House of Commons
CANADA

# Standing Committee on Industry, Science and Technology

INDU • NUMBER 039 • 2nd SESSION • 39th PARLIAMENT

EVIDENCE

## Thursday, May 15, 2008

## Chair

**Mr. James Rajotte**

# Standing Committee on Industry, Science and Technology

**Thursday, May 15, 2008**

● (1140)

[*English*]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** We'll call the 39th meeting of the Standing Committee on Industry, Science, and Technology to order. Pursuant to Standing Order 108.(2), we will be continuing our study of Canadian science and technology policy.

First of all, I do want to apologize to the witnesses for the delay. We did have a vote in the House and all members had to be there. The government lost that vote, so we may be into an election later this afternoon; I'm not sure. We'll see what the opposition decides to do with that. Anyway, it looks like we will have almost an hour and a half for presentations and for questions from members.

We have with us here today four organizations.

From the National Angel Organization, we have the president, W. Daniel Mothersill. We have the chairman of the board of directors, Andrew Wilkes. Welcome.

We have joining us again from Precarn Incorporated Mr. Paul Johnston, president and CEO, who was with us on Tuesday.

From VenGrowth Asset Management Incorporated, we have a general partner, Jay Heller. Welcome.

Fourthly, from the Business Development Bank of Canada we have the executive vice-president, investments, Jacques Simoneau.

Perhaps we could have presentations in that order, except Mr. Johnston, because he made a presentation on Tuesday. We'll have three presentations. So we'll do that in that order.

We'll start with the National Angel Organization. You have up to five minutes for your opening presentation, and then we will go to questions from members.

Mr. Mothersill, will you be starting?

**Mr. W. Daniel Mothersill (President, National Angel Organization):** Yes, Mr. Chairman, thank you very much.

To the committee, thank you for including us in today's discussion.

Today I'm going to actually split the presentation between Andy and me. So with that, what I would like to do today is explain the role of angel investors in Canada's commercialization ecosystem—and yes, there will be a test.

Angel investors, individually and via formal angel groups, invest approximately $3 billion annually in seed and early stage companies. Those are Industry Canada statistics.

The National Angel Organization, of which I am president, is the industry association that represents angel investors throughout Canada, including over 30 formal angel groups, representing about 4,000 angels and angel investors. We are a grassroots, non-profit organization that runs from coast to coast, whose mission is to promote best practices in angel investing, to facilitate the formation of angel groups as a means of overcoming the barriers to investment in early stage companies by accredited investors, to facilitate deal co-investment and syndication via increased investor communications and networking, both nationally and internationally, and to facilitate and organize channels of communication with government researchers, entrepreneurs, and the capital markets.

As the industry association for angels and angel groups in Canada, NAO is also partnered with other angel groups in the U.S., Europe, and Asia, to promote foreign direct investment into Canadian companies.

We—that is, business angels—are the oldest, largest, and most-often-used sources of funds for entrepreneurial firms. Most Canadian start-up companies have been funded in some form by angel investors. Most angel investors—this is not family money—are entrepreneurs, often serial entrepreneurs who have successfully founded and/or operated one or more companies. They typically invest in and mentor several start-up companies at the same time. Angel investments in Canada facilitate the transformation of R and D into successful businesses that public institutions, venture capital funds, public investors, and banks can then finance.

The bottleneck holding back the benefit of the government's large investments in research has been a shortage of coordinated angel investments. According to Sustainable Development Technology Canada, Canada faces an estimated $5-billion annual funding gap, sometimes known as "the valley of death", in financing early stage companies.

Interestingly, as the venture capital industry has come under some pressure, they are not investing as much in early-stage companies and certainly in seed rounds. This has increasingly fallen to angel investors in terms of supporting. The emphasis by all levels of government in Canada has been on the funding of research and development. Proportionately few resources have been allocated to commercialization of innovation. However, this commercialization is one of Canada's only true sustainable natural resources.

With that, I'm going to turn it over to my colleague and chairman, Andy Wilkes.

**Mr. Andrew Wilkes (Chairman, Board of Directors, National Angel Organization):** Good morning.

I'd like to say a few words about investing, a program that is working effectively in an industry, and two or three quick recommendations to put out to the committee for review.

The first thing is about the first principle of investing, that being that investment flows to businesses or sectors with the highest returns in relation to the inherent risk of the venture. So that's relevant in harvesting our science and technology resources, which are primarily, as Dan Mothersill mentioned, invested by the government to develop a commercialization of our knowledge-based industries. So a good example of an industry that attracts commercialization capital is the resource industry.

In 2006, over $1.1 billion was invested in new publicly listed mining and oil and gas resources through flow-through shares on the TSX Venture Exchange. That amount is only on the Venture Exchange. These flow-through shares enable taxpayers to reduce their income through the deduction of Canadian exploration expenses, Canadian development expenses, and Canadian renewable and conservation expenses. This program helps attract capital by mitigating the risk of drilling or mining a dry hole.

So it's interesting that this flow-through share program, the $1 billion in investment capital, is primarily going to the provinces of British Columbia, at 48%, and Alberta, at 28%. Provinces like Ontario receive less than 16% of the investment funds. It should be noted that eastern Canadian provincial treasuries are indirectly subsidizing other provinces, often in sectors that may actually be less friendly to sustainable development.

One reaction to this example would be to question the need for the program in the resource industry. I would argue that this very successful program is a best practice that should be used to mitigate risk and attract private capital in the knowledge-based industries, and further that $1 billion a year times five would go a long way to dealing with the valley-of-death stage Dan mentioned that Sustainable Development Technology Canada has identified.

