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Chair

Mr. Rob Merrifield

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● (1530)

[*English*]

The Chair (Mr. Rob Merrifield (Yellowhead, CPC)): I see the time is 3:30. We have enough members and we have our witnesses with us, so I'll call the meeting to order.

We want to first thank our witnesses for coming.

Our meeting is pursuant to Standing Order 108(2) and the adoption of the motion on February 11, 2008, on the study of the annual report and business plan of the Business Development Bank of Canada.

We want to thank our two witnesses for coming. They are from the Business Development Bank of Canada. We have John MacNaughton and Jean-René Halde. It is good to have you here with us.

We will open the floor up to you, and then we'll intervene on the question and answer portion of the meeting. The floor is yours.

Mr. John MacNaughton (Chair of the Board of Directors, Business Development Bank of Canada): Thank you, Mr. Chairman, members of the committee. We're pleased to be here.

As you know, the BDC reports to Parliament through the Minister of Industry, but given your committee's interest and role in supporting entrepreneurship, we welcome this opportunity to be here today.

Together Mr. Halde and I will speak to the four points in your motion of March 12. Then we'll welcome any questions you may have.

BDC is Canada's business development bank. Our mandate is to promote entrepreneurship by providing term financing, subordinated financing, venture capital, and consulting services, with special consideration for small and medium-sized enterprises. Put simply, BDC supports Canadians who are creating and growing their small and medium-sized businesses. Many of these endeavours are, by their nature, quite risky. As such, they often fall outside the risk appetite of most private sector financial institutions.

I'm going to begin with your motion's first point, BDC's most recent corporate plan.

In our 2008-12 plan, we state that we will continue to provide innovative small-business financing with special attention to those startups, innovators, fast-growth companies, and manufacturers and exporters that are facing lower financing approval ratios than other companies.

We'll also develop our services of support to the growing number of entrepreneurs who will be retiring and selling their businesses to other young entrepreneurs. We will help Canadian companies to become more globally competitive. We will invest in our consulting services. Our goal is to provide small businesses with quality advice at reasonable prices.

In venture capital, we'll support the commercialization of Canadian R and D. More specifically, we'll invest in new-technology companies, nurture our portfolio of growing companies, and act as a catalyst to help attract greater private sector investment in the commercialization of research in Canada.

We'll do all of these things while maintaining our patient, long-term view of client relationships. Finally, we'll do all of the above in a financially sustainable way. We will be profitable, and we will continue to pay dividends to the Government of Canada.

The motion's second point asks us to discuss our most recent annual report.

Fiscal 2007 was very successful. We've now reached 27,000 entrepreneurs across Canada. Last year we authorized close to $2.6 billion of loans, for an average loan size of $285,000.

Our total portfolio stood at $9.8 billion. Most of this, $9.1 billion, was in loans. It also includes $148 million in subordinated financing and $505 million in equity investments in venture capital. We also started 2,400 consulting mandates.

Our return on common equity was 8.5%. In June of last year, we paid the government a $21.5 million dividend.

Fiscal 2008 ended just two days ago. We anticipate reporting another successful year, as well as another dividend payment.

I speak with confidence when I speak of the BDC, and I do so for many reasons, notably the excellence and dedication of its leadership team and employees, the rigour of its internal controls, its risk management expertise and systems, and the high quality of information that it provides to me and my colleagues on the board of directors.

I'll now turn it over to our president.

● (1535)

[*Translation*]

Mr. Jean-René Halde (President and Chief Executive Officer, Business Development Bank of Canada): Thank you, John.

Good afternoon, members of the committee.

We will now turn to the third point in the motion: the range of BDC's services and the nature of its relationship with private sector financial institutions.

Our 1,700 employees work from 94 offices across the country, from St. John's to Victoria to Whitehorse, and we partner with other organizations to reach entrepreneurs who do not live in cities and towns. Every day, about 600 BDC employees visit hundreds of small businesses. These client relationships are an unparalleled source of information about Canada's small business community and their competitive market.

The small business competitive environment is very complex. To master it, entrepreneurs need support from advisors, accountants, lawyers and bankers. To meet financial needs, they seek finance sector partners. BDC is one of these. It is important to understand that because we do not offer operating lines of credit or chequing accounts, 100% of our clients have dealings with private sector financial institutions. This means that BDC always works with other financial institutions.

Our involvement in riskier projects is evident in the types of financing we did in fiscal 2007. For example, we financed more than 1,400 loans to start-up companies, more than 5,000 loans to clients who considered themselves in expansion mode, and close to 1,000 loans to aspiring entrepreneurs who are taking over the ownership of companies from the existing generation.

We often “de-risk” projects. Let's take an example: the financing of a new mid-size hotel. In these instances, we help the entrepreneur with two large risks. The first is a construction risk: will the building be built on time and on budget? Next is a market risk: will the hotel attract the expected number of guests and revenue? When the hotel succeeds, the entrepreneur often chooses to refinance it with private sector financing where he or she can often get cheaper rates since the project has been “de-risked” by BDC.

Prepayments constituted almost $1 billion of our portfolio last year.

[*English*]

One of our key competencies is evaluating and pricing risk. We have a sophisticated pricing model to ensure we're compensated for the risk we take. This ensures that we remain commercially viable.

Cyclical financial markets can sometimes make it hard for entrepreneurs to secure project financing. Because BDC takes a patient, long-term approach to development, we're able to minimize the impact of such cyclicality on entrepreneurs as well as on other financial institution partners. For example, last autumn, when the financial markets tightened their credit in response to the asset-backed commercial paper problem, we became an even more attractive alternative.

Sometimes financing gaps correlate to industry sectors or geographical regions. We do not use blanket exclusions on project proposals in troubled industry sectors or economically depressed places. We will consider any solid project proposal regardless of the industry sector or region in which it is found.

In venture capital, the support we provide high-technology companies shows that for each dollar we invest, more than $4 is invested by other investors. We provide small business with high-quality consulting services at prices they can afford.

You should also note that when we are tailoring our response to a request for financing, we do not always know if another financial institution is also considering the same request. Clients are not obliged to tell us, and often they do not. On occasion we find ourselves offering financing to an entrepreneur who is also considering an offer from another financial institution. Ultimately it is they, the entrepreneurs, who should decide which offer best meets their needs.

In closing, I'll speak to the motion's point about financial market volatility and our financing requirements. We have never held, and we have no exposure to, the non-bank asset-backed commercial paper, the source of much of the financial market volatility. The very little asset-backed commercial paper we do have is backed by the five chartered banks. As far as our clients are concerned, financial market volatility is but another source of competitive strain for them to manage as they steer their companies through globalization, the rise in value of the Canadian dollar, rising energy prices, the difficulties in finding qualified employees, and the threat of an economic slowdown.

In these days of regular worrying reports of economic uncertainty, I am pleased to report that the delinquency rates or levels of impaired loans in our portfolio have not deteriorated. This would indicate that thus far at least our clients are holding steady. But obviously, 2008 is not over yet. We're keeping a very prudent eye on the situation.

Thank you for your time. We would be pleased to answer your questions.

● (1540)

The Chair: Thank you very much. We appreciate your presentation to the committee.

We'll now open it up to the question-and-answer portion.

We'll start with Mr. McKay. You have seven minutes.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Chair.

Thank you both for your testimony.

I want to ask a few questions about the asset-backed commercial paper. You said you don't have any exposure to the non-bank asset-backed commercial paper. Does that mean there is exposure to the bank asset-backed commercial paper?

Mr. Jean-René Halde: We don't feel that is an exposure, for two reasons. One, I believe everyone is comfortable with the solidity of the bank-backed asset-based commercial paper. Second, we're down to $85 million, and within seven days we'll be down to zero. We feel quite comfortable with our present position.

Hon. John McKay: That's on your bank-backed asset paper.

Mr. Jean-René Halde: Yes. We have no non-bank asset-backed commercial paper.

Hon. John McKay: This has had a huge ripple effect throughout the financial markets, as you well know. I'm wondering how that has impacted you in terms of lending patterns and security you accept for loans.

Mr. Jean-René Halde: We probably saw a slight increase in some files last fall that we might not have seen otherwise. Our lending practices have basically not changed. Obviously we're quite careful in terms of the way we lend. There have not been major changes, though probably we have seen a few more files come our way than otherwise would have been the case.

● (1545)

Hon. John McKay: Can you categorize the files? Is there a pattern in the files?

Mr. Jean-René Halde: Quite candidly, no. There are the usual sectors you would know would be under some level of difficulty—the tourism sector and the manufacturing sector are under some difficulty—so clearly those sectors are under some pressure.

Hon. John McKay: You have a close working relationship with the five chartered banks—

Mr. Jean-René Halde: We do.

