COUNCIL OF CANADIAN INNOVATORS

CCI

CONSEIL CANADIEN DES INNOVATEURS

2025

FEDERAL PRE-BUDGET RECOMMENDATIONS

COUNCIL OF CANADIAN INNOVATORS CCI CONSEIL CANADIEN DES INNOVATEURS

Hon. François-Philippe Champagne, PC, MP
Minister of Finance and National Revenue
Finance Canada

August 28, 2025

Dear Minister Champagne,

Canada's economic decline is not a short-term challenge; it is the direct result of decades of outdated policy models for a 20th-century economy. Productivity has flatlined, our economic complexity has collapsed from 22nd to 41st in the world, and our competitiveness has steadily eroded. Canada is last among OECD peers in productivity growth. Our per capita GDP is shrinking, and the OECD projects Canada will be the slowest-growing advanced economy through 2060. These are structural weaknesses ignored for decades.

The spillover effects of research funding, foreign direct investment, and branch-plant industrial strategies operate differently. In a tangible economy, physical production created predictable supply chain benefits; in a knowledge economy, those benefits now accrue where intellectual property, AI, and data assets are owned and commercialized. Canada has failed to update its frameworks to reflect these realities, making many current policies counterproductive.

The United States of America is unapologetically and unilaterally redefining the terms on which it engages with countries like Canada. This is the result of a decades-long policy of building enormous economic strength and innovative capacity in a deliberate and concerted way, not just the whims of an American President.

Technological and innovation dominance - and its embedding into the terms of trade agreements like CUSMA and other deals - now threatens to close off the next generation of technologies to Canadian entrepreneurs right as they take off. This would leave us less prosperous, less sovereign and less secure, with a minor global role below that which our fundamental strengths, if deployed wisely, would leave us. This is a crisis moment long in the making, and we must meet the moment.

For nearly a decade, the Council of Canadian Innovators (CCI) has persistently advocated for value-added strategies to grow Canada's innovation economy. Now the evidence is overwhelming, and it is time to act.

Other countries are moving fast. The USA, South Korea, the EU, and China are reshoring industries, embedding innovation in defence and procurement, and aggressively competing for talent and capital. Canada is without a national innovation strategy to match the scale of the challenge.

We can't afford to scatter resources across disconnected initiatives. Canada should double down on what works: backing high-potential firms that generate IP; scale solutions; and drive exports, jobs, and wages. Without clear regulatory strategies, we risk losing another layer of economic sovereignty to global players.

To begin regaining the eroded competitiveness over the past 30 years, Canada must urgently build the expertise and capacity needed to proactively shape modern trade agreements that define the rulebooks for contemporary prosperity, security, and social well-being.

Canada is starting from a position of weakness because we failed to act decades ago. Budget 2025 must be a break-glass moment to reverse course.

We urge Finance Canada to reallocate spending toward sovereign, productivity-enhancing priorities: scaling high-growth Canadian firms, boosting domestic innovation capacity, embedding sovereign infrastructure, and modernizing federal systems to align with the realities of the knowledge-based economy. Canada's economic sovereignty depends on it.

On behalf of CCI's membership of 175 of Canada's fastest-growing companies, we present the following recommendations for Canada's 2025 budget:

1. **Establish BOREALIS to Drive Canadian Technological Sovereignty**
2. **Modernize SR&ED and Launch an Innovation Box**
3. **Streamline Crown Capital Deployment (BDC and EDC)**
4. **Build Sovereign AI & Cloud Infrastructure**
5. **Align NATO Defence Spending with Domestic Industrial Capacity to Grow and Retain Canada's Dual-Use Technology Base**
6. **Update the Investment Canada Act**
7. **Reform Public Procurement to Buy Innovation**
8. **Advance Open Finance and Stablecoins**
9. **Renew and Expand the Mandate of the Innovation Asset Collective**

Innovation is not an isolated policy area. It underpins housing, health care, defence, and economic security. In the 21st century, innovation is the operating framework of a modern economy. Canada's innovation strategy needs to be incorporated into our trade agreements.

Thank you, and we look forward to continuing to work with you.

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2025 PRE-BUDGET RECOMMENDATIONS
FROM THE COUNCIL OF CANADIAN INNOVATORS (CCI)

1. Establish BOREALIS to Drive Canadian Technological Sovereignty

The Bureau of Research, Engineering and Advanced Leadership, in Innovation and Science (BOREALIS), proposed by the government, is a good step toward rebuilding and rearming the Canadian Armed Forces by coordinating and accelerating innovation in dual-use technologies.

