

NOTES ON THE FEDERAL GOVERNMENT
PROGRAMS
TO ASSIST CANADIAN INDUSTRY

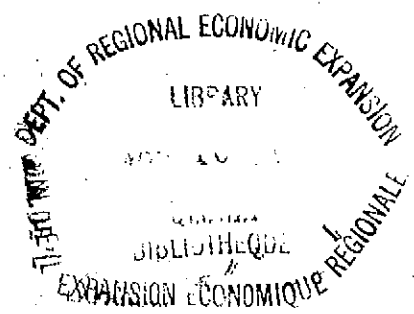
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TO ASSIST CANADIAN INDUSTRY

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- Ship Construction Subsidy Regulations (SCSR)



Incentives Division

Canada, Department of Regional Economic Expansion,
Ottawa

July 1, 1969.

GLOSSARY

PROGRAMS

- IRDIA - Industrial Research and Development Incentives Act, administered by the Department of Industry, Trade and Commerce.
- DIR - Defence Industry Research Program, administered by the Defence Research Board, Department of National Defence.
- IRAP - Industrial Research Assistance Program, administered by the National Research Council.
- DIP - Defence Industry Productivity Program, administered by the Department of Industry, Trade and Commerce.
- PAIT - Program for the Advancement of Industrial Technology, administered by the Department of Industry, Trade and Commerce.
- GAAP - General Adjustment Assistance Program, administered by the Department of Industry, Trade and Commerce.
- AAA - Automotive Adjustment Assistance Program, administered by the Department of Industry, Trade and Commerce.
- PIDA - Pharmaceutical Industry Development Assistance Program, administered by the Department of Industry, Trade and Commerce.
- MACH - Machinery Program, administered by the Department of Industry, Trade and Commerce.
- SCSR - Ship Construction Subsidy Regulations, administered by the Department of Industry, Trade and Commerce.

DEFINITIONS

PRINCIPAL ACTIVITY: An activity which by itself is eligible for assistance.

ASSOCIATED ACTIVITY: An activity which is eligible for assistance only when it is in conjunction with a principal activity.

- BASIC RESEARCH:** Systematic investigation or search carried out in a field of science or technology by means of experiment or analysis for the advancement of scientific knowledge with a specific practical application in view.
- APPLIED RESEARCH:** Systematic investigation or search carried out in a field of science or technology by means of experiment or analysis for the advancement of scientific knowledge with a specific practical application in view.
- DEVELOPMENT:** The use of the results of basic or applied research for the purpose of creating new or improving existing materials, devices, products or processes.
- PRE-PRODUCTION:** The development and preparation of plans, designs, processes, specifications and the acquisition of plant, machinery, tooling and equipment and other non-recurring activities which must be undertaken before production can commence.
- PRODUCTION:** All recurring activities which must be undertaken to produce a product. (Note: the acquisition of capital assets is excluded by definition)
- MARKETING:** All activities which must be undertaken to distribute and sell a product, including the acquisition of capital assets.

Incentives Division
Department of Regional Economic Expansion
Ottawa

July 1, 1969.

FEDERAL GOVERNMENT PROGRAMS FOR R, D & I IN INDUSTRY

PROGRAM	GRANTS	LOANS	LOAN GUARANTEES	TARIFF REMISSION
IRDIA	X			
DIR	X			
IRAP	X			
DIP	X	X		
PAIT		X		
GAAP	X	X	X	
AAA		X		X
PIDA		X		
MARCH				X
SCSR	X			

AREA DEVELOPMENT INCENTIVES ACT

GRANT FORMULAS

FORMULA NO. 1. For establishment of new facility:

1. Where the approved capital costs do not exceed \$250,000, the amount of the development grant shall not exceed an amount equal to 1/3 of the approved capital costs.
2. Where the approved capital costs exceed \$250,000 but do not exceed \$1,000,000, the amount of the development grant shall not exceed the aggregate of
 - (a) 1/3 of \$250,000, and
 - (b) 1/4 of the amount of the approved capital costs in excess of \$250,000.
3. Where the approved capital costs exceed \$1,000,000, the amount of the development grant shall not exceed the lesser of
 - (a) the aggregate of
 - (i) 1/3 of \$250,000,
 - (ii) 1/4 of \$750,000, and
 - (iii) 1/5 of the amount of the approved capital costs in excess of \$1,000,000,
 - (b) \$5,000,000.