Hon. John McKay: —and their exposure to asset-backed commercial paper is uneven, shall we say. Have you noticed any differential among the banks, in terms of them in effect backing you up?

Mr. Jean-René Halde: We complement other financial institutions, and from where we stand there's really been no change. We have clients coming our way who in recent months may have come because other institutions were somewhat more risk averse, but there's no pattern.

Hon. John McKay: When you de-risk a loan—that's the reason for your existence—

Mr. Jean-René Halde: That's correct.

Hon. John McKay: —that's what you're there for—when customers come to you, and other sources of financing are cut off to them by virtue of this asset-backed commercial paper issue, does that enable you to charge a bit more of a risk premium?

Mr. Jean-René Halde: I'd hate to comment on whether or not we get a lot more because of the asset-backed commercial paper, but the way we work—and it's been the same for a long time—is we price for risk on a project-by-project basis, so we will evaluate each project one-on-one and we will price it accordingly.

Hon. John McKay: You'd have to think you're seeing better quality risk, given that people who are being turned down by the banks, can't do a straight deal with the banks, are now having to come to you and, if anything, your risk would be diminished. Is that a fair observation?

Mr. Jean-René Halde: I don't think we've noticed something that would be as dramatic as what you've just said.

Hon. John McKay: Okay.

Those are all the questions I have. Thank you.

The Chair: Okay, thank you.

Monsieur Crête, you have seven minutes.

[*Translation*]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): Thank you very much for your presentation. On a number of occasions in the past, the BDC has come up with innovative means of supplementing funding in my region, amongst others.

Your brief states that, last year, your return on common equity was 8.5% and that you paid the government a $21.5 million dividend. I imagine that it will be more difficult to achieve such results in fiscal 2008.

In your daily work, are you noticing the effect of the slowdown in the manufacturing sector in Quebec and Ontario, particularly in Quebec? How is it affecting your clients?

Mr. Jean-René Halde: As I said at the end of my presentation, the delinquency rates or level of impaired loans in our portfolio have not deteriorated thus far. That is the good news, it is even very very good news. It really is better than we would have expected.

Here is what happens. We examine each account and, in some cases, as a precautionary measure, we take provisions. Will our provisions for bad risk increase this year? Probably a little.

Mr. Paul Crête: A year or eighteen months ago, it was the weaker businesses in the forestry sector that had to lay off staff or cease operations. However, this year, we are seeing the same happen to far stronger business. For example, in my riding, Maibec, a solid, well-managed forestry business has been forced to shut down for three months.

Do you expect to be more affected by the economic slowdown in 2008-2009 than you have been so far? Perhaps you could give us an overview as to how much of your portfolio is tied to the manufacturing sector, as opposed to tourism and other sectors.

Mr. Jean-René Halde: Around 35% of our portfolio is in the manufacturing sector and around 12% is in tourism. Obviously, these are sectors that are under pressure at the moment. However, as I said earlier, delinquency rates have not deteriorated. By that I mean that the number of clients who are not paying their interest charges and whose portfolios are in difficulty, or whom we expect to face difficulties because of their financial results, has not yet changed. Honesty, it is better than we had thought it would be. With regard to forecasts for 2008, everybody is worried about what might happen in the United States. Obviously, we are concerned as well, but, with regard to forecasts, your crystal ball is every bit as good as mine. We are concerned, but we do not have any concrete information thus far.

● (1550)

Mr. Paul Crête: I believe that, in the past, Quebec punched above its demographic weight, in that about 35% of your portfolio was in Quebec. Are Quebec and Ontario currently performing as well as western Canada across the board?

Mr. Jean-René Halde: I would have to look at the statistics for each region in order to give you an exact answer. I know that the main regions facing difficulties are, broadly speaking, the Atlantic regions, rural Quebec and Southern Ontario, that is to say the Windsor region, while western Canada is performing slightly better. The differences are not huge, but the regions that I have just listed are facing slightly more difficulties.

Mr. Paul Crête: You must be pleased that you did not invest heavily in bank paper.

Mr. Jean-René Halde: We are very pleased. We have congratulated our treasurer.

Mr. Paul Crête: I think that we should congratulate the BDC in general. Do you feel that this situation will have repercussions on your clients in years to come? I would like to come back to what has been said previously: some argue there will be a domino effect across the whole economy. Do you think that you will be affected by it?

Mr. Jean-René Halde: What concerns us is the state of the Canadian economy. Yes, the commercial paper situation is a factor, but there is also the issue of the U.S. market as a whole. Will the demand for Canadian products remain stable? There are a number of economic concerns. I do not think that we can blame everything on commercial paper. Obviously, it is of concern. Those who have invested in commercial paper have reason to be concerned. However, you have to look at the whole picture. Energy costs have risen and the Canadian dollar has rapidly appreciated. Furthermore, if we are to believe all that we read, the U.S. economy will probably slow down. It is the combination of all of these factors that is worrying.

Mr. Paul Crête: I would now like to move on to a completely different subject. I believe that you still have a tourism sector program that allows for repayments to be increased or decreased depending on the time of year. I believe it is often done on a seasonal basis. Does that still exist? The appreciation of the Canadian dollar means that a lot of Canadians are now prepared to go to the United States whereas less Americans want to come here. We have seen the statistics. It was a record year: less and less Americans are coming to Canada for 24-hour trips.

Do you think that something needs to be done on this front? Red flags are going up in the tourism sector.

Mr. Jean-René Halde: Firstly...

Mr. Paul Crête: Your clients in the tourism sector...

Mr. Jean-René Halde: To answer the first part of your question, we customize repayments in every industry. I told you earlier that our loans are very specific to the needs of the company. If necessary, if you work in a business that goes through cycles, like construction for example, we will tailor your repayments to your receipts. The sector having the worst time of it, if the delinquency rate is to be believed, is tourism. It is having greater difficulties than the others. Yes, we customize our repayments. We recently offered several of our clients an extension on the principal, that is, we asked them to pay the interest, but we allowed them to delay their payments on the principal for six months. This clearly helped a number of sectors that were under more pressure. The good news—I do not come with just bad news—is that only 17% of our clients took advantage of our offer. That is to say that 83% of our clients chose to keep to their normal repayment schedule. In that sense, it is good news. As you can suppose, the 17% were companies in the most vulnerable sectors.

● (1555)

Mr. Paul Crête: Will it be more than 17% next year?

Mr. Jean-René Halde: Honestly, I do not know.

Mr. Paul Crête: Thank you.

[*English*]

The Chair: Thank you very much.

Mr. Del Mastro is next.

Mr. Dean Del Mastro (Peterborough, CPC): Thank you, Mr. Chair, and thank you to the witnesses for appearing today.

Gentlemen, in November 2006 our government introduced our financial plan, which was called “Advantage Canada”. In that we talked about a couple of advantages that we were looking to create, one being a tax advantage and the second being an entrepreneurial advantage. That's where I see the Business Development Bank of Canada playing a key role as an arm of government.

In the 2008 budget we specifically set aside $75 million for the Business Development Bank to support the creation of the new privately run ventures. Specifically, it's a capital fund to support venture capital for growing companies. Can you talk a little bit about how this is good for Canadians, who it's going to benefit, and whether that fund is available in all regions of Canada and so forth?

Mr. John MacNaughton: I'd be pleased to answer that.

The $75 million that was earmarked is going to a fund that will be larger, because we will be seeking a third-party manager to invest their own capital and the capital of other interested parties. It's intended to be a late-stage fund, because one of the issues that was identified by the management of the Business Development Bank—and the board of directors encouraged them to seek a solution—is that very often Canadian entrepreneurs grow their businesses to a certain stage where they need financing of $30 million to $50 million. So they've had very good success in the start-up phase, but they now need money at a larger level. The number of parties in Canada that are there to provide that level of equity financing is small, and the amount of capital they have to support them is modest.

Very often, Canadian companies that look like they have the opportunity to become important national players, and even global players, are forced to sell to foreign buyers before they've fully exploited their proprietary technology or their differentiated strategy. So the intention of this fund is to provide late-stage funding so those companies don't have to sell themselves to foreign interests before they reach their more mature levels—and possibly never.

Mr. Dean Del Mastro: Last year we had a presentation before the committee where one of the presenters called the gap between conception and production “the valley of death”. That's the area you're going to assist with, so I think that's tremendous.

Will that supportive fund be available in all regions of Canada?

Mr. John MacNaughton: It will be. It's still in incubation and hasn't been launched yet.

Mr. Dean Del Mastro: You said it would be part of a larger fund. Can you give us some idea how much investment and potential employment you'll be able to leverage?

Mr. Jean-René Halde: The objective will be to create a private sector fund in the order of $400 million to $500 million. We would be the lead investor with $75 million, in the hope of raising additional capital.

