

Minister of Industry,  
Science and Technology and  
Minister for International Trade



Ministre de l'Industrie, des  
Sciences et de la Technologie et  
ministre du Commerce extérieur

# Statement

# Déclaration

91/41

AS DELIVERED

**NOTES FOR A SPEECH BY**  
**THE HONOURABLE MICHAEL H. WILSON,**  
**MINISTER OF INDUSTRY, SCIENCE AND TECHNOLOGY AND**  
**MINISTER FOR INTERNATIONAL TRADE,**  
**TO THE SOFTWORLD TRADING FORUM AND CONFERENCE**

**VANCOUVER, British Columbia**  
**September 23, 1991**

Thank you, Ron. Ladies and gentlemen, I am pleased to open the Softworld Conference and Trading Forum. I would like to join with Ron in extending a special welcome to our international guests.

Today, Canada is at an historic turning point. The fundamental bases of our political and economic systems are being questioned as never before. In response, over the last few months, the Government of Canada has carried out extensive constitutional consultations across the country. The Government will shortly announce a crucial initiative which will reshape many of our political structures.

At the same time, our economic structures are facing growing competitive pressures for change. When I was Minister of Finance, I outlined, in the Budget presented in February 1991, some of the competitive challenges facing Canada. The Speech from the Throne announced that the Government would be launching an initiative aimed at improving Canada's competitiveness. Later, I want to talk more about this initiative.

First, I would like to say a few words about the competitive challenges facing the information technology (IT) sector -- one of the fastest growing sectors in the Canadian economy. The software industry has been at the heart of that growth, providing innovative products and services that have captured markets around the world. Projections indicate continued growth of annual software sales ranging from 18 to 25 per cent. Such a rate of growth is virtually unsurpassed by any other industrial sector. This kind of dynamic growth is based on your impressive record of investment in research and technology (R&D). In fact, the IT sector accounts for nearly 50 per cent of all industrial research and development undertaken in Canada.

Here in British Columbia, an estimated 300 software companies employ about 4,000 highly skilled people. With an estimated \$300 million in annual revenues, these companies already make an important contribution to diversification of this economy. Your success here in Canada has attracted a lot of attention from abroad. Today, Canada is home to many leading information technology companies who have located here to take advantage of the strengths of our software industry. Among these is Noesis, a French software company active in vision processing. When they were looking at locating their North American office they decided on Montreal. Their reason? Excellent access to the entire North American market and world-class research at McGill University. Other companies like Olivetti, and Meiko Scientific have also found the calibre of our research infrastructure and the quality of our corporate partners second to none.

So part of your success stems from the innovative ways you have found to collaborate with partners, both in Canada and abroad; joint ventures and product development agreements; marketing arrangements and consortia for research and development. The

software industry has applied creative solutions for tapping into markets and expertise all around the world. As you succeed, so do others. Your product innovations have helped other companies compete. Your products and services are revolutionizing all sectors of the economy.

Here in Vancouver, Nexus Engineering makes radio frequency communications products for satellite and cable television. Nexus has used information technology to reduce its manufacturing cycle to a fraction of what it was before. That is the kind of difference in productivity that has helped this company, established only nine years ago, win a 1990 Canada Export Award.

Down the road, in Burnaby, CREO Products uses computer-aided design, manufacturing and resource planning to build optical tape recorders that can store the equivalent of 15,000 pages on a linear inch of optical tape. Software applications have not only revolutionized the so-called "high-tech" companies. Innovative applications are turning the forestry, mining, and fishing industries in British Columbia and across Canada into high-tech industries as well.

Your companies design, produce and sell products and services that enable business to keep pace with the Information Age. Stephen Bingham, President of Alias Research, describes your role very nicely: "Our clients," he says, "view us as the *solution* to their competitive problems."

But your industry cannot rest on the achievements of the past. It must still face significant challenges. Among these are:

- how to improve market awareness;
- how to find and form strategic alliances; and
- improving the availability of venture finance.

Other challenges include:

- developing and applying new technology;
- developing managerial and business skills; and, finally,
- developing techniques for managing technological change.

The Softworld Conference will give you the chance to tackle these and other issues in depth.

I have already mentioned that improving market awareness is one challenge you face to your competitiveness. Your continued success can only be assured if you compete in the global marketplace. Many of you have learned for yourselves the tough lessons of global competitiveness:

- the importance of investment capital;
- the value of a well-trained and motivated work force;
- managing both people and technology;
- the value of strategic partners;
- technology access and diffusion; and
- market access.

