

expenditures over the 1961 base year. This programme was established for an initial period of five years and, where full advantage can be taken, effectively reduces the net cost of new corporate research and development activity to 25 cents on the dollar.

Preliminary analysis of the effects of this incentive indicates that its major effect was on capital expenditure, which rose by the remarkable figure of 140 per cent between 1961 and 1963. In the case of current expenditure, the overall rise in company-financed research and development was 43 per cent, which includes the combined effects of the tax incentive and normal growth over the two year period.

NEW INCENTIVE MEASURES

As a result of the favourable experience to date with this scheme, my colleague the Minister of Finance announced in his recent budget speech the Government's intention to continue to provide a general incentive after 1966 when the present tax provision expires. This incentive will be administered by the Department of Industry. It will take the form of a grant or tax credit equal to 25 per cent of defined research and development expenditures, and will be in addition to the normal 100 per cent deduction permitted for income tax purposes. This will greatly broaden the availability of the incentive. Other changes will be introduced at the same time to improve its effectiveness. These improvements include qualification of all capital expenditures for the bonus and the use of a three-year moving base for determining the increment on current expenditures.

The general incentive serves to create a favourable climate for the expansion of research and development activity on a broad front. However, it does not meet the needs of many situations - in particular, those which involve new, small, or growing industries or projects of considerable technical risk. To ensure, so far as it is practicable to do so, that no worthwhile development projects are abandoned for lack of financial support, the general incentives must be complemented and reinforced by specific incentives in the form of direct financial assistance. Assistance programmes for defence research and defence development have been in existence for several years and, since 1962, the National Research Council has supported an Industrial Research Assistance Programme designed to foster the establishment and expansion of research activities in industry generally.

Last Friday, I announced in the House of Commons our plans for the establishment of a Programme for the Advancement of Industrial Technology, designed to stimulate the application of science and technology to the development of new or better products and processes by Canadian industry. This programme will complement the NRC Research Assistance Programme and, subject to the provision of funds by Parliament, it is hoped that it will come into operation in the very near future.

The basic idea to this programme is to help industry help itself in upgrading its technological capability and expanding its innovation activity by underwriting development projects involving technical risk. In line with this conception, initiative for proposing projects and responsibility for their subsequent directions and execution would, of course, rest with the sponsoring firm. As with the existing assistance programmes, costs will be shared with industry. In the event of commercial exploitation of successful projects, payback will be required. In order to ensure rapid and effective exploitation of the results of the development, proprietary rights will be vested in the sponsoring firm....

The foregoing approach represents an attempt to focus the resources of Canadian industry in attacking Canada's "development gap" along a broad front. I think it will also be agreed that the future outlook for research and development in Canadian industry is highly favourable. But the success or otherwise of these incentive or assistance programmes depends ultimately upon the response of industry to the opportunities afforded....

INDUSTRIAL PRODUCTION

Canada's seasonally-adjusted index of industrial production (1949=100) advanced by 1.4 per cent in March, as all three components moved higher - manufacturing by 1.6 per cent, mining by 0.8 per cent, and electric-power and gas utilities by 1.2 per cent.

Based on the latest revised figures, these March movements yield changes from the fourth quarter of 1964 to the first quarter of 1965, on a seasonally-adjusted basis, as follows: the total index of industrial production, +2.5 per cent; manufacturing, +2.4 per cent; durables, +5.4 per cent; non-durables +0.2 per cent; mining, +3.4 per cent; and electric-power and gas utilities, +2.0 per cent.