There's just one point I want to add to John's presentation. All the companies we're talking about fit within the venture capital model, thus they're technology-oriented companies. There is a need, as John said, for late-stage investments.

Mr. Dean Del Mastro: Exactly. It's the high-tech form of economy that we want to create in this country.

In budget 2008 the government announced we were going to consolidate the BDC's debt into government debt. It was effective yesterday, April 1. Given the tight credit conditions of financial markets, and so forth, could you talk about the advantages of that move by the government?

Mr. Jean-René Halde: I'd be happy to. Obviously it allows us to borrow directly from the central...at quite reasonable rates. In the past, the Government of Canada guaranteed when we issued structured notes in international markets. But it does at least simplify the way we work. If today we wanted to borrow a six-month T-bill, we would get the 2.5% that would be available for the Government of Canada.

● (1600)

Mr. Dean Del Mastro: Would it be reasonable to assume that if you're getting more favourable rates and more access to capital, that assists you in passing those savings or capital on to investors and businesses in Canada?

Mr. Jean-René Halde: I think we have to be careful with that statement. Because we had the Government of Canada guarantee in the past, we were borrowing at quite favourable rates in international markets anyway. But it does simplify life to be able to borrow centrally from Ottawa.

Mr. Dean Del Mastro: Thank you.

I understand it's in your mandate to be complementary to the private sector and not directly compete with it. How do you ensure that? Is there a test you apply to make sure that as a government entity you're not competing with the private sector?

Mr. Jean-René Halde: That's obviously something quite complex. Our small and medium-sized businesses live in a complex world where they need help. Remember, not only do we provide financial help, but we also provide consulting help.

On the financial side, as I said during the presentation, we only do project financing, and they have another institution they deal with at all times for their other needs.

We tend to focus on the more difficult segments, whether they be innovative firms that tend to have a hard time getting financing, or fast-growth firms, or manufacturers and so on, and venture capital where we're focusing on the very early stage. We take the initial risk. I think earlier someone said de-risk. That's exactly right. That's what we do, de-risk the transaction.

We don't ever exclude industries. We stay the course in tough environmental or economic cycles. We're a very patient lender if we believe in the business plan and the management team.

And by the way, we meet all the time with other financial institutions just to make sure the relationship is good and we're staying within our mandate. And I'm pleased to report that whenever we have these meetings they tend to be quite favourable. As a matter of fact, we get a lot of loans referred to us by other financial institutions that are quite happy to pass on some of the riskier projects.

Mr. John MacNaughton: If I might just supplement that as chair of the board, we feel that part of our responsibility is to ensure the Business Development Bank is conducting itself in accordance with its statutory mandate. So this is an area we question management on from time to time and are assured their operations are consistent with the legislation.

Mr. Dean Del Mastro: Thank you both.

The Chair: Thank you.

We'll move on to Mr. Pacetti. The floor is yours for five minutes.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Thank you, Mr. Chairman.

Thank you for appearing before us.

You say you report to the industry minister, but we seem to get the reports as well. How many times have you appeared before the industry committee?

Mr. Jean-René Halde: I've only been with the bank for three years, and in my three years I haven't. Having said that, maybe some of my colleagues would know the answer. I would be happy to provide you with the information.

Mr. Massimo Pacetti: Nobody has appeared from the bank before the industry committee.

Mr. Jean-René Halde: Not in the three years I've been CEO, no.

Mr. Massimo Pacetti: But I thought we were partlly responsible. So there is no communication between your bank and the Minister of Finance?

Mr. Jean-René Halde: Oh, no, there is a lot of communication between the finance department and us. The top three we deal with would be Industry Canada because they're the ministry we report to, the Department of Finance, and Treasury Board.

Mr. Massimo Pacetti: So what is the relationship between you and the finance department and Treasury Board?

Mr. Jean-René Halde: In terms of our borrowing, we borrow about $8 billion a year, or at any given time we've got about $8 billion in borrowing, and all that is controlled by the finance department. And Treasury Board has more to do with the governance of the bank.

Mr. Massimo Pacetti: In terms of the funding or appropriations, the BDC, from what I can see, is self-sufficient.

● (1605)

Mr. Jean-René Halde: It is.

Mr. Massimo Pacetti: But has there been no extra funding in the last three or five years? When was the last time the government had to give some money to the BDC—not lend money, but give money?

Mr. Jean-René Halde: BDC is self-funding, meaning we're profitable every year. We made $138 million, as noted in the annual report you've got in front of you. So we are self-funding. However, for particular projects where we believe we can add more value in the market, on occasion the government has put equity in the bank. The latest example would be the $75 million for the late-stage fund, where we expect sometime this summer—

Mr. Massimo Pacetti: But other than these programs, has any other money been allocated to the bank in the last five years? Are you saying no because it's been self-sufficient for the last—

Mr. Jean-René Halde: It's been self-sufficient. The last injection of capital would be....

A voice: The last appropriation was in 1997.

Mr. Massimo Pacetti: That's the answer.

Mr. Jean-René Halde: That's the answer. It was 1997 in terms of the last appropriation.

Mr. Massimo Pacetti: And how about the reverse? Do you pay any dividends to the government?

Mr. Jean-René Halde: Yes, we do. Last year I believe the number was $21.5 million.

Mr. Massimo Pacetti: How is that determined?

Mr. Jean-René Halde: We have both common and preferred shares, and if you pick a round number it's about a 15% payout ratio.

Mr. Massimo Pacetti: In terms of what is going to happen in terms of risk, we see the market.... I'm not sure how the financial institutions are going to handle what's going on there, and whether some of them will survive. I'm talking more, perhaps, about the American side, but the Canadian banks are definitely exposed to it.

How can that not affect you? You're going to have to pick up a larger portion of that risk that's out there. The banks are going to ask for more return on their money, they're going to lower their risk, and that's going to mean that you're going to have to pick up the slack. I can't see any scenario other than that.

Mr. Jean-René Halde: It's a possibility.

Mr. Massimo Pacetti: It can't be a possibility; it has to be.

Mr. Jean-René Halde: I hate to be black and white on any of those future predictions. You know, we look at it case by case for every entrepreneur. As I said to you in the fall, we did have an increase in files coming our way—

Mr. Massimo Pacetti: No, I understand.

Mr. Jean-René Halde: —and if it happens in 2008, we'll be there to help them. We're there to help SMEs.

Mr. Massimo Pacetti: I understand that, but you can't tell me that the bank is not looking forward and saying “If it happens...”. You know that it's going to happen. You must have some type of projection, looking at what your exposure is going to be, and I'm just wondering....

Mr. Jean-René Halde: We have the balance sheet, and the viability of the bank is such that if there's a need to support more SMEs, BDC can do that.

Mr. Massimo Pacetti: That's the answer. So you can fulfill the requirements that the market will request of you.

Mr. Jean-René Halde: Within a reasonable amount, the answer is clearly yes.

Mr. Massimo Pacetti: That's what I thought.

Mr. John MacNaughton: I would just add, if I could, that all financial institutions are in the business of taking risk, and the challenge is in correctly assessing the risk and getting appropriately paid for it.

As a relative newcomer to the Business Development Bank I've been quite impressed with the depth and sophistication of the risk-management capability within the bank to assess risk and properly price for it. Also, because of the importance of getting this right, we encouraged the appointment of a director who had a strong risk-management background, so we've recently had appointed to our board a recently retired vice-chairman of risk management for the Toronto Dominion Bank.

So this is an important area, both as an opportunity and as a business technique.

The Chair: Monsieur Laforest, five minutes.

[*Translation*]

Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ): Thank you, Mr. Chair.

Good afternoon. You said earlier that 35% of your loans go to the manufacturing sector. You also said that you have undertaken quite a large study to determine China's influence on the manufacturing sector. On page 11 of the BDC Corporate Plan Summary, we read the following: "(This study) revealed the concern that Canadian manufacturers perceive themselves to be "ready" for globalization when, in fact, they are not."

Why do you say "they are not"?

● (1610)

Mr. Jean-René Halde: We have had working sessions with a number of our clients. Last fall, for example, we brought together clients from 17 cities either in person or by satellite link. That morning, we gave presentations on China. At the beginning of the meeting, we asked our clients to what extent they were comfortable with their situation.

Three hours later, we asked them the same question. After hearing presentations from other business people and talks on the development of emerging economies, a number of them told us quite candidly that they had not realized or understood some of the factors, and perhaps they were less prepared than they thought.

So I think that one of our roles is to help companies wake up to globalization and get ready for it.

Mr. Jean-Yves Laforest: You say "one of our roles". Do you consider that it is also the role of the Business Development Bank of Canada to lead companies to become aware of their strengths and weaknesses in that regard?