However, BOREALIS must be paired with value-added strategies that ensure Canadian taxpayers see real returns on their investments. This includes targeted procurement reforms and clear commercialization requirements for technologies with both military and civilian applications. By ensuring these dual-use innovations are developed, owned, and scaled by Canadian firms, we can retain intellectual property, create high-value jobs, and grow exports that strengthen our allies. Canada is playing catch-up on defence and risks losing its 5-Eyes standing if it does not protect its defence stock and build capacity in this area.

CCI recommends ensuring BOREALIS is:

- **Governed with private sector leadership and a mission to revive Canada's armed forces, develop next-generation technology through sovereign data and IP strategies;**
- **Empowered to co-develop both early and late-stage technologies within Canadian firms, to design research strategies to maintain Canadian sovereignty;**
- **Mandated to deliver economic and security spillovers for Canada, not foreign multinationals.**

2. Modernize SR&ED and Launch an Innovation Box

Canada spends nearly $4 billion annually on the Scientific Research & Experimental Development (SR&ED) tax credit, but outcomes remain weak. The program must be refocused on commercialization and economic returns.

Budget 2025 should implement what was committed in the 2024 Fall Economic Statement:

- **Increase the SR&ED expenditure limit for Canadian-controlled private corporations from $3 million to $4.5 million;**
- **Raise the phase-out threshold for taxable capital from $10–$50 million to $15–$75 million;**

- **Introduce a new phase-out election allowing firms to use gross revenue instead of taxable capital;**
- **Expand SR&ED eligibility to Canadian public corporations;**
- **Apply a $4.5 million expenditure limit across consolidated groups, with a 15% credit for expenditures above the threshold.**

These changes are positive, but must be paired with reforms that:

- **Cap enhanced credits to avoid subsidizing zombie firms;**
- **Require better reporting on IP ownership and commercialization outcomes;**
- **Increase transparency and independent evaluation of program performance;**
- **SR&ED eligibility should only be for Canadian-controlled firms;**
- **Raise the phase-out threshold and make foreign multinationals ineligible for enhanced credit.**

To complement SR&ED, the government should introduce an "Innovation Box" — a preferential tax rate on profits derived from Canadian-developed IP. This will incentivize firms to retain, license, and commercialize their intangible assets in Canada.

3. Streamline Crown Capital Deployment (BDC and EDC)

Canada's capital markets for early investments are thin, and the financial Crown corporations should be part of Canada's toolkit. BDC and EDC need clearer mandates and better coordination to avoid overlap. These institutions must increase their risk tolerance, tailor funds to the needs of early-stage companies, and eliminate counterproductive practices such as personal guarantees.

Budget 2025 should:

- **Focus the financial Crown corporations on making higher-risk investments to drive innovation and development;**
- **Align fund sizes and terms with market needs (e.g., deeptech, defence, cleantech);**
- **Introduce a federal venture capital tax credit to complement provincial programs.**

4. Build Sovereign AI & Cloud Infrastructure

Canada lacks a cohesive digital sovereignty strategy. The proposed Artificial Intelligence and Data Act, introduced in 2022, did not pass before the 2025 federal election. There is no national registry for algorithms, no formal AI accountability framework, and no ministry dedicated to overseeing digital infrastructure. As other countries advance legal

architectures suited to the algorithmic age, Canada remains structurally anchored in a pre-digital policy landscape.

The government should redirect digital program funding to accelerate the build-out of sovereign Canadian-owned compute and cloud infrastructure. This includes data centres that comply with Canadian security standards, sovereign identity management systems, and support for trusted domestic providers.

Budget 2025 should:

- **Design a Regulatory Framework for Sovereign Digital Infrastructure:** Canada should establish transparency, accountability, and Canadian legal jurisdiction over public-facing digital infrastructure. Government procurement should prioritize Canadian-owned secure compute for sensitive workloads, using existing standards to build a trusted domestic ecosystem, and mandate domestic processing for high-risk AI in sectors like healthcare and public services.
- **Sovereignty Firewall and Integrate Digital into our Trade Strategies:** Restrict cross-border inference unless reciprocal legal protections exist, and negotiate digital sovereignty carve-outs in trade agreements to protect Canada's right to regulate and localize critical digital systems.
- **Develop a Digital Non-Alignment and Industrial Strategy:** Maintain AI interoperability while avoiding dependency on any single model or vendor. Invest in Canadian-built secure infrastructure, prioritize domestic suppliers, and set targets for sovereign service adoption. Canada should build on its Horizon Europe partnership by joining the EU's High-Performance Computing Joint Undertaking to access trusted supercomputing capacity and reduce reliance on foreign hyperscalers.