FORMULA NO. 2. For expansion of existing facility:

The amount of a development grant for the expansion of an existing facility shall not exceed the lesser of

- (a) the amount obtained when formula No. 1 is applied to the amount remaining after subtracting from the approved capital costs the greater of 10% of the value as determined by the Minister of the existing facility being expanded or \$10,000; or
- (b) \$5,000,000.

NOTE: The development grants are exempt from Federal Income Tax and do not reduce the amount of capital cost which may be used for tax purposes. Special accelerated depreciation allowances may also be taken for tax purposes on the new buildings and equipment on which the approved capital grants are based.

AREA DEVELOPMENT INCENTIVES ACT

ILLUSTRATION:

CALCULATION OF GRANT FOR NEW FACILITY

	CASE 1	CASE 2	CASE 3
New Machinery and Equipment	\$100,000	\$1,000,000	
New Building	50,000	-	
	\$150,000	\$1,000,000	
Eligible Assets			Same as Case #2
Eligible Base	150,000	1,000,000	
Formula Rate	33 1/3%	33 1/3% + 25%	
	\$ 50,000	\$ 270,933.33	
 Adjustments			
Other Federal Assistance	-	30,000	
Other	-	-	
	-	\$ 30,000	
Total Adjustment			
Grant After Adjustment	\$ 50,000	\$ 240,833	\$240,833
Equity Determined by Agency Grant	60,000	250,000	200,000
	50,000*	240,833*	200,000**
Payment #1	30,000*	144,500*	120,000
#2	10,000*	48,166*	40,000
#3	10,000*	48,166*	40,000

* For simplicity, it is assumed that all assets are bought at start-up, no add-ons occur, nor changes from start-up costs.

** May be increased to \$240,833 at end of approved period of satisfactory performance.

AREA DEVELOPMENT INCENTIVES ACT

ILLUSTRATION:

CALCULATION OF GRANT FOR EXPANSION FACILITY

New Machinery and Equipment	\$100,000	\$ 750,000
New Buildings	50,000	250,000
Eligible Assets	\$150,000	\$1,000,000
Existing Facility (o.c.c., a.d.b.v.)*	250,000	2,500,000
10% of Existing Facility	25,000	250,000
Eligible Base	125,000	750,000
Formula	33 1/3%	33 1/3% + 25%
Basic Grant Factor	41,666	208,333
Adjustment for other assistance, etc.	-	30,000
Grant after adjustment	41,666	178,333
Equity	60,000	250,000
Grant	41,666*	178,333*
Payment - Start-up	25,000*	107,000*
- End of year 1	8,333*	35,666*
- End of year 2	8,333*	35,666*

* o.c.c. refers to original capital costs, a.d.b.v. to depreciated book value if firm has used a reasonable depreciation policy on a standard basis.

** For illustrative purposes assumes all assets bought at start-up, no add-ons, and no change from start-up costs.

INDUSTRIAL RESEARCH AND DEVELOPMENT
INCENTIVES ACT (IRDIA)

OBJECTIVES:	To expand scientific research and development in Canada, which if successful, is likely to benefit Canada.
QUALIFYING ACTIVITIES:	Research and development.
DECISION AUTHORITY:	The General Director, Office of Science & Technology.
CRITERIA:	Research and development is defined by Regulations made under the Industrial Research and Development Incentives Act.
WHO IS ELIGIBLE:	Taxable companies incorporated in and carrying on business in Canada.
FORM OF ASSISTANCE:	Tax free case grants or credits against federal income tax liabilities.
ALLOWABLE COSTS:	<ol style="list-style-type: none">1) 25 per cent of all capital expenditure during a year for scientific research and development in Canada.2) 25 per cent of the increase in current expenditure for scientific research and development in Canada during a year over the average of such expenditures in the preceding five years.
REPAYMENT:	None.
TITLE TO RESULTS:	Vested in company.
COMPANY OBLIGATIONS:	The company must undertake to exploit the results in Canada unless it is uneconomic to do so, and must normally be free to exploit the results in all export markets.
ADMINISTRATION:	Department of Industry, Trade and Commerce.