Mr. Jean-René Halde: I do. We are a development bank and so our goal is to help entrepreneurs get better results. To that end, they need to have a better understanding of their environment. Hence our consulting services group, for example. We have 2,400 consulting arrangements annually, which is a lot, in order to help them make their company or their plant more efficient. Our role goes beyond a simple business transaction.

Mr. Jean-Yves Laforest: Of those 17 cities, was there a normal proportion in Quebec?

Mr. Jean-René Halde: There was.

Mr. Jean-Yves Laforest: Do you have to change your assessment based on the loan applications that some companies submit? When you feel that a company has miscalculated its position or its ability to react to globalization, do you tell them that you cannot provide a loan for that reason?

Mr. Jean-René Halde: Perhaps some people are not quite up to speed, but if they clearly understand what they have to do and if they have a management team with the will to meet the challenge, we support them. That is our role.

Mr. Jean-Yves Laforest: It would be interesting to have a look at that study. Could you send it to us?

Mr. Jean-René Halde: Gladly.

Mr. Jean-Yves Laforest: In the next paragraph, you say the following:

> This involves adoption of a combination of strategies that focus on R and D and innovation, supply, production, and marketing and sales.

So you are able to help companies like that properly. Do you not help those who are not in this area?

Mr. Jean-René Halde: We help all kinds of companies. Currently, those in the manufacturing sector are in particular difficulty in some respects. We sit down with them regularly to explain that they have choices to make: they can become very good and efficient in production; they can outsource it in whole or in part; they can buy components overseas or they can become very good at marketing. We help them to take a strategic position in this global game of chess, which is not easy to understand.

Mr. Jean-Yves Laforest: So they are told that they are ready to deal with globalization to a greater or lesser extent, and they have to get ready and to invest in certain areas. In that context, what is the difference between the Business Development Bank and a chartered bank?

Mr. Jean-René Halde: We are a development bank. When we meet with new employees, I always tell them that, if they think they are working for a bank, they are in the wrong place. I make sure that they know that we are a development bank first and foremost. We see our role as much wider. In fact, that is part of our mandate.

The act that created our organization in 1995 stipulates that our role is to support entrepreneurship, not just to conduct financial transactions. The goal is to help the entrepreneur. We examine his activities and we try to develop the best possible services, whether that be through consulting services, by tailoring our financing, by coming up with innovative forms of financing, and so on.

Mr. Jean-Yves Laforest: The banks do the same thing, but for money.

Thank you.

[*English*]

The Chair: Thank you very much.

Mr. Dykstra, you have five minutes.

● (1615)

Mr. Rick Dykstra (St. Catharines, CPC): Thank you. Mr. Chair.

One of the interesting questions I have probably doesn't speak to the content of the material you've provided—and I certainly appreciate that. It's actually found on page *v* of the corporate plan summary, in the conclusion. It's the very first sentence under the subheading “Conclusion”. It made me smile a little bit, because I assume that the corporate plan summary was written by the bank itself. Right?

Mr. John MacNaughton: It was.

Mr. Rick Dykstra: When I read the conclusion, the first sentence says “BDC’s performance to date has been excellent.” Have you ever, as an organization, actually given yourself a mark other than excellent? Have you ever determined that a year has not gone very well at all and you've made that pointedly obvious in your corporate plan and have made some recommendations as to how that would change?

Mr. Jean-René Halde: It's an interesting question. I've only been with the bank for three years, so I can't go back more than that.

First, let me assure you that we have a board of directors that keeps us quite honest, and they're doing a great job at it. We're never fully satisfied, because there's always more you could do—just following the last question. We're a development bank, so what else could we be doing? We're planning our strategic retreat for the fall, and the question we have on the table is, is there anything else we could do to help out?

So are we doing as much as we could? The answer is probably no, because there's probably something better that we could be doing, but that said, we like to think we're capable at what we do. I think we price for risk well. We take the kinds of transactions and risks that others will not take. In venture capital, we go where others don't want to go, which is at the very early stage of venture capital. We provide very affordable consulting. So I think SMEs are well served by the presence of BDC.

Mr. John MacNaughton: The board of directors approves the business plan before it's submitted, and I would say that it's a group of people who, if they thought that the bank had underperformed during a year, would not be reluctant to so state in the written summary.

Mr. Rick Dykstra: I appreciate that. I do say it with a bit of a smile on my face, because I can't think of a report I'd write about any organization that I was involved in that you wouldn't want to say it is excellent.

Mr. Jean-René Halde: Having said that, though, this is submitted to the minister for approval, and if the minister or the ministry disagreed with the content, I am sure we'd hear.

Mr. Rick Dykstra: The next question I had focuses a little more on the current state of manufacturing. We certainly have held a number of hearings here at this committee to talk about those exact issues, whether they be manufacturing, whether they be forestry.

I had the opportunity to meet with a number of manufacturers in my community in St. Catharines and Niagara. I hosted a forum with them, and as well met with a number of the banks and credit unions in Niagara, obviously to get a feel for where they were at in terms of next steps and what they could possibly be doing.

Could you comment briefly on how you've been able to help the current manufacturing sector through some of these issues? Do you have any advice or recommendations that you could pass on to the committee with respect to that sector?

Mr. Jean-René Halde: There are a number of ways where I think we've been helpful. Clearly one way is on the consulting side, where I think we provide excellent quality service at very affordable rates. The average mandate is about $10,000, so these are not the fees that would be charged, obviously, by large private sector consulting firms.

Secondly, we will finance people in organizations that we believe in, even if they're having some difficulties. If we believe, as I said earlier, that the business plan makes sense and if we believe that the management team is capable, we have an internal program called “Manufacturing Plus”, where we'll go the extra mile to support those people as they're restructuring.

Thirdly, we had our postponement campaign on capital. Clearly some of them were happy to have a six-month reprieve on capital repayment. That was very useful to them.

I'm sure there are others, but those are the three that come to mind very quickly.

Mr. Rick Dykstra: You brought this out in one of the questions that I had. One of the aspects that you've added in terms of key services is the consulting. I wonder whether you could comment on whether or not you feel there are times when you're in a conflict with the private sector in terms of providing the service, and whether you get the response from the private sector saying that government or an agency of government seems to be getting itself involved in a business the private sector is already in, and it's potentially hurting them.

Mr. Jean-René Halde: The answer to that one is very simple: the service is provided by private sector consultants. What we do is we provide the diagnostic.

If one of our account managers goes into a business and identifies that there might be a problem, let's say, of productivity, he will bring along a colleague from BDC who will assess the problem at hand and recommend to the private sector entrepreneur a consultant from the private sector. Now, we have a roster of about 400 consultants across Canada who we believe are capable. They tend to be usually either very small firms or capable individuals who will do the work for a reasonable price. We tend to certify the methodology so that at least there's relatively consistent service across all of Canada, but because we're complementary, the purpose was not for us to provide the service but basically to have the service provided by private sector consultants.

● (1620)

Mr. Rick Dykstra: Excellent. Thank you very much.

The Chair: Thank you.

Mr. McKay.

Hon. John McKay: In responding to one of Mr. Del Mastro's questions, you said the Government of Canada had taken over the debt of BDC. Did I hear that correctly?

Mr. Jean-René Halde: No, that's not correct.

In the past we borrowed on international markets and in Canada. Our borrowing level is about $8 billion. What the government has done is provided us with the ability to borrow basically from the consolidated revenue fund directly, versus—

Hon. John McKay: So you in effect get the Government of Canada credit rating.

Mr. Jean-René Halde: Yes, but we had it before, because when we would borrow in international markets we would have the guarantee of the government. Now it's just a lot simpler: we go directly to Ottawa and we borrow in Ottawa, effective now, literally.

Hon. John McKay: What, in practical terms, does that mean then?

Mr. Jean-René Halde: It means that in a period of uncertainty like today, the risk spreads in the private market are relatively high, and because we can borrow at government rates, we are getting better rates.

Let me provide you with a couple of examples, if I may. If we were to borrow from the consolidated revenue fund today for a one-year bond, we would pay about 2.8%. If were to borrow that in the private market, we would probably have an extra 10 or 15 basis points added on to that. However, if you had to go to a 20- or 30-year bond, borrowing from Ottawa right now would be at about 4%, but the spreads in the private market would be closer to 60 or 70 basis points.

Hon. John McKay: So it's a significant advantage you gain by simply going from an effective guarantee of your borrowings to direct borrowing, if you will.

Mr. Jean-René Halde: It is in today's environment, but a couple of years ago, when we were borrowing in international markets via structured notes and with the guarantee of the government, we would end up with very favourable borrowing rates.

So it all depends on the market's volatility, but clearly, it simplifies our life and enables us to have easy borrowing facilities. It's very much a function of the market, and right now, as we know, it's a bit of an unstable market.

Hon. John McKay: So it would make no difference to how your books would look, because your indebtedness would just...?

