BIOTECanada

August 5, 2016

House of Commons Standing Committee on Finance
Parliament of Canada
Ottawa, Ontario K1A 0A9

RE: pre-Budget Consultation 2017

On behalf of the member companies of BIOTECanada, I am pleased to submit to the House of Commons Standing Committee on Finance the industry's perspectives and recommendations in the context of the 2017 Federal Budget consultations. The Canadian biotechnology industry greatly appreciates this opportunity to contribute to the Finance Committee's consultations for the Federal Budget.

BIOTECanada is the national trade association representing Canada's biotechnology industry. The 230 member companies of BIOTECanada are reflective of the broad and diverse Canadian biotech ecosystem which stretches across the country and includes: world-class universities and research institutes; SME's; entrepreneurs; and, large multinational players all of which are supported by a highly skilled and educated workforce. All told, the Canadian biotech ecosystem is an economic strength that positions Canada well to successfully compete in the emerging global bio-economy. With this as a backdrop, the industry's pre-Budget submission will focus on objective #2 of the Committee's consultation:

> "***What federal actions would assist Canadian businesses meet expansion, innovation and prosperity goals and thereby contribute to economic growth***"?

The 2017 Budget and the development of the federal ***Innovation Agenda*** arrive at an important time for Canada's biotechnology industry as it builds upon an established expertise for entrepreneurship and commercialization of biotechnology innovation in the health, agriculture and industrial sectors and capitalize on rapidly growing global demand for the solutions biotechnology provides. With the world's population rapidly approaching the nine billion-person mark there is a social imperative to develop solutions to address the challenges of feeding and caring for a growing population and a planet impacted by this rapid and significant population increase and its corresponding economic growth. In meeting this social imperative there is a significant economic opportunity for Canada's biotechnology sector and the solutions it represents. Importantly for Canada, the biotechnology sector is developing innovation that will support the transformation of cornerstone industries such as mining, forestry, oil & gas, manufacturing, and agriculture which must all remain competitive in the global bio-economy.

At the Davos World Economic Forum, Prime Minister Trudeau recognized this important economic opportunity when he noted that Canada's biotech sector is an important catalyst for the country's economic growth and diversification. However, Canada is not alone in recognizing this burgeoning global opportunity. Other nations are moving quickly to capitalize on the enormous economic potential of biotechnology innovation. Correspondingly, Canada must keep pace. Recognizing this challenge, the industry welcomes the development of the federal ***Innovation Agenda*** and the specific priorities identified as part of the Committee's 2017 Budget consultation as they both reflect a common goal, namely: building on Canadian innovation to create globally competitive, Canadian companies which will support high value jobs and drive additional innovation.

In this context, the 2017 federal Budget represents an important and timely opportunity to identify the areas where government and the industry can work together to maintain Canada's leadership role and diversify its economy. While industry must be take responsibility for its overall competitiveness, government does play a central role in establishing the 'hosting conditions' for industry success. Importantly for Canada's biotech industry, it is government hosting conditions that often help attract the investment required to drive biotech

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research and development. As such, in the context of the Federal Budget, the industry recommends two over-arching objectives that will support the growth and increase the competitiveness of Canada's biotechnology sector, namely:

I. Support the Attraction of Investment Capital

Investment capital is the lifeblood of successful research and innovation. Investment is extraordinarily mobile; it will go to wherever it is provided the greatest security and return. As other nations undertake initiatives to attract investment capital, Canada must do likewise. Ultimately, if Canada is not attracting investment capital then the innovation, which is often equally mobile, will go to the investment taking with it the economic benefits associated with its commercialization. Investment programs such as those within the Business Development Bank of Canada, SDTC, and IRAP are key value drivers for early stage biotech companies seeking international investors and capital. Accordingly, to retain innovation for commercialization purposes and reap the corresponding economic benefits Canada must continue to support these programs.

However, life sciences represents a unique form of investment. The risk profile and timelines associated with developing a new biologic therapy or industrial, environmental and agricultural biotech innovation is more complex and lengthier than most other types of innovation related investments (eg: IT). For this reason, biotechnology innovation has a specialized pool of investors with a unique expertise and understanding of the science and risks associated with commercialization. Correspondingly, the industry recommends the Budget recognize the sector's unique requirements and provide measures to support investment specific to life sciences.

i) Increase and Accelerate Access to Life Sciences Investment Capital

Since 2013 the Venture Capital Action Plan (VCAP) has made available $350M to support the establishment of large-scale private sector-led funds. A small portion of the VCAP was set aside for life sciences. These funds have just recently been allocated and invested in the biotech sector but nonetheless are showing considerable promise in relation to driving the commercialization of companies and attracting additional investment to Canada. It is important that this momentum be maintained by committing additional financial resources to re-finance the VCAP and ensure biotechnology and life sciences are provided access to the funds.

Recommendation #1

Re-capitalize the federal VCAP fund with a larger allocation dedicated to life sciences than mandated in the original VCAP. The dedicated funds should include both fund of fund investments and an expanded envelope for direct life sciences venture capital fund investment.

