3. FEDERAL AND PROVINCIAL PROGRAMS AND POLICIES

At present, only advanced software development is eligible for IRDP assistance. The Program for Export Market Development however has been of assistance to all sub-sectors of the industry particularly professional services, as it provides financial assistance to allow firms to participate in export-oriented trade fairs, missions and development of overseas markets.

Federal and provincial government procurement policies have the potential to assist the computer services sector in that they could provide both financial support and product recognition. In view of this, DSS is now adjusting its procurement policies with a view to provide greater support to the Canadian computer services industry.

Certain ambiguities in Canada's tax regulations are presently seen to be having some adverse effects on software development. For example, the lack of a concise definition of R&D as it applies to the development of software creates an uncertain climate for long-range planning of firms who are unsure about the eligibility of certain expenditures for tax incentives.

4. EVOLVING ENVIRONMENT

The most important factor affecting the industry in the medium to long term will be the rapidly changing technology, and the convergence of the computing, telecommunications, and office automation technologies. To maintain or increase market share at home and expand its activities abroad, Canadian computer services firms will be required to develop specialized and vertically integrated products and services within the next two to five years. In addition, the industry should further develop its ability to manage and market these products and services at home and abroad.

This will be particularly important for firms in the data processing sector as they are directly and negatively affected by the trend towards in-house data processing. This sub-sector is adapting to the changing needs of clients by offering value-added and specialized processing services. This reorientation has been evolving over the past number of years and will continue in parallel with technological changes and subsequent changes in client's requirements. It is expected that despite the reorientation the sector will continue to experience low growth rates.

The professional services and software services sub-sectors by providing customized and/or improved or new software, are expected to benefit from the in-house processing trend and the convergence of technologies. These sectors should continue to show high growth rates.

Other factors which will impact on the computer services sector, and in particular the processing sub-sector, include changing U.S. policies such as the deregulation of telecommunications and an apparent trend towards U.S. national security considerations which may exclude Canadians from participation in or access to a growing list of U.S. technologies. In addition the Telecommunications policy review now underway in Canada will likely result in significant changes for this industry.

5. COMPETITIVENESS ASSESSMENT

The degree of competitiveness of the computer services industry varies by sub-sector. The professional services sub-sector for example is fully competitive internationally and according to industry observations can be expected to lead the industry in future growth levels.