Mr. Jean-René Halde: The interest payment goes one place instead of another, but in terms of our profit and loss statement, it's a payment of interest.

Hon. John McKay: But is there a difference in how the Government of Canada's books look?

Mr. Jean-René Halde: I don't believe so, because the bank is consolidated overall.

Hon. John McKay: So it's still—

Mr. Jean-René Halde: I'm not an accountant by profession, so I would prefer to check that before making a solid statement. I believe we get consolidated in the whole government.

● (1625)

Hon. John McKay: Obviously the volatility of the dollar has led to some interesting difficulties for some of your borrowers. Can you enlighten the committee as to how that is affecting them, and does it affect particular sectors more than others?

Mr. Jean-René Halde: There are sectors that are....

As I responded earlier, I don't think we should focus strictly on the asset-backed commercial paper, because a range of issues have affected our small and medium-sized businesses. So if you're in the tourism sector, the rise of the Canadian dollar has probably affected you a lot more than other factors.

The key areas, the ones where we have the highest levels of impaired loans, are tourism and manufacturing. Those are the two key sectors that seem most impacted by the overall economic environment.

Hon. John McKay: So it would be reasonable to assume that the volatility of the dollar is the key driver in the impairment of the loan.

Mr. Jean-René Halde: I think that's probably overstating it, because there are other factors.

Hon. John McKay: Well, nothing happens in isolation.

Mr. Jean-René Halde: Exactly.

Hon. John McKay: But you have fingered the two sectors that are probably the most dollar-sensitive.

Mr. Jean-René Halde: Those two sectors are definitely dollar-sensitive, but if you're a manufacturer you're also quite sensitive to the emerging economies and what's coming in from other countries, and to your ability to export to the U.S. and the level of demand from the U.S.

There are multiple other factors, but clearly, what you mentioned is important.

The Chair: Thank you very much.

We'll now move to Mr. Vincent, for five minutes.

[*Translation*]

Mr. Robert Vincent (Shefford, BQ): Good afternoon.

On page 12 of your document, it says:

> Today, manufacturers can no longer grow if they have no positioning strategies in regard to improving productivity and maximizing supply chain value.

On page 11, it says:

> In addition, manufacturers must also...

[*English*]

The Chair: Our interpreter is having a bit of a problem. If you maybe just slow down a little bit, it will be all right.

[*Translation*]

Mr. Robert Vincent: I will start reading again:

> In addition, manufacturers must also have a global view of their supply chain. They should consider adding imported components to their production to raise the economies of scale and cost competitiveness.

At that point, you are telling those companies to find suppliers elsewhere, to abandon components made in Quebec or in Canada and to import them. But that is a problem, and I will give you an example from my own riding. A plastics manufacturer pays 4 cents for the raw materials he needs to produce a plastic part a foot long. He tells me that he can buy the same part ready-made in China for 4 cents. Even if he changed his assembly line, laid off all his employees and used nothing but machines, he could not match the price from China.

Have you told the government specifically what you can do about that? What suggestions have you made to the government about globalization in general and about China in particular?

Mr. Jean-René Halde: First, our role is not to make policy, it is to implement it. That is what we try to do to the best of our ability. As to the advice that we provide to companies, we suggest that they conduct a very precise analysis of their situation to find out if...In some cases, it is possible to produce in Canada, to be efficient and very competitive. In other cases, it is much more difficult. In still other cases, there is virtually no choice but to import some parts, for example, because it is the only way to be as competitive as possible. So the correct solution is different for each business. Do they need to be more innovative, to have market penetration that was different from what they first planned for?

There are many questions. That is why we use consultants to help companies find the right answer. There is no stock answer. In some cases, the answer is difficult; in others, it is easier. Each company must be examined individually in order to find a solution. The market is a difficult place. I would like to have a definitive answer, but there isn't one.

● (1630)

Mr. Robert Vincent: Do you think that the time will come when the BDC will no longer be able to invest in our companies because we can never be competitive with China without some kind of policy putting a surcharge on Chinese products? We know that we cannot compete fairly with a country that has competitive power that is different from ours.

Mr. Jean-René Halde: You understand that I cannot comment on any policy matter at all. I do not feel that it is our role to do so. As I said earlier, we implement policies.

The BDC's role, specifically the role of our consulting group, is to try to find the best solution possible, one company at a time. I can assure you that we do it very well.

Mr. Robert Vincent: Let us use the example of that plastics manufacturer who comes to you and says that his competitors are buying the plastic part in China cheaper than his cost of production. What could you suggest?

Mr. Jean-René Halde: The question is: what kind of business are you in? What type...

Mr. Robert Vincent: In plastics.

Mr. Jean-René Halde: Do you need to redefine your market? Are you able to innovate your product so that your profit margin is greater? Can you find niche markets where your customers would be less sensitive to price? That is the process of reflection we would go through, company by company. There is no simple answer.

[*English*]

The Chair: Thank you very much.

Mr. Trost.

Mr. Bradley Trost (Saskatoon—Humboldt, CPC): Thank you, Mr. Chair.

I'm not a regular member of the committee, but I'm substituting today, and I have seen BDC when I was filling in at the international trade committee or previously at the industry committee. I have a couple of small questions, maybe not too important, but a couple of small questions of interest to me.

One of our notes talks about BDC having more than 27,000 Canadian entrepreneurs as clients, 6,000 of whom are exporters, accounting for nearly 40% of BDC's portfolio. I guess what I'm curious about is that BDC is one entity working with the Government of Canada. We have the Department of Foreign Affairs and other entities to help with export development. My question is, how integrated are the government's various services between DFAIT, BDC, and so forth, to help Canadian exporters, particularly small and medium-sized enterprises? Are the various services integrated? If they are, how effective is the work? If they aren't, why aren't they, and would it be effective if we had a more integrated approach between various government departments and crown corporations?

Does the question make sense?

Mr. Jean-René Halde: There is a very serious effort for all groups to work together to try to have as seamless a response as possible. In the case you've just mentioned, clearly EDC has a role to play; when one talks about export, that's their role by definition. Clearly we have an interest in ensuring that our companies become global, so we will refer the various transactions in foreign markets to EDC, as an example.

There is a meeting of the minds that it would be best for everyone if we worked together. Those are large organizations, so there is always room for improvement, but we've met the management team at DFAIT and we're meeting the management team at EDC; we have solid dialogue with them, so given the size of all organizations, it's working.

Mr. Bradley Trost: Your organization may not be the one to take the lead on it, but is there any organization taking the lead on getting a more integrated approach?

The idea of Service Canada was introduced to try to bring everything from employment insurance to taxes and so forth into one centre. That's a really good idea for dealing with constituency services. Is anyone coming up with that sort of idea, the equivalent of Service Canada, for exporting? Let's say I wanted to export or import or whatever—import oranges and trade back wheat, or something like that. Is there a place I could get financing and foreign affairs information, a place I could get anyone? Is there anyone taking the lead to put that together? If not, which of the organizations do you think would be best suited to do that?

● (1635)

Mr. Jean-René Halde: I wish I could answer that question better, and I would need to really check that I have the right answer for you, but we would not be the place to come if you wanted to check on where to sell a particular product. That's not our expertise.

Mr. Bradley Trost: But you could be one of the players.

Mr. Jean-René Halde: We definitely are one of the players in helping companies look at the global market. Obviously, if Canadian businesses are to succeed, they have to think globally, so we're certainly encouraging them to do that.

On an export transaction, clearly EDC is better suited than we are, and we work well. If you go to our website, you'll be referred to an EDC website—and vice versa, and so on. There is an effort at passing the baton to the other institution.

Mr. Bradley Trost: That's encouraging. I'd encourage you to keep at it.

I have just one last little curiosity. On projected statements of income and comprehensive income, there is one thing I have noticed. Venture capital has losses projected for two years, which I can understand. I'm just a little curious here. On net loss from consulting, it's projected that consulting will always continue to have a net loss. Again, I'm probably not as familiar as I should be with everything at BDC. Can you explain the rationale for a continuing loss, instead of, say, a break-even aspect to that?

Mr. Jean-René Halde: We've had numerous internal debates on that issue.

Right now we're providing an increasing number of mandates to Canadian entrepreneurs. Every year we're going to go to 2,500 mandates and 2,600 mandates and so on, which means that we're helping more and more entrepreneurs to deal with their challenges.

Remember that we deal with very small firms. Of our clients, 76% have fewer than 20 employees and 96% have fewer than 100. We are talking about small firms, and they're very price-sensitive when it comes to laying out dollars for consulting.