DEFENCE INDUSTRIAL RESEARCH PROGRAM (DIR)

- OBJECTIVES:** To promote and strengthen the research capability of Canadian industry in defence technologies and so to enhance its ability to participate in the Defence Sharing Program.
- QUALIFYING ACTIVITIES:** Applied research projects in defence technologies.
- DECISION AUTHORITY:** Treasury Board on advice of the Defence Research Board and Department of Industry, Trade and Commerce (which is responsible for advising the D.R.B. with respect to the commercial and financial aspects of the program).
- CRITERIA:** Long-term selected projects which offer good potential for achieving major advanced in performance or techniques.
- WHO IS ELIGIBLE:** Canadian manufacturing firms.
- FORM OF ASSISTANCE:** Grant normally amounting to 50 per cent of the total cost of the research project. In addition, firms receiving such grants may call on the staffs of the various laboratories of the Defence Research Board for scientific advice and assistance as required.
- ALLOWABLE COSTS:** Total cost of research project.
- REPAYMENT:** None.
- TITLE TO RESULTS:** Vested in company, but government retains royalty-free right to use any patents for defence purposes and firm may not grant licences to use such patents to any person outside Canada without government approval.
- COMPANY OBLIGATIONS:** To build up and maintain a self-sustaining research activity. To retain and exploit in Canada the developments which are the fruits of such research.
- ADMINISTRATION:** Defence Research Board, Department of National Defence.

INDUSTRIAL RESEARCH ASSISTANCE PROGRAM
(IRAP)

OBJECTIVES: To stimulate interest in Canadian industry in research and development. To promote the establishment of new industrial research facilities and the expansion of existing facilities.

QUALIFYING ACTIVITIES: Applied research in science and in engineering and in the development of prototypes and processes.

DECISION AUTHORITY: The Research Council on advice of N.R.C. Committee on Industrial Research Assistance (CIRA)

CRITERIA: Scientific feasibility, the company background, its record of competence and quality the experience and capabilities of its scientific and technical staff and the continuity of company interest in research.

WHO IS ELIGIBLE: Companies incorporated in Canada.

FORM OF ASSISTANCE: Shared on the basis of approximately equal contributions by N.R.C. and industry. N.R.C. will provide for the salaries and wages of scientific and technical staff, overheads and equipment will be paid for by industry.

ALLOWABLE COSTS: Salaries and wages of scientific and technical staff engaged in research and development up to and including the production of a prototype.

REPAYMENT: None.

TITLE TO RESULTS: Vested in the company.

COMPANY OBLIGATIONS: Establish or expand industrial research and development facilities in Canada.

ADMINISTRATION: National Research Council.

DEFENCE INDUSTRY PRODUCTIVITY PROGRAM
(DIP)

OBJECTIVES:

To develop and sustain technological capability of Canadian defence industry for the purpose of defence exports or civil exports arising from that capability.

QUALIFYING ACTIVITIES:

- 1) Product Research, development, test, and evaluation.
- 2) Acquisition of capital equipment for plant modernization.
- 3) Establishment of production capacity and qualified sources.

DECISION AUTHORITY:

Treasury Board on advice of Inter-Departmental Committee.

CRITERIA:

Potential export market.

WHO IS ELIGIBLE:

Canadian manufacturing company in defence industry.

FORM OF ASSISTANCE:

- 1) Research and Development. Shared cost, normally 50%.
- 2) Capital equipment. Government normally pays 50% of cost and lends remaining 50%.
- 3) Source Establishment. Shared cost, normally 50% of allowable costs.

ALLOWABLE COSTS:

- 1) Research, development, test and evaluation including prototype.
- 2) Capital equipment.
- 3) Source Establishment. Non-capital costs.

REPAYMENT:

- 1) Research, development, test and evaluation. On terms and conditions approved by Treasury Board.
- 2) Capital equipment. On terms and conditions approved by Treasury Board.
- 3) Source Establishment. On terms and conditions approved by Treasury Board.

TITLE TO RESULTS:

- 1) Development sharing. If cost shared by Canadian Government and company, company has title and Government has royalty-free licence. If shared with foreign government then title held jointly by Canadian and foreign government and company has licence.
- 2) Capital Equipment. Vested in company on repayment of loan.
- 3) Source Establishment. As development sharing.

COMPANY OBLIGATIONS:

To maintain and improve a capability to build and export defence equipment.

ADMINISTRATION:

Department of Industry, Trade and Commerce.

