

Report on Innotech Alberta Executive Summary

Background

Alberta is at a crossroads. Its economy is reeling under the combined shocks of record low oil prices and a global pandemic. Perhaps at no time in its modern history has it been more important to embrace Alberta's innovators and true research and development investments. The Minister of Jobs, Economy and Innovation (JEI) understands this need, and its Recovery Plan along with the "Selling Alberta to the World" (its investment and growth strategy) aim to rebuild the economy and create jobs by working to attract investment, eliminate barriers to private-sector success, and promote a pro-business and pro-growth agenda. However, the government is not doing enough, nor quickly enough.

Applied research is a research and innovation priority for Alberta. In the past five years, the province has invested over \$1 billion in Alberta Innovates (AI) and its subsidiaries. More than \$200 million was invested in 2018-2019 alone, including funding for InnoTech Alberta (IA). IA bills itself as "Canada's premiere applied research organization and the heart of Alberta's innovation engine". But in spite of the province's considerable investments in IA, Alberta continues to score poorly in terms of its innovation performance – it has been ranked 19th out of 26 jurisdictions by the Conference Board of Canada.

IA management readily admits that most of the work which they perform has nothing to do with research and innovation, but rather is focused on providing routine analysis and testing services. It aggressively promotes these services on its website and through trade shows, and actively bids against the private sector for this work on public and private projects. It is conservatively estimated that IA earns some \$10 million a year in annual revenues by providing these services, almost all of which are available from private-sector laboratories in Alberta.

IA claims that their services are priced based on full cost recovery, but our analysis shows that this is simply not so. It competes with our members by charging considerably less than market rates for routine testing (from 25% to 38% less) and by providing volume discounts on their already low prices (up to 24%).

IA is using public funding not for legitimate research and innovation, but to compete with commercial laboratories for a share of the routine testing market. This is having a major negative impact on the province in several ways. First, public funding earmarked to support real research and innovation is instead being wasted on duplicating commercial services. The Province needs to ensure that its innovation investments go to organizations which perform it, allowing Alberta to significantly improve on its research and development performance. By outsourcing these services, the province will save

millions of dollars a year, and will ensure that funding intended for applied research and innovation is applied appropriately and no longer misdirected. Secondly, tax-subsidized competition from IA is hurting private-sector laboratories and constraining their growth and investment. Because of its tax-subsidized advantages, IA is able to offer rates significantly below cost. It can capture a big share of the market because it is competing unfairly with commercial laboratories. The private-sector laboratories currently operating in Alberta are thereby limited in their potential to grow their businesses, and new investors are discouraged from entering Alberta. Freed from these constraints, the private sector is ready to provide all the routine testing needs of Alberta without requiring taxpayer subsidies

Recommendations

To address these twin issues the Canadian Council of Independent Laboratories (CCIL) offers the following recommendations:

1. Privatize InnoTech Alberta's Analysis and Testing Services (ATS) and use the proceeds from the sale to invest in programs which perform legitimate research and innovation.
2. While proposals for the privatization of ATS are being considered, direct InnoTech Alberta to increase its prices for all routine fee-for-service testing by 50% to ensure it is recouping all of its costs.
3. Review all other InnoTech Alberta fee-for-service offerings to determine if they could more appropriately be provided by the private sector.

Independent testing is critical within the principal and enabling sectors identified in JEI's investment and growth strategy. This is an urgent issue for the private-sector independent testing industry, and CCIL has solutions which support JEI with its Recovery Plan and its investment and growth strategy and is prepared to work with the Ministry by providing solutions that will help make Alberta one of the best places in which to do business and invest.

This summary captures the highlights from a research report prepared by the Canadian Council of Independent Laboratories (CCIL) (www.ccil.com) in November 2020. This report was prepared as a response to a series of communications held between the CCIL and representatives of the Ministry of Economic Development, Trade and Tourism (now JEI) and IA since April 2019. CCIL has attempted during this time to describe to the Ministry and IA how ATS is both harming private sector testing laboratories and reducing the effectiveness of Alberta's innovation investments by performing routine testing instead of research and innovation. Routine testing is the core business of the more than 400 CCIL member laboratories across Canada, of which 89 laboratory facilities employing almost 3,000 highly skilled scientists, engineers and technologists are in Alberta. A full copy of the research report can be obtained by contacting Muktha Tumkur at mtumkur@ccil.com.