5. Align NATO Defence Spending with Domestic Industrial Capacity to Grow and Retain Canada's Dual-Use Technology Base

Canada's NATO spending commitment — 5% of GDP on defence — presents a major opportunity to reinvest in domestic firms developing dual-use technologies. These include drones, quantum sensing, AI-enabled surveillance, and next-generation secure communications.

Unfortunately, many of the largest recent defence procurement contracts have gone to foreign firms, despite capable Canadian alternatives. Canada needs a Defence Industrial Strategy that emphasizes domestic procurement, strengthens supply chains, and ensures we're building, not buying, strategic capabilities.

Budget 2025 should:

- **Prioritize Canadian companies in procurement under Canada's NATO spending plan;**
- **Establish dual-use tech mandates for relevant defence and security R&D programs;**
- **Equip BOREALIS with the authorities to co-develop technologies with defence applications.**

CCI further recommends that:

- **At least 25% of new defence R&D and procurement funding go to Canadian-headquartered dual-use firms by 2028.**

6. Update the Investment Canada Act

Canada's outdated foreign direct investment (FDI) review regime leaves critical parts of our innovation economy vulnerable to foreign acquisition. The Investment Canada Act must evolve to consider new dimensions of national interest, including control over IP, data jurisdiction, and supply chain resilience.

Budget 2025 should:

- **Embed innovation-specific criteria into the FDI review processes;**
- **The Investment Canada Act should include a mandatory assessment of all research partnerships from granting council recipients;**
- **Establish an independent body, similar to the USA Committee on Foreign Investment, with the authority to conduct transparent, risk-based reviews evaluating impacts on Canadian freedom to operate, talent, and intangible assets.**
    - Integrate economic and security considerations by treating IP, data, and AI as dual-use assets, ensuring assessments address their intertwined economic and national security implications.

This approach is not about turning inward; it's about ensuring foreign investment contributes to Canadian innovation and competitiveness.

7. Reform Public Procurement to Buy Innovation

Public procurement is one of the largest untapped levers for innovation in Canada. Federal departments spend over 36 billion annually, but most of it goes to large incumbents and multinational vendors with little incentive to deliver new, high-impact solutions.

Budget 2025 should launch a government-wide Innovation Procurement Strategy. This should include clear SME participation targets, piloting new contracting authorities, and empowering departments to buy emerging solutions with confidence.

CCI recommends:

- **Creating a horizontal innovation mandate across all departments;**
- **Introducing co-development authorities (e.g., Other Transactions Authority, as used by DARPA);**
- **Expanding the work of Public Services and Procurement Canada's Office of SME Engagement to support vendor onboarding.**

These reforms will reduce red tape, accelerate problem-solving in public services, and support Canadian firms competing globally.

8. Advance Open Finance and Stablecoins

Canada continues to lag behind its peers in implementing open banking. While the 2023 budget laid out a framework, meaningful progress on legislation and implementation has stalled. Meanwhile, fintech innovators face uncertainty, and consumers lack control over their financial data.

This framework must also address Canada's approach to stablecoins, where global peers are moving quickly. While Toronto is the birthplace of Ethereum, Canada now lags the EU and the USA, which have developed fit-for-purpose rules balancing innovation, consumer protection and monetary stability. Properly structured, stablecoins can reduce transaction costs and improve settlement speed.

Budget 2025 must finally enact a Consumer-Directed Finance Framework that enables innovation, protects privacy, and introduces clear, proportionate rules for all market participants.

The government should:

- **Enact enabling legislation that provides clear rights for consumers to share financial data with regulated third parties;**
- **Ensure equitable treatment of non-bank players, with proportionate regulatory obligations;**
- **Create a policy environment that encourages domestic innovation in digital assets and prevents capital outflows;**
- **Develop a tailored regulatory framework that treats stablecoins based on their function, as payment instruments, rather than as speculative assets;**

- **Develop a phased implementation timeline for open finance that includes comprehensive testing, structured onboarding processes, and clearly defined interoperability standards to ensure secure and seamless integration across financial systems.**

9. Renew and Expand the Mandate of the Innovation Asset Collective (IAC)

Canada's competitiveness in the knowledge economy depends on how effectively we generate, commercialize, and defend intellectual property. For decades, Canada has lagged behind its peers in IP ownership and freedom-to-operate strategies, leaving firms exposed to global competitors and foreign patent thickets.