Our belief is that we're providing an awful lot of good to those Canadian entrepreneurs, and whenever we try to increase the price, there seems to be a bit of a threshold at which people back off and say they will wait. In the greater scheme of things, given the fact that we are profitable as a development bank, we feel we're better off helping more entrepreneurs—even if we lose $4 million—than not. We could try to increase the price and break even, but we are somewhat convinced that the way to get there.... We'd probably end up doing fewer mandates.

The positive side effect that we can't measure, but which we know is there, is that most of these clients in consulting are BDC financing clients. You don't have to be a BDC financing client—

Mr. Bradley Trost: So in many cases it's a bit of a loss leader?

The Chair: Your time is over.

Mr. Bradley Trost: Sorry about that.

The Chair: We'll move on now and go to Mr. Pacetti.

Mr. Massimo Pacetti: Thank you, Mr. Chairman.

Just to continue on that train of thought, actually, I have a BDC in my riding and I know BDC a little bit through my years as an accountant. One aspect I would say we could criticize BDC for is its consulting. A lot of comments I get from some of the clients of the BDC is that the consultants are not providing them with any of the business, so I'm not sure.... It's a limited number of people I've spoken to, but that's one of the aspects where I could be critical of the BDC, the consulting part, from my own personal point of view.

Also, the fact that it does generate loss, maybe you can look at that, but I'm not sure how you evaluate whether it is something where the clients are satisfied or how you determine its return.

Mr. Jean-René Halde: We use an outside firm to do an external survey of client satisfaction, and the results are quite positive overall. As I said earlier, we have 400 outside consultants, and inasmuch as I'd love to say all 400 are great, there might be the odd one who's not performing as well as we would like. Overall, the client satisfaction level on consulting is quite high.

Mr. Massimo Pacetti: My question was how you determine your different sectors and break out the revenues. On the consulting side, do you force your clients to use the consulting service, or is it recommended?

Mr. Jean-René Halde: We never force anyone to use the services. We will recommend, in some cases, that they look at it, but it's clearly the entrepreneurs' decision whether or not they use consultants.

● (1640)

Mr. Massimo Pacetti: So it's not compulsory.

Mr. Jean-René Halde: No, not at all.

Mr. Massimo Pacetti: Just to go back, you do provide financing, from what I understand, to small and medium-sized enterprises, but now with this new venture capital fund that you'll have, you're going to be looking at lending money to companies over $30 million. I think that's no longer small and medium-sized and 20 employees or less, when somebody's doing $30 million in business.

Mr. Jean-René Halde: Let me try to put that back in perspective.

Mr. Massimo Pacetti: That's why you're here.

Mr. Jean-René Halde: We're talking about venture capital, meaning in this case that we're not lending, we're actually investing. Now, what we're going to be doing with that $75 million is investing in a private sector fund that hopefully will attract, you know, the *caisse de dépot*, the teachers of the world, the OMERS of the world, and so on, so we can get a $300-million, $400-million, $500-million fund.

That fund will invest in Canadian technology companies that are trying to go to the next step. In order to go to the next step, let's say if you're a health science firm, you may be small and you may have only 50 people on board because they're basically all PhDs, but you need to go and do a clinical trial in the U.S., and that's an expensive proposition. This is where you need an injection of equity. That's what that private fund will do. We'll just be an investor in the fund.

Mr. Massimo Pacetti: You're not going to be getting away from your area of expertise—

Mr. Jean-René Halde: We don't intend to.

Mr. Massimo Pacetti: —because you'll have it managed by a third party or someone who is independent?

Mr. Jean-René Halde: We invest directly in venture capital. We now have an equity position in about 160 firms, so we have our own expertise at investing in companies.

Mr. Massimo Pacetti: What are those guidelines? Is there a bottom limit and a maximum?

Mr. Jean-René Halde: The highest investment we've got, and I could be off by about a million dollars, is about $11 million, but we have a portfolio now of $500 million invested in 163 companies. So if you do the math, the average investment is around $3 million.

Mr. Massimo Pacetti: Those are all Canadian companies?

Mr. Jean-René Halde: Canadian, obviously.

Mr. Massimo Pacetti: The other question I have is from your presentation, when you were saying that in venture capital the support you provide to high-technology companies shows that for every dollar you invest, more than four dollars is invested by other investors. Where are you getting that information? Because as Mr. Del Mastro had mentioned, during the pre-budget consultation hearings we heard that there's not enough money out there and it doesn't seem to produce those kinds of moneys.

Mr. Jean-René Halde: Let's separate two things maybe. Regarding the state of the venture capital industry, clearly there's not enough venture capital money in the industry—no doubt. That's a fact. In any given investment in a given firm, we always syndicate. We always go with a number of partners to invest. We won't go in alone, nor would anyone else go alone. They're high-risk investments, technology businesses, so we always syndicate the investment. For every dollar we put in, four dollars is being put in by others.

Mr. Massimo Pacetti: And it's always an investment; you're not the lender.

Mr. Jean-René Halde: In those technology companies in venture capital, we're an investor, not a lender.

The Chair: Thank you very much.

Monsieur Laforest.

[*Translation*]

Mr. Jean-Yves Laforest: On page 51 in the same document, a table shows BDC investment in private funds. The BDC invests in private funds whose head offices are in Ontario, British Columbia and Alberta. There is only one in Quebec.

That is something, but the fact remains that only $10 million were invested in Go Capital, out of a total fund of $50 million. Can you explain that for us?

BDC's commitments total $106 million, but only $10 million are invested in Quebec. That is not quite the proportion...

Mr. Jean-René Halde: Go Capital is actually quite a new fund. Yes, we committed $10 million to that Quebec fund. Further down, you can see that we also invested $20 million in MSBi, or McGill Sherbrooke Bishop's Innovation in Montreal.

Historically, we invested more overseas. I was not here at the time, so I cannot comment. But I can say that we are making every effort to be truly pan-Canadian.

● (1645)

Mr. Jean-Yves Laforest: You need to make more effort, I am sure you will agree.

Mr. Jean-René Halde: Venture capital in Quebec is in quite good shape. That does not mean that we do not need to help it. We make every effort to see where BDC funds are best invested to give us the best return.

As you can see, we have made efforts in Quebec in the last few years. We are trying hard to be pan-Canadian.

Mr. Jean-Yves Laforest: Relatively speaking, the fact remains that Quebec's share of this venture capital investment is not proportional to its economy, whether it be in manufacturing or in tourism, which is growing in Quebec.

Mr. Jean-René Halde: If you consider the scale of the direct investments—not in private funds but direct investments in the 160 companies—Quebec has its fair share at very least.

Mr. Jean-Yves Laforest: What is the difference between private investments and...

Mr. Jean-René Halde: In one category, the BDC invests in companies. In another category, like the examples shown on the page that you have just looked at, the investment was in a private venture capital fund with other investors, and the fund then invests in companies. We invest either directly or into a fund. The goal of investing in funds is to develop the venture capital business, which is working well. But we also invest in companies directly.

Mr. Jean-Yves Laforest: Thank you very much.

[*English*]

The Chair: Okay, thank you.

Mr. McKay.

Hon. John McKay: I always think that BDC gets unfairly compared with banks. Sometimes it's an insurance company. Sometimes it has public policy goals. Sometimes it's treated as a business entity. Sometimes it has to change its name from this to that and that back to this again. There has been, over the last few years, however, a bit of stability, I think.

I was noticing your average loan was about $285,000, which doesn't strike me as a huge amount of money. If it's such a small amount of money, it would be, relatively speaking, overhead-intensive.

How do you compare, in terms of return on equity or return on investment, with the chartereds?

Mr. Jean-René Halde: If you were to compare return on equity against return on equity, we obviously don't look as good as they do, but that's because we take the kinds of risks quite often that they would not take. If you look at the average loan of $285,000, it's because there are a lot of $100,000 loans and $50,000 loans there for start-up, for innovators, for people who would find it difficult to get traditional financing.

Hon. John McKay: But there's a lot of babysitting in those loans.

Mr. Jean-René Halde: Yes, it's pretty human capital intensive.

Hon. John McKay: So where does that put you—at about half the return of a chartered?

Mr. Jean-René Halde: The mandate we have is to exceed our cost of capital. That's in the BDC act. We're trying to be viable and have a rate of return that's acceptable in excess of our cost of capital. But once we achieve that, then we're trying to help as many businesses as we can.

That's why we're taking on the kinds of risk we're taking on. We could increase our return on equity, but I'm not sure that would do a lot of SMEs that much good.

Hon. John McKay: Effectively, you're a glorified break-even company.

Mr. Jean-René Halde: We're slightly better than break-even.

Mr. John MacNaughton: I'd like to supplement here.

One thing that I think ought to be part of the equation is that the leverage ratios of the chartered banks are higher than they are at the BDC. Sometimes those aren't apparent because much of the bank's leverage was realized through these off-balance-sheet structures that one doesn't see, but of course they're the source of many of the problems these days.