PROGRAM FOR THE ADVANCEMENT OF
INDUSTRIAL TECHNOLOGY (PAIT)

OBJECTIVES: To encourage industrial growth and productivity by supporting the development of new or improved products and processes for commercial markets.

QUALIFYING ACTIVITIES: Selected projects to develop new or improved commercial products or processes.

DECISION AUTHORITY: Deputy Minister on recommendation of PAIT Advisory Committee.

CRITERIA: Technical and commercial feasibility.

WHO IS ELIGIBLE: Canadian manufacturing and processing companies.

FORM OF ASSISTANCE: Shared cost, normally 50%.

ALLOWABLE COSTS: Current costs, including special equipment, e.g., prototypes, pilot plants.

REPAYMENT: Negotiated levy per unit sold, to recover principal and interest.

TITLE TO RESULTS: Vested in company.

COMPANY OBLIGATIONS: Exploit results to attain maximum benefit for Canada.

ADMINISTRATION: Department of Industry, Trade and Commerce.

ILLUSTRATIONS: RESEARCH & DEVELOPMENT SUPPORT
(DEPT. OF INDUSTRY, TRADE AND COMMERCE)

PAIT

Approved project	\$100	cost
Paid by PAIT office	\$ 50	
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Cost to industry	\$ 50	
Tax write-off	\$ 50	
If Corporation is paying 50% tax-then	\$ 25	is actual <u>after tax</u> investment in research project.

IRDIA

If the PAIT project above is over the average of the previous 5 year R & D costs, or no previous expenditures has been made on R & D, then a 25% grant is made on \$50 which is \$12.50. This \$12.50 does not reduce the tax write-off above

The actual after tax investment -	\$25.00 (as above)
- is now reduced by - (IRDIA grant)	\$12.50
Therefore after tax investment is	\$12.50

If the research project is successful and leads to commercial production the \$50 advanced by the PAIT office is repayable. However, these repayments are subject to the same tax write-offs and IRDIA grants as the original \$50.00 cost to the industry and the net effect or cost of after tax investment is \$12.50, provided the repayments are in excess of the previous 5 year R & D costs.

If the research project is not successful, the \$50.00 is not repayable to the PAIT office.

NOTE: IRDIA Grant is applicable to all R & D expenditure including PAIT provided it is in excess of 5 year R & D average expenditure or if no previous R & D expenditure has been made.

GENERAL ADJUSTMENT ASSISTANCE PROGRAM
(GAAP)

- OBJECTIVES: To assist Canadian manufacturing industry to adjust to, and to compete effectively in the new trading environment resulting from the Kennedy Round Agreements.
- QUALIFYING ACTIVITIES: Manufacturing.
- DECISION AUTHORITY: General Adjustment Assistance Board.
- CRITERIA: Companies may be assisted who:
- 1) have export opportunities arising out of the Kennedy Round Agreements:
- OR
- 2) have suffered or are threatened with injury as a result of Kennedy Round tariff reductions made by Canada;
- AND
- 3) are unable to obtain the required financing on reasonable terms.
- WHO IS ELIGIBLE: Manufacturing companies meeting the above criteria.
- FORM OF ASSISTANCE:
- 1) Insurance of loans by private lenders.
 - 2) Direct loans by the Government, except for those who qualify by way of export opportunity.
 - 3) Grants for consulting assistance to develop restructuring proposals.
- ALLOWABLE COSTS:
- 1) Insurance of Loans and Direct Loans: working capital or the acquisition, construction or conversion of machinery, equipment, buildings, land or other facilities.
 - 2) Grants for Consulting Assistance: all costs related to the development of restructuring proposals but not costs relating to their implementation.
- REPAYMENT:
- 1) Insurance of loans: private lenders pay 1% of the amount.
 - 2) Direct loans: repayable in full; both principal and interest, the latter close or equal to commercial rates.
 - 3) Grants for Consulting Assistance: not repayable but limited to 50% of the approved studies' total costs.
- TITLE TO RESULTS: Vested in Company.
- COMPANY OBLIGATIONS: To meet objectives of the program.
- ADMINISTRATION: Department of Industry, Trade and Commerce.

AUTOMOTIVE ADJUSTMENT ASSISTANCE PROGRAM
(AAA)

OBJECTIVES: To enable original equipment manufacturers in the automotive industry to take advantage of new opportunities to sell in the North American market.