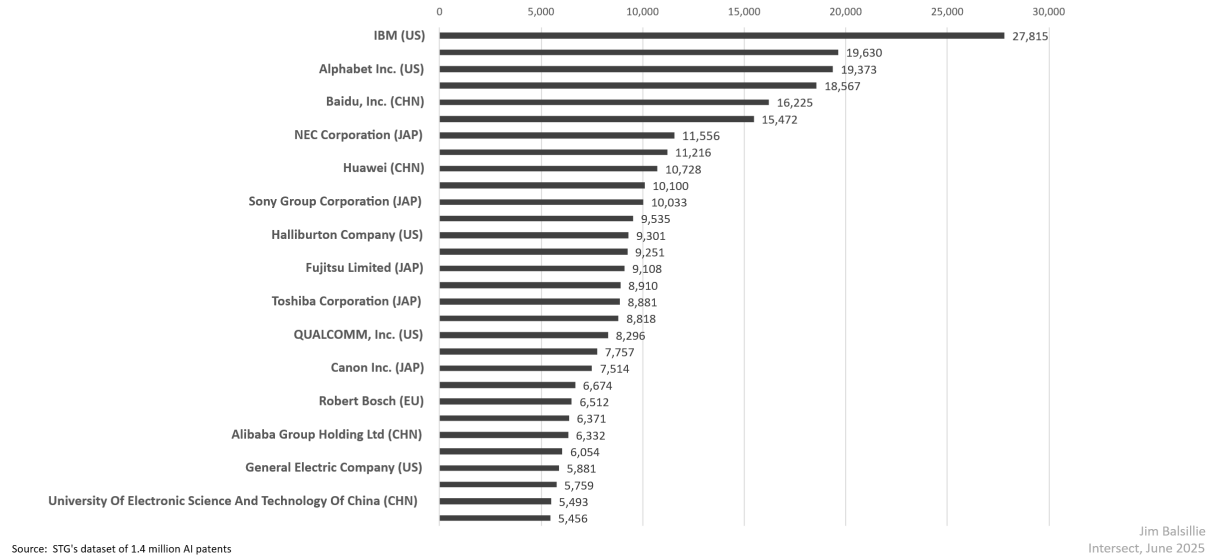
The Innovation Asset Collective (IAC), created in 2021, has been an essential capacity-building institution, supporting high-growth Canadian firms in better understanding, commercializing, and protecting their IP. To ensure Canadian innovators are positioned to succeed in the 21st-century economy, the federal government must renew and expand IAC's mandate and funding.

The government should:

- **Embed IAC in the front end of the granting process: Tie granting councils (NSERC, SSHRC, CIHR) and Regional Development Agencies (RDAs) to IAC support so that funded firms have early access to IP strategy tools, market intelligence, and education.**
- **Expand IAC's sectoral scope: Build on the success in clean technology by extending support into health tech, cybersecurity, energy, transportation, agriculture, blue economy, and AI/data centres, all areas with clear dual-use applications in defence and national security.**
- **Leverage IAC's neutral landscape role: Provide Canadian firms with IP risk and opportunity analysis in fast-growing and geopolitically strategic sectors, enabling SMEs to navigate global IP regimes and scale.**
- **Make IAC permanent and national: Establish IAC as a permanent institution with stable funding and a mandate to deliver tailored IP strategy, education, and collective assets for Canadian firms competing in global markets.**

AI Fortunes Depend on IP Ownership

1.4 Million AI Patents Filed and Registered Globally (Top 30)



Source: STG's dataset of 1.4 million AI patents

Jim Balsillie
Intersect, June 2025

AI is not exempt from patenting; it's a global IP arms race. Over 1.4 million AI patents have been filed/registered worldwide, with leading portfolios targeting chokepoints across the AI tech stack. Countries and firms that treat AI patents as strategic assets are consolidating control; Canada has too often ceded this ground. Now is the time to ramp up, not scale down efforts, with more resourcing and policy support so IAC can strengthen Canada's patenting capacity (offensive and defensive), landscape analyses, pooling, and freedom-to-operate tools for Canadian firms.

Strengthening IAC's capacity to drive patent strategies for artificial intelligence is no longer optional; it is essential if Canada is to catch up, protect its ideas, and compete in the global AI economy.