So it isn't an obvious apples-to-apples comparison.

● (1650)

Hon. John McKay: I have a final question, Chair.

As you know, the prime has been going down lately, quite dramatically in the last cut, and there's some gossip, rumour, hearsay that the cuts in prime are not necessarily being passed on to the borrowers. Have you made that observation? And how have the prime cuts actually affected your business?

Mr. Jean-René Halde: The way we price—and I'm talking floating rates—is that we have a base rate that's prime plus two. This is where we work from in our computer model for risk. Whether or not the reductions in rates have been passed on, I can't comment. We all hear gossip, but I would prefer to check my facts before making a statement on that.

In our case, what we do is price for risk, loan by loan. So we're at a base rate, and then we either go above or marginally below, depending on the risk level of the business. So it doesn't affect us, in some ways.

Hon. John McKay: That's curious. It would be an interesting area to explore, but I'll leave it at that. The chair has just cut me off; it's terrible.

Thank you.

The Chair: Mr. Pacetti has a quick question, and then I'd like to follow up with a question or two.

Mr. Massimo Pacetti: I'd like to get your opinion here. We've talked a little about the manufacturing sector, but the manufacturing sector has been criticized in the past for not investing in their capital. Obviously a lot of your loans are tied into companies investing in their capital, in their machinery and equipment.

Have you seen a trend in what the money is being used for, especially in the manufacturing sector? I believe your loans are not used for working capital, correct?

Mr. Jean-René Halde: No, they're used for both. They can also be used, if you have a specific project that needs.... If you're in a fast-growth mode and you need working capital, we'll go there also.

To respond to your earlier question on manufacturing, obviously a lot has to do with acquiring a building, or with building a plant, or with modernizing your machinery and equipment. The take-up on machinery and equipment has not been as high as we would have expected. It has gone up, thankfully, but obviously we'd like to see more and more. It has gone up, but not as much as some would have said or expected.

Mr. Massimo Pacetti: In terms of your venture capital, I see on page 49 of the annual report that your writedowns have been quite substantial where you've had losses. Is it also on your income statement? I didn't get a chance to look.

Mr. Jean-René Halde: Yes, it is.

Mr. Massimo Pacetti: Oh yes, here it is. Thank you.

The Chair: I thought we were done, but Mr. Del Mastro is indicating that he has a few more questions.

Mr. Del Mastro.

Mr. Dean Del Mastro: There was an interesting point brought up about risk, and risk tolerance specifically. Does the Business Development Bank have a target for risk, for loss? I know that a lot of the banks tend to target 1% to 2%, and in fact sometimes even less than 2%.

Do you have a target? Is it 5%, is it 6%, is it 10%? What is your loss coefficient?

Mr. Jean-René Halde: There's no predetermined target, because we try to help company by company. I can tell you today, based on a pretty complex simulation model that would take into account the 1981 recession as well as the early 1990s recession, the forecasted loss rate is somewhere around 6% to 7%. Now, I would need, obviously, to check my numbers if you wanted specifics, but it's in that neighbourhood.

Mr. Dean Del Mastro: Are you satisfied that with 6% to 7% you have yourself adequately covered for risk? Is there any potential for risk for the Government of Canada, given that we've undersigned the loans and so forth?

● (1655)

Mr. Jean-René Halde: We're very comfortable with the present position. We have a provision for bad losses of $500 million on the books, so we're comfortable that even in tough times, we'd be viable.

Mr. Dean Del Mastro: Can you explain for the benefit of the committee what difference it would make having an allowance for loss at 6% to 7%, instead of 1% to 2% like the chartered banks? What type of business does that allow you to get into that the chartered banks may not look at?

Mr. Jean-René Halde: A lot of startup loans, people with what we define as thin credit—for example an immigrant coming to Canada or a business based on innovation, where there's really no hard security as a backup. There are a lot of businesses where, from a banking standpoint, there's not the type of security one would like to see, but they're still good business models.

We are moving to a service industry. We are moving to a different kind of economic environment. I think that all financial institutions will need to adjust to a new economic environment.

Mr. Dean Del Mastro: There are a number of development funds throughout Canada. We have the eastern Ontario development program, we have ACOA, we have FedNor, we have the western Canadian....

Mr. Jean-René Halde: Economic diversification.

Mr. Dean Del Mastro: Yes. Do you work in coordination with those funds? Is there collaboration between you and groups like Community Futures and so forth?

Mr. Jean-René Halde: Yes, we do.

Mr. Dean Del Mastro: How does that work?

Mr. Jean-René Halde: We have clients who are referred from one to the other. In some cases we even have formal memoranda of understanding for certain industries, where we'll work together. We have some ability to assess risk that they might not have in some cases, so if they're willing to go an extra mile on risk, maybe even further than we would be, we'll share some of the risk in an attempt to extend our reach to help more entrepreneurs.

It's working relatively well.

Mr. Dean Del Mastro: Thank you very much.

The Chair: Thank you.

I have a couple of questions. They may not be quite fair. You obviously are a high-risk lender to try to build development in Canada. Where's your threshold? What is your highest rate? There must be a cut-off, because you go in by each individual project. How high would you lend, as a rate, to counter-punch the risk, before you say, “Well, that's too high to go”?

Mr. Jean-René Halde: I'm not sure I can answer that, because it is on a project-by-project basis. We have loans that are fully unsecured, and that's probably as high a risk as one can take. But if you have a startup loan, in some cases we'll...you know.

The Chair: I knew it was a little bit unfair to ask that, but the reason I asked it is that when you assess the risk, it must be more than just the risk you see in the Canadian market; it must also take into effect the global market, particularly the United States and the slowdown.

This next question might be unfair. It's a subjective question, but I wanted your position or your thinking on it. Is the slowdown in the United States going to be deep and long, or shallow and short?

Mr. Jean-René Halde: I wish I could answer that question. There are much better minds than mine that would love to know the answer to that one.

The Chair: You must be making your assessment based on your best guess.

Mr. Jean-René Halde: It's such a large question mark. When we review a project, there are so many factors. It starts with the quality of the management team and it goes to the quality of the product, the quality of the service. The uncertainty in the U.S. is one of many factors we look at, but I can't say that we have a crystal ball—I wish we did, but we don't.

The Chair: I know it's just a crystal ball, and we wouldn't hold you to it if you made a stab at that question, but I also believe that you have an idea of what the risk would be there. You must have to assess that in each case, and that would factor into it. But if you don't want to answer it, that's—

Mr. Jean-René Halde: No, I wish I could. We are concerned, as is everyone else, with a potential downturn. What surprises us is how well our portfolio is still holding up. As I said earlier in the presentation, our delinquency rates are holding steady. Our impaired loans are holding steady. So there's a bit of a surprise, quite honestly, even among bankers who are much older than I am, about how steady we are. So the bottom line is I don't know.

John, you've been in the business a long time.

● (1700)

Mr. John MacNaughton: Yes. A supplement is that our president is speaking about how they assess the risk of individual loans. Of course the risk is mitigated through diversification, so that becomes a factor in the overall risk of the portfolio. This is a highly diversified portfolio by industry sector, by company, by geography, and by stage of development. So there's a mitigation of risk that flows from that diversification.

The Chair: I want to thank you very much for coming in. I appreciate it. I appreciate the questions and the dialogue.

We'll now take a two-minute suspension as we carry on with the business of the committee. Thank you.

●

(Pause)

●

The Chair: I call the meeting back to order. If members will take their seats, we'll carry on.

We have a notice of motion by Mr. McCallum, and I believe he would like to move that motion, so we'll yield him the floor to do so.

Hon. John McCallum (Markham—Unionville, Lib.): The motion is as it reads, but a critical element is that I'm proposing that we adopt this motion, and that we hear representatives from the retail investors on April 9, one week from today.

The Chair: Okay, we have a motion on the floor, but the dates of that are not part of your motion. That's just what you're suggesting. Is that what you're saying?

Hon. John McCallum: If we could agree today, assuming the motion passes, I would like us to hear those investors one week from today.

The Chair: I'm not going to speak to the motion, but as the chair I'll speak to the timing, because we do have a significant number of people, because of our study, who have actually been asked to come, and who have been scheduled in on those dates. So that's my problem as the chair, and I would not wish to compromise what we've already scheduled on those dates.

Hon. John McCallum: Then perhaps we could have a supplementary meeting. I think it's very important. The retail investors have been asking for meetings for a long time. They're very time-sensitive, so perhaps if we can't do April 9, we can do April 8. But I would like it if it could be next week.

The Chair: Supplementary meetings are something the committee can decide on, but I would not want to be bumping off for April 9 the agenda of the meetings that we—

Hon. John McCallum: What are the meetings?

