and if environmental research will be expanded. **Given the current environment in the House, regardless of what's actually in the Budget, we may be looking at an election later this spring. If so, all bets are off until the next Budget gets tabled.***