

Intelligence MEMOS



From: Daniel Schwanen
To: Ontario Ministers in Charge of Innovation Policy
Date: January 18, 2022
Re: TACKLING CANADA'S COMMERCIALIZATION DEFICIT

In a [previous memo](#), I illustrated Canada's unique position as a world leader generating and exporting research and development, while at the same time being a net importer of intellectual property (IP).

The issue has persisted for decades, and proposed solutions typically stem from two opposite schools of thought. One is a supply-side view and could be nicknamed "If you hoard the IP, they will come."

It suggests that the IP derived from data collected or research performed in a particular jurisdiction should be preserved at home, for domestic firms to commercialize.

To use a [restaurant analogy](#), applied to a jurisdiction like Ontario, this view basically says that if we were only able to amass sufficient home-grown ingredients in the provincial innovation kitchen, then our local business "chefs" will finally have what they need to operate a commercially successful five-star restaurant.

The problem with this argument is that access to the ingredients is insufficient to build a world-class restaurant. Indeed, any successful restaurant will often base its offerings on several ingredients that originate from elsewhere. At the same time, the growers of these ingredients would be poorer if they could not sell it outside their own local market.

The restaurant analogy also applies to the opposite policy view.

Ontario can attract the best chefs, and first-class management and capital backers with knowledge of the industry (who may or may not themselves be local). It can market itself with flair. And it should not be so over-regulated and over-taxed that good restaurants can't flourish as a business. With this approach, Ontarians will likely succeed, no matter where the ingredients originate. And once it is great at the business, then local suppliers and skilled workers, and indeed all kinds of restaurant-related experts and businesses from everywhere, will flock to the province.

Translated into the broader economy, this analogy shows simply reserving data or IP for local businesses, will not foster thriving data- or research-based economic activities in Ontario. It's what one does with the data and the IP that creates the jobs and the wealth.

Another analogy, with the resource sector, is useful. Some resource-rich countries have remained poor (the "resource curse") by focusing on "value-added" strategies that call for restricting exports in the hope of fostering a domestic industry based on the resource. Other nations, however, have grown rich by mastering all the engineering, finance, management, marketing, environmental and other skills needed to add wealth around the resource – so much so that we no longer regard them as resource-based economies. The US is the most [prominent historical example](#).

Ontarians are certainly entitled to derive benefits from data collected here and the research generated by public institutions, or by private actors supported by public funds. However, governments need to be wary of creating a data- or IP-hoarding jurisdiction with feedstock reserved for domestic industry. The real problem is how to create value more broadly from such data and IP, whether it originates here or abroad.

Requiring institutions and researchers to funnel the fruits of their data collection or research efforts, such as the IP based on them, specifically to domestic businesses, is a sure-fire way of losing researchers, innovators, and investors to more open and/or larger jurisdictions. And such hoarding will stifle international partnerships that are increasingly important to innovation.

Instead, what is needed are policies to support research efforts and better connect the result of those efforts with emerging economic activities in Ontario. Examples of such policies include a "knowledge-box:" allowing special tax treatment for the commercialization of home-grown patentable knowledge, creating a reward to continue to develop and commercialize activity locally.

Innovation-friendly procurement policies would allow the procuring entity more flexibility to achieve its objectives, by working with innovative suppliers. Governments can invest in skills, both "tech" and complementary skills that support the commercialization of innovations, and take a more innovation-friendly approaches to regulation. These should all be part of the mix allowing Ontarians to garner the benefits of a digital and IP-based economy.

Ontario innovators should not have to sell their IP to those in other jurisdictions, or let it go idle, for lack of a robust commercial development ecosystem. Education and awareness around the management of IP, and fostering stronger connection between the generation of IP, innovative business ideas, and patient private investors and capital, will help key to address the commercialization deficit. Capital is not just about financing or shouldering risks. It is itself steeped in knowledge and experience about what it takes to grow a business.

Ultimately, Canadian companies will not grow based on captive IP, but on making it attractive for talent and businesses to come to and remain in Canada.

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