

Small Business

research and development. Instead of the net cost of R&D after tax being \$75, the net cost would be approximately \$59 in Ontario and \$55 in the slow growth regions of Canada.

I should like to suggest an improvement over even this salutary measure which I hope the Minister of Finance (Mr. Chrétien) will take into account. It would be an improvement on behalf of small business not granted to large business with respect to these R&D tax incentives. The point is that small businesses pay a low rate of corporation tax on their profits. When that low rate is applied in the R&D context, it means that small businesses receive, in effect, a lesser advantage than that gained by corporations paying at higher rates of taxation. I would like the minister to consider whether it would be possible to expand the tax credit in the case of small businesses.

What are the objectives of R&D? I think we should be clear on what they are because the network of support policies have to focus very strongly in this area. The objects of R&D are to help a company to be technically advanced in its processes, in the methods it uses, in innovating new products and in modifying a product which it has in order to expand its market—in effect, to be aggressive in the entrepreneurial sense, to be right at the leading edge of change in the market.

In the face of these needs, Canada has one of the poorest performances in R&D among the western industrial countries and its performance has actually deteriorated in recent years. Does anyone really believe that this poor performance in R&D is related mainly to the tax environment? I do not think so, and I do not think the situation can be corrected by simply applying tax incentives and tax measures.

The tax environment can help, but there are other aspects that I think are more important. One of them is the relationship between and within firms that exists in a country like ours because of the high degree of foreign control and ownership in the economy. I do not say this in an aggressive sense but I wish it to be recognized that it is the practice for companies to do their main R&D at their head offices where their main market is and where their main corporate strength is. That means that Canada gets R&D transferred to it after new technology, new processes and new products have been developed elsewhere. This lag is important because it puts us behind in getting into new markets. We come in late.

We should recognize at the same time that many subsidiaries of foreign corporations do significant R&D in Canada. The picture is a mixed one. For example, Ortho Pharmaceutical, which is a wholly-owned subsidiary of Johnson, and Johnson, a huge multinational company, has one of the few research and development laboratories in this industry with 40 scientists who have developed worldwide products in certain fields. That is the kind of autonomy and relationship that we need, but all subsidiary firms do not have it. Canadian General Electric has it to a limited extent, so does Eli Lilly and so does Hewlett Packard, DuPont and others; but in the main our branch plant economy lags in R&D because of that parent subsidiary relationship. We have it in our own case where Northern Telecom, a Canadian multinational, does its R&D in Canada.

[Mr. O'Connell.]

What we need to do is to examine the relationship which is dragging R&D down in Canada. I think we can do that in the 23 task forces which have been set up a month or so ago and which are due to report for the first time in six weeks. They are developing action plans in 23 sectors, such as in plastics, in the auto industry, in pulp and paper, in mining, and in other manufacturing sectors. They can examine the impact on R&D of the high degree of foreign ownership and control which exists in Canada. We should not rely simply on changing the tax environment, because it will not change fundamentally the underlying patterns which are well entrenched.

I should like to suggest further in this connection that perhaps we should be considering a Canadian institute for intermediate scale technology. There is, however, a bias against new agencies and new initiatives of this kind. Nonetheless, it will work against our interests if we allow that bias to proceed too far. Why do I suggest a Canadian institute for smaller scale technology? In the first place, small businesses to succeed, certainly in manufacturing, have to be discontented with simply being a manufacturing firm manufacturing products on behalf of some other firm which has done all the design, all the research, all the development, and then says: "Bid on this contract. If you succeed fine, if you do not, we will go elsewhere". They must have independent, autonomous sources of product improvement and process improvement. Given the fact that we are on the lagging end because of the ownership and control situation, perhaps we do need research into intermediate scale technology to help Canadian businesses benefit from those improvements by developing them, and ensuring those improvements get into their operations.

● (2132)

As many hon. members have mentioned, perhaps we also need export consortia to help small firms grow out beyond their regional and domestic market. Because they are small and do not have a marketing organization to sustain the penetration of foreign markets, it would be an advantage for government to assist in the formation of export consortia. Let us not be driven off from such proposals by the argument that yet another government bureaucracy is being formed.

My main point in all this is that tax incentives are the easy way out. They will not do the whole job because of the particular problems we are faced with. I am referring to problems with the third world, the industrialized world and the scattered character of the Canadian economy. One aspect of the motion I should like to support was proposed and passed at the Liberal party national convention. I am referring to an amendment to the Income Tax Act which would suspend the operation of capital gains tax when small businesses pass within families or indeed to employees of firms.

Some hon. Members: Hear, hear!

Mr. O'Connell: I am glad to see the party opposite has reached the same conclusion. Obviously that is because the need is evident. I hope it will not take long for the Minister of State (Small Business) (Mr. Abbott) to convince, with our