Your industry depends upon trade. Overall, exports represent 75 per cent of the information technology industry's total production. And the growth of exports of the Canadian software industry has kept pace with the rapid expansion of software markets around the world. Canada's prosperity is also founded upon trade. Canada earns over 25 per cent of its income from trade. This is twice the percentage for Japan and more than double the comparable U.S. figure. And in order to prosper in that fiercely competitive global marketplace, Canadian companies -- in this sector and throughout the economy -- are facing some very tough challenges.

The world doesn't wait for you. You have to go out and capture those markets. Those markets aren't going to sit by while you train your personnel, or complete your R&D program, or find that new source of financing. You have to move fast if you want to keep up with a marketplace that imposes new requirements and new demands every day. At the same time, as Canadian companies, you have been able to take advantage of one of the most competitive economies in the world. In fact, the Geneva-based World Economic Forum ranks Canada's competitiveness as fifth out of the Organization of Economic Co-operation and Development nations, but we have slipped slightly from fourth place two years ago. Canada was not always so well-regarded as a place in which to do business. In 1984, for example, we were ranked in eleventh place over all. That was before a new government created its Agenda for Economic Renewal -- an Agenda that has been at the heart of government economic policy since 1984.

The Agenda for Economic Renewal includes deficit reduction, deregulation and privatization. It includes modernizing and streamlining Canada's intellectual property laws. The Agenda also includes the Free Trade Agreement with the United States, which secured and enhanced market access to our largest trading partner. The Going Global initiative, that has opened markets in Europe and the Pacific Rim, is also a part of the Agenda and continues to expand its trade horizons through the proposed North American Free Trade Agreement. The Agenda for Economic Renewal has gone a long in providing a fiscal and regulatory environment for business to grow.

But there are other issues we have to look at if we are going to ensure Canada's future ability to compete. In my view, there are five key issues -- and I would like to look at each of them now.

First, learning. Your industry has helped drive a demand for learning. You have helped create the "smart jobs" that require more specialized skills. You have helped create an environment in which skills become obsolete more quickly. In the next decade, nearly two-thirds of all new jobs created will require at least a high school diploma. In that same period, fully 40 per cent of those new jobs will require more than 16 years of training. Yet about half of all workers beyond school age in 1986 had less than a high school education. The problem is made worse every year as three out of ten high school students drop out. Many of them join the 38 per cent of adult Canadians who are functionally illiterate.

Your industry requires well-trained professionals. So, your industry also depends upon Canada developing a learning culture. Here in Canada, as elsewhere among our trading partners, the challenge is not only to educate the young but also to renew the skills of those now in the work force. As the pace of technological change increases, so the need for renewal of skills also increases. And how are you going to keep your employees abreast of new developments in the industry? Employee training has become a key feature in the ability of companies to compete.

The second major area which determines competitiveness is science and technology (S&T). No one here needs to be told how S&T will drive the competitiveness of industry in years ahead. Your profits depend on your making that very point to your customers. And you are well aware that our S&T challenge is two-fold. First, how can we increase the amount of research and development? And equally important, how to improve the diffusion of new technology?

Your research and development activities play an important role in determining not only your competitiveness but also that of other sectors of the economy. Indeed, Statistics Canada recently found that software is the most pervasive R&D technology in this country. The competition has been fierce. Product life cycles are short and getting shorter. Around the world successful companies have had to concentrate more and more on product enhancements and follow-on products. The result has been that your R&D expenditures are among the highest of any industry.

Doing more R&D means more strategic partnering with universities, government, and industry labs and among companies to create and exploit the market opportunities this R&D identifies. Doing research and development, and transforming it into new technology is important. Equally important is our willingness to use new technology. Companies that have seized the opportunities that your technology provides have been able to thrive in the global marketplace. What more can be done to get your products to the industries that need them?

The third component of competitiveness is equally important to your industry: investment. Lower cost of capital investment means that companies can afford a longer time horizon for payback on their investments, including investment in R&D. What can be done to increase the availability of investment capital?

For Canadians, part of the solution is to gain control over government spending. Our companies are competing in the capital markets with a federal government that must finance a \$400-billion national debt -- a debt run up by governments that thought they could spend their way to prosperity. That is one major reason why the government places such a high priority on deficit reduction. We're getting there. Government operations now run in the black. This year, our operating surplus will be \$12.7 billion, compared to the \$16-billion operating deficit we inherited in 1984. That is a \$28.7-billion turnaround. Only the interest on the national debt causes our deficits. Next year we will get the deficit below \$25 billion for the first time in a decade.

The government is steadily reducing its heavy demands on the capital markets. In the long term, this should make investment capital easier to obtain for all of you.