QUALIFYING ACTIVITIES: Manufacturing original equipment automotive parts and their suppliers.

DECISION AUTHORITY: Adjustment Assistance Board.

CRITERIA: It has to be shown that, because of the Canada/U.S. agreement on automotive products, that either,

- 1) restricting is needed to avoid undue injury or
- 2) an opportunity exist to expand Canadian sales of automotive parts. It has to be shown also that financing through normal commercial channels is not available, although the proposition is viable.

WHO IS ELIGIBLE: All firms manufacturing original equipment and certain specified automotive vehicles.

FORM OF ASSISTANCE: Government loan at current rate of interest.

ALLOWABLE COSTS: All costs of plant and machinery involved and working capital requirements.

REPAYMENT: Principal and interest.

TITLE TO RESULTS: Vested in company.

COMPANY OBLIGATIONS: N.A.

ADMINISTRATION: Department of Industry, Trade and Commerce.

PHARMACEUTICAL INDUSTRY DEVELOPMENT
ASSISTANCE (PIDA)

OBJECTIVES: 1) To increase the efficiency of smaller companies in the pharmaceutical industry.
2) To lower drug prices.

QUALIFYING ACTIVITIES: Pharmaceutical manufacturing in dosage form.

DECISION AUTHORITY: Pharmaceutical Industry Advisory Board.

CRITERIA: It has to be shown that prescription drugs will be manufactured and then marketed at lower prices.

WHO IS ELIGIBLE: Companies which submit suitable plans for expansion, merger, acquisition or reorganization.

FORM OF ASSISTANCE: Government loan for expansion, merger, acquisition, or reorganization. Cost sharing on feasibility study.

ALLOWABLE COSTS: All costs of expansion, merger, acquisition or reorganization.

REPAYMENT: Principal and interest on loan. No repayment of Government share of feasibility study.

TITLE TO RESULTS: Vested in company.

COMPANY OBLIGATIONS: Lower prescription drug prices and increase the manufacture of pharmaceutical raw materials and drugs in dosage form.

ADMINISTRATION: Department of Industry, Trade and Commerce.

MACHINERY PROGRAM (MACH)

OBJECTIVES:

To enable Canadian manufacturers to equip themselves with the most efficient machinery available and at the same time enable Canadian machinery producers to derive maximum incentive and encouragement from the Tariff.

QUALIFYING ACTIVITIES:

Any involving use of machinery.

DECISION AUTHORITY:

Order in Council on advice of Machinery and Equipment Advisory Board.

CRITERIA:

- 1) Machinery must not be available from domestic production.
- 2) Remission is in the public interest.

WHO IS ELIGIBLE:

Any machinery user.

FORM OF ASSISTANCE:

Remission of import duty.

ALLOWABLE COSTS:

All duty on value in excess of \$500 on approved items.

REPAYMENT:

None.

TITLE TO RESULTS:

N.A.

COMPANY OBLIGATIONS:

To pass advantages of duty remission to customers.

ADMINISTRATION:

Department of Industry, Trade and Commerce

SHIP CONSTRUCTION SUBSIDY REGULATIONS
(SCSR)

- OBJECTIVES:
- 1) To lower protection in the shipbuilding industry to a level comparable to that in similar industries and to achieve this with the minimum disruption of activity and employment.
 - 2) To encourage the rationalisation of the industry.
- QUALIFYING ACTIVITIES: Ship and trawler construction.
- DECISION AUTHORITY: General Director, Aerospace, Marine & Rail Branch, DOI.
- CRITERIA: A new vessel or fishing trawler above certain minimum sizes when built for a Canadian owner for Canadian registry.
- WHO IS ELIGIBLE: All builders of commercial vessels and fishing trawlers.
- FORM OF ASSISTANCE:
- 1) Commercial vessels; subsidy of 25% until 31st May, 1969, reducing by 2% annually until it reaches 17% in June 1972.
 - 2) Fishing trawlers; subsidy of 35%.
- ALLOWABLE COSTS: All costs of building a commercial vessel or fishing trawler.
- REPAYMENT: None, except for pro rata recovery of subsidy for vessels taken off Canadian registry within 5 years.
- TITLE TO RESULTS: Vested in company.
- COMPANY OBLIGATIONS: To increase the efficiency of commercial vessel and trawler building.
- ADMINISTRATION: Department of Industry, Trade and Commerce.

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MEDICAL