The Chair: The witnesses are already coming, and we're paying them to come. So let's not get bogged down on the timing. Let's talk about the motion. Would that be fine?

Hon. John McCallum: As long as we resolve something on the timing before we finish the meeting today.

● (1705)

The Chair: I think that's fair enough. We'll attempt to, anyway.

Let's open the floor up for debate on the main motion.

Mr. Dykstra.

Mr. Rick Dykstra: Thank you, Chair.

We certainly, on our side, don't take issue with the motion. Mr. McCallum's intent is something that we, first, don't have a problem with, and second, actually think is a pretty good idea.

The difficulty we have rests around his comments with respect to timing. We have in good faith tried to seek some approval and at least some unanimity around the table that in fact this is a good motion and that its concept is well thought out and, as I think, will be helpful.

The difficulty is, this is a huge issue in the industry. They have gone through negotiations, they currently have Mr. Purdy crossing the country trying to explain exactly what they have come up with in terms of at least a responsible position, and they have tried to get support from shareholders. One of the difficulties we face is a dynamic whereby we and the Liberals and Bloc, if they are going to support this motion, put ourselves in the position of exerting potentially a negative influence on the outcome of a private sector debate on a private sector issue in which we, while we certainly have responsibilities with respect to resident citizens of this country, certainly should not be putting ourselves in the position of influencing, whether by accident or on purpose, the outcome of the vote on April 25.

I would respectfully submit that due consideration be given by the mover of the motion to our waiting until shortly after April 25—we're not talking that far into the future, just three weeks—to allow all of the work surrounding this issue that has taken place within the private sector, outside of the realms of the federal government, to take its proper course. Once that vote has been completed, we are in a much better position, not to put ourselves into a subjective position of potentially influencing the outcome, but in fact into an objective position of assisting the individuals who've been impacted by this issue over the last number of months.

The Chair: Okay.

Mr. McKay.

Hon. John McKay: I appreciate Mr. Dykstra's concern, but I think it's poorly founded. His argument is essentially that you're assuming hearings would create a negative atmosphere prior to April 25. I frankly don't agree with that.

The issue for the retail investors who have contacted me and contacted us is that the deal around the $32 billion has largely been conducted among the large institutions that are most directly affected, and that the retail investors are, if you will, almost an afterthought.

The curiosity is that first, because it's “one man, one vote”, the retail investors actually will have a significant influence on the ultimate outcome.

The second thing that appears to be coming out in the press is that this is a very confusing presentation on the part of the people presenting to the retail investors. As I recollect one quote from one individual, he said: “I have a BComm and a PhD. I may be 78 years old, but I do understand what's going on here.” And he found the 400-page presentation quite confusing.

It seems to me that the people's representatives, the House of Commons and the finance committee, should be the ones who give the forum and opportunity prior to the vote to let those retail investors—and others, for that matter—present in a fashion that allows a more positive and informed outcome, rather than simply saying we'll just sit back until the vote.

There is a huge and significant amount of money involved here that has a considerable impact on the overall functioning of our financial system. Anything the House of Commons and the finance committee can do to create a forum to allow an informed discussion is a good thing, I think, and will in fact lead to a positive outcome rather than a negative one.

● (1710)

The Chair: We'll have Mr. McCallum and then Mr. Del Mastro.

Hon. John McCallum: I certainly wouldn't want to derail the private sector process. I have been in close contact with a number of the people very close to that, and I'm confident that this hearing on April 9 would not have that effect. On the other hand, my office and many other people's offices have had calls from many of these so-called stranded retail investors.

The Chair: Sorry for interrupting here. I'm a little bit confused. Are you wanting just one meeting on April 8 or 9, next week sometime, on the retail sector only? Your motion is different from that. That's why I bring it up.

Hon. John McCallum: The motion doesn't speak to the timing.

The Chair: It speaks to the number of meetings, though.

Hon. John McCallum: What I would like next week, on April 9, or perhaps on another date next week, is a meeting with these retail investors for perhaps three hours. That would be sufficient.

The Chair: That would satisfy your motion, then.

Hon. John McCallum: That would not satisfy the whole motion. I think there are two parts. The meeting next week, on April 9, would be for the retail investors. You can't wait until after April 25 for the retail investors—you might as well not have a meeting for them at all—because that's the decision date, the vote date. After April 25, in a less-rushed fashion, we can look at the more general question of what went wrong.

The Chair: That's clarification enough. That's fine.

Hon. John McCallum: Mr. Purdy Crawford and all those people could come later. The urgency is for the retail investors next week. They're the ones who have been clamouring to come. I delayed it two days on Monday out of deference to the process. I think the time has come to invite them to come next week.

The Chair: Okay, just as clarification for the committee, and correct me if I'm wrong, you're suggesting a separate meeting next week for the retail investors. Then following the vote on April 25, or shortly after, we would pick up the rest of the motion and hold subsequent meetings on it. That's your suggestion.

Hon. John McCallum: Yes, or we can vote on the motion as a whole and also on the timing.

The Chair: Fair enough. It will be before we leave here today. I think it's important that we all understand exactly what you're talking about.

Go ahead, Mr. Del Mastro.

Mr. Dean Del Mastro: Thank you, Mr. Chair.

Respectfully, I actually think that Mr. McKay and Mr. McCallum have both just demonstrated exactly what our point is, which is that these hearings are going to have an impact on this vote. I don't think this committee or any of us should be having an impact on this decision. I think we run a real risk of negatively impacting small investors in this country by influencing this vote. I don't think we should be opening ourselves up to that.

I would like to move an amendment to Mr. McCallum's motion: that these hearings commence after the vote on April 25 so that we don't negatively influence the outcome.

The Chair: Okay, we have an amendment to the motion. We'll debate that amendment, and then we'll vote on that amendment.

Is there any further debate on the amendment?

Mr. Ted Menzies (Macleod, CPC): I would certainly like to support this. With respect to the comments we just heard from both Mr. McKay and Mr. McCallum, I would have to question what it is we're going to provide to the investors that Mr. Purdy Crawford and those who are travelling with him can't provide to those investors at those meetings. As we've all heard, it's a very complicated issue, and I wouldn't like to be in the position of doing anything more than hearing them. For us to even hear these concerns before that point would be inappropriate. We're going to lead these individuals on by hearing from them before April 25, before they make the decision.

I would encourage a process that is a private-sector-led process. Government has not been part of this, nor should it be part of this. This is a private-sector-led process. Let's let it work its way out. They've been working on this since August. For us to interfere prematurely now I think would be a disservice to those investors. So I would certainly support Mr. Del Mastro's amendment.

● (1715)

The Chair: We're going to call for a vote on the amendment if we're prepared for that at this time.

(Amendment negatived)

The Chair: That takes us then to the main motion. Is there any further debate?

(Motion agreed to) [See *Minutes of Proceedings*]

Hon. John McCallum: So now we need a motion to call for a meeting of the retail investors on April 9, or some other date next week.

The Chair: Mr. Menzies.

Mr. Ted Menzies: What about our committee meetings that are already prepared? We have witnesses coming for other—

Mr. Dean Del Mastro: Mr. Chair, there are the bells. We have to go.

Hon. John McCallum: Mr. Chair, I don't insist on April 8 or 9, but as you agreed at the beginning, I'd like a decision that we resolve this.

Mr. Ted Menzies: Mr. Chair, the bells are ringing.

The Chair: I hear what you're saying with regard to a meeting next week. I believe we're going to need—

An hon. member: We have to schedule three hours next week. How are you going to do that?

Hon. John McCallum: Can we agree that we schedule three hours at some point during next week?

The Chair: Number one, meetings are two hours. I doubt we can do three hours. I'll have to get back to you and see what can be arranged next week.

Hon. John McKay: But if you don't do it, we lose the time.

The Chair: We will—

An hon. member: Should we have a motion?

Hon. John McCallum: Can we have another amendment?

Hon. John McKay: Why don't we just move that three hours be allocated?

Hon. John McCallum: At some point next week.

Hon. John McKay: I will move that three hours be allocated next week—

Mr. Ted Menzies: Bells, bells. Mr. Chair, adjourn the meeting.

Hon. John McCallum: Mr. Chairman, it will take one minute.

Hon. John McKay: Those in favour of the motion—

The Chair: I'm going to call the meeting adjourned, because we have made a motion and this is on the timing of it. We will see if we can get a meeting next week, but I'm not going to commit at this stage.

Hon. John McCallum: Can we have a meeting of the...? What's the committee called, Massimo?

Mr. Massimo Pacetti: The steering committee.

Hon. John McCallum: The steering committee.

The Chair: If we have to, we can.

Hon. John McKay: We have to have three hours next week. We're expecting to have it. If we don't, we'll hang you.

The Chair: I don't think so.

The meeting is adjourned.

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