But with or without the competition from the government for capital, software developers, in particular, have a tough time finding institutional financing. You face all of the problems encountered by technology-based companies. Competition is growing. You need to finance R&D on a continuing basis. You have a limited window of opportunity within which to reach the market. From a lender's perspective -- whether here in Vancouver, in San Francisco or in Osaka -- these present problems. They are looking for collateral in terms of tangible assets. How do you obtain collateral for your most valuable assets of all: your ingenuity, your creativity, your people and your drive?

The challenge you all face, every day, is making the financial community as familiar with the strengths and opportunities of your sector as they are with the risks. And how can companies like yours tap into opportunities for equity financing? Financing that can lead to strategic partnering on many levels. Financing that gives an opportunity to obtain more than just capital: financing that can secure the technology of a foreign investor, or the new markets of a partner.

Helping business to develop new partners is the purpose of the federal government's Investment Development Program. This program recently launched a software products project specifically designed to foster the creation of partnerships between Canadian and international companies.

Canada's competitiveness will also depend on improvements in its domestic market. A market in which our consumers demand the best. A market in which our suppliers can provide the best. A market in which neither consumer nor suppliers are hamstrung by outmoded intellectual property laws or regulations that no longer serve a public policy purpose. A market that is not fragmented by internal barriers to trade. What more can be done to help create an efficient domestic market for your companies?

And finally, the fifth area where Canada can improve its ability to compete is in opening opportunities for trade. Despite the proximity to the enormous markets in the U.S. and the Pacific Rim, many Canadian firms find it difficult to establish a presence abroad. For example, fully two-thirds of Canada's 40,000 manufacturing companies do not export -- even to our closest trading partner, the United States. A notable exception is the information technology industry. Since this industry has grown up at the same time as globalization, many IT companies have developed the know-how to prosper in a global marketplace. They have established on-the-ground marketing and distribution networks. They have a clear understanding of the markets they serve.

How can more software firms learn from the experience of these companies? How can better market intelligence and cultural awareness be obtained about specific markets? How can business make better use of existing global marketing channels? Are there other innovative marketing techniques you can employ?

These, then, are five areas which we in Canada must improve to enhance our ability to compete in the global marketplace. Each of these five -- learning, science and technology, investment, domestic markets and trade -- is important. None is revolutionary. Many other countries are facing similar challenges.

What is revolutionary is the change in attitude required to build a more productive and prosperous Canada. And that is why the Government of Canada will soon launch the Prosperity Initiative: to provide a forum in which Canadians can plan together and work together to prepare for the challenge of the global economy. We want and need Canadians to participate in the Prosperity Initiative on many different levels.

Later today I will meet with the Board of Directors of the newly reconstituted Information Technology Association of Canada. I look forward to a thorough and informative discussion of the specific concerns of your industry. But your individual companies can contribute as well. Support the points that the Directors will make today. Make sure that your companies become involved in the Prosperity Initiative.

We also want to hear from you as citizens. We want to hear from anyone who has a stake in the future prosperity of Canada -- and that includes us all.

This fall, the Government of Canada will be launching the Prosperity Initiative which will focus on five areas I have just outlined: learning, science and technology, investment, domestic markets and trade. Each raises questions. I want you to help me find the answers to those questions. A central part of the initiative is a three-part consultations program which will give all Canadians the chance to help Canada to meet the competitive challenges. Canadians expect those of us in government to listen, as well as lead. Whether it concerns our prosperity or our unity as a country, this government is demonstrating that it can do both.

Really, we can do no less. Because what is really under consideration here is not just the prosperity of an economy. At heart, what is at stake is the survival of our nation.

Canadians have a great stake in our continued prosperity. Improving our competitiveness means a higher standard of living. This, in turn, will provide us the means to be a caring society. A society that can secure the social programs we see as essential to our being Canadian. A society that can continue to support the arts and culture which helps us to understand ourselves. A society with the means, and the will, to make our education and technologies second to none in the world.

Some of you will know that a recent United Nations study ranked Canada as the second-best place to call home. I think, in our hearts, we all know that it is second to none. The Prosperity and unity agendas are aimed at making that a reality.

Your industry has shown us, and the world, that change and innovation can secure new prosperity. Your creativity in developing strategic partnerships to develop products and exploit market opportunities is a lesson for labour, government and other institutions in our society. You have demonstrated that co-operation and competition are not mutually exclusive. On the contrary, the capacity to do both is essential to adjusting to an ever more competitive marketplace.

Having seen your success, I hope that we can learn from it in building a plan of action to secure Canada's future prosperity. Together, we can pass a prosperous and united Canada on to our children. I hope that, at this Softworld Conference, you continue to build the partnerships that have meant so much for the prosperity of your companies, the vitality of your industry and the future prospects of Canada's economy.

Thank you.