Recommendation #2

The federal government provide seed funding for a direct life sciences venture capital fund. The fund could be modelled on Israel's Yozma Life Sciences fund which leveraged a government commitment of up to $100M into a greater than $1 billion fund which included investments from multinational pharmaceutical companies and institutional investors. A similar investment by the government into a dedicated life sciences fund in Canada would greatly enhance the life sciences investment pool in this country and attract other investors (eg: institutional investment) to the sector.

ii) Supporting Canadian company expansion

A number of jurisdictions have established specific tax measures to support a company's early stage growth by providing reduced tax rates on revenues earned from commercial activity relating to a company's intellectual property. The 'Knowledge Development Box' (Ireland) or 'Innovation Box' (Netherlands) provide good models for Canada. A similar initiative would complement Canada's strong biotech research and development capacity and increase its competitiveness in attracting and retaining IP holdings by encouraging commercial development of the intellectual property in Canada. Such an initiative would significantly support early stage companies to establish and grow their companies in Canada.

Recommendation #3

Establish an Innovation Box to incentivize the growth of companies and commercialization of intellectual property in Canada.

II. Continue Government Program Support for Biotechnology Commercialization

Moving innovation from the discovery to commercialization can often be one of the most difficult transitions for a biotechnology entrepreneur/company. Several existing government programs/measures (eg: Industrial Research Assistance Program [IRAP], the Sustainable Development & Technology Canada programs at Natural Resources, MITACS, Growing Forward programs, the Scientific Research and Experimental Development Tax Credit [SR&ED]) have proven instrumental in reducing the risks and supporting biotechnology innovation through this early stage commercialization phase. Correspondingly, the industry supports the maintenance of SR&ED and IRAP programs with expanded scope to further make these programs beneficial to life sciences and biotechnology.

i) Enhance Scientific Research & Experimental Development Program (SR&ED)

The federal SR&ED program has been a significant competitive advantage for many early stage biotechnology companies for which scientific research and development is their primary 'commercial' activity. However, at present, only companies headquartered in Canada are eligible for SR&ED tax credits. The current program limitation related to location of ownership is a direct and immediate barrier to attracting research and development from non-Canadian based companies who could expand research and development activities into Canada. This limitation has also driven expertise and investment out of Canada. The intent of the SR&ED program should be to incentivize investment in research and development in Canada, regardless of the company's and/or investor's country of origin. Ultimately the spin-off benefits to the Canadian ecosystem of increased R&D activities undertaken by non-Canadian companies will greatly enhance innovation in Canada more broadly.

Recommendation #4

The SR&ED program should be expanded to recognize research and development activities undertaken in Canada by non-Canadian headquartered companies and/or investors.

ii) Reinstate Statistics Canada Biotechnology Use and Development Survey

To establish Canada as a global leader in innovation it is essential that there are tools to measure the sector's progress and growth. Until 2005, Statistics Canada led the Biotechnology Use and Development Survey (BUDS). The survey provided information regarding the key characteristics of companies developing biotechnology based processes and products across the full spectrum of sectors including health, agriculture, bio-products and manufacturing, sustainable energy and resource management. The last year the survey was completed was 2005. The loss of this vital data and analysis has left Canada without the ability to track internationally competitive quantifiable data in measuring the bio-economy (importantly, this makes Canada unique amongst the G-7and OECD countries). Correspondingly, Canada is not able to monitor the value chain milestones for transformative innovative biotechnology from laboratory research through to global market driven products and places Canada at an immediate disadvantage amongst international global bio-economy collaborators and competitors.

Prior to its cancellation, the survey was supported by the directly impacted federal departments of Industry Canada, Agriculture Canada, National Research Council, Canadian Institutes of Health Research, Natural Resources Canada, Department of Foreign Affairs and International Trade, Health Canada and Environment Canada. This interdepartmental support fostered policy and program alignment while enabling measurements for economic growth, regulatory effectiveness, program uptake, investment attraction, human resource capacity requirements and global competitiveness.

Recommendation #5

The government work with industry to reinstate the Statistics Canada Biotechnology Development and Use Survey (BUDS).

Recognizing the important role the Committee plays in shaping the federal Budget, the industry commends the government and the Minister of Finance for consulting stakeholders during the lead-up to the 2016 Budget. In particular, the industry greatly welcomed the government's decision to not alter the tax treatment of stock options. For early stage biotechnology companies (and many other sectors with SMEs), stock options represent a vital tool that enables them to attract and retain top Canadian and international talent. Without the financial resources needed to directly compensate employees monetarily, many early stage companies in the sector rely on options as a means of rewarding the risk taken on by employees. A favorable tax rate for stock options is a fundamental compensation tool for early stage and start-up companies who are at a significant competitive disadvantage vis-à-vis international competitors, particularly those based in the US.

Once again, the industry greatly appreciates this opportunity to contribute to the 2016 Federal Budget development process and would greatly welcome and opportunity to contribute to the Committee's fall pre-Budget hearings.

Sincerely,

Andrew Casey
President and CEO