We have learned some lessons from this resource example: strong investment returns attract large capital flows, tax incentives that reduce risk and improve return on capital attract capital, and strong sector food chains attract early-stage capital as investors know there will be a well-defined exit.

The significance of the resource example ties into the following three recommendations for the standing committee, to attract capital for the knowledge-based businesses. There are many ways of doing this, but here are three successful programs:

Establish an angel co-investment fund. We put a number at it in our report, but the principle is that we need this if it's important for public policy to commercialize. We give an example of the State of Ohio very effectively using this program.

We also talk about the innovation and productivity tax credit, which is successful in eighteen U.S. states and five provinces in Canada, soon to be six. The federal government should join in this program.

The third thing is to help establish angel groups across the country. We list in the appendix some groups that support these recommendations, like the Conference Board of Canada, the Canadian Federation of Independent Business, etc.

On that, Mr. Chair, I guess I've said my words.

● (1145)

**The Chair:** Thank you very much, gentlemen.

I do want to point out that there is a very substantive presentation with some very specific recommendations, which we want to encourage members to look at. I want to thank you for that.

We will now turn to Mr. Heller, please, to make your presentation.

**Mr. Jay Heller (General Partner, VenGrowth Asset Management Inc.):** Thank you, Mr. Chair and members of the committee, for inviting me here this morning.

I'm with VenGrowth, Ontario's largest venture capital firm. Since our inception in 1982, VenGrowth has invested over $1.1 billion in more than 180 small and medium-size Canadian businesses, mainly in the high tech and life sciences sectors.

I'd like to speak to you this morning about the state of Canada's venture capital market, but first I think it's important to point out why venture capital is so critical. The answer, simply, is jobs. Venture capital builds knowledge-based businesses that create high-paying jobs in cutting-edge sectors such as software, semiconductors, therapeutics, and clean energy. The biggest challenge that companies in these sectors face is access to capital.

Knowledge-based businesses create jobs by turning ideas into businesses. This involves three stages.

First, a researcher conceives and tests the idea. Often this occurs in a public institution such as a hospital or a university that, obviously, is largely publicly funded. This is what we call the primary research stage.

Second, an entrepreneur starts a company around the idea. He or she continues research and development, develops a business plan, and starts talking to customers. We call this the early growth stage. Companies at this stage rely on funding from angel investors and from early-stage venture capital firms. This is what our colleagues from NAO call the valley of death. As I'll discuss further, this type of venture capital is rapidly declining in Canada, particularly in Ontario.

Finally, a company reaches the expansion stage. Business ramps up, sales and marketing and productive capacity expand, and a product is completed. These types of companies are funded by expansion-stage venture capital, and sometimes by going public. Canada's domestic supply of expansion-stage venture capital is, like early-stage venture capital, also in decline, but foreign investors have taken up some of the slack.

To continually create knowledge-based businesses, we need the pipeline to be full at all three stages all the time. It requires ongoing funding for basic research, for early-stage start-up companies, and for expanding firms. Unfortunately, Canada is experiencing a significant decline in financing for the second stage, the early growth stage. As I mentioned, this is when basic research is first taken out of the lab and put into a company. It's also generally when a company first raises outside capital.

In the past four years, the number of companies receiving first-time venture capital investment has declined by 25% in Quebec and by 50% in Ontario. Over the same period, the U.S. grew by 100%. Ontario saw fewer new companies funded in 2007 than at any time in the past 10 years.

Why is early stage venture capital in such decline, especially in Ontario? The answer is that all four sources of money for the industry have contracted concurrently.

The first source of capital of the four is institutions, such as banks and pension funds. Except in Quebec, these institutions have in recent years cut back their allocations for venture capital in favour of other sectors.

The second source of capital is retail investors, largely through the labour-sponsored venture capital, or LSVC program. Fund-raising in this program has fallen dramatically in recent years, particularly in Ontario, where the provincial government is phasing out its support for the program.

The third source of capital is government. The federal government remains a critical supplier of venture capital funding, largely through BDC and to a lesser extent EDC, but federal spending on the LSVC program has declined in recent years to less than half the level of eight years ago.

The fourth and final source of venture capital is foreign investors, mainly from the U.S. This source of capital is actually growing in Canada, but it's focused largely on later-stage expansion companies. Foreign investors generally will not fund early-stage Canadian companies. In 2007, there were only four disclosed early-stage venture investments in Canada that did not have Canadian investors.

The lack of early-stage venture capital in Canada has reached serious, perhaps crisis proportions. Entrepreneurs are already leaving Canada for the U.S. to get their companies funded. I invite you to look at the last page of my written material, which contains quotes from a number of leaders of Canada's venture capital industry attesting to the enormity of the problem.

The federal government simply must devote more resources to facilitating early-stage venture capital or the inevitable result will be fewer high-paying jobs in knowledge-based industries.

Thank you for your time. I would welcome any questions.

● (1150)

**The Chair:** Thank you very much for your presentation, Mr. Heller, as well.

We'll go now to Monsieur Simoneau, for your presentation, please.

[*Translation*]

**Mr. Jacques Simoneau (Exectutive Vice-President, Investments, Business Development Bank of Canada):** Thank you, Mr. Chair.

Honorable members of the committee, ladies and gentlemen, it is a privilege to be here today. I thank you very much for your invitation

[*English*]

As you know, BDC is Canada's business development bank. We offer tailored financial services, information, and advice. These services include, of course, venture capital investment. Parliament and the government have instructed us to facilitate the commercialization of R and D, and we dedicate considerable money and energy to this task.

Commercializing R and D is not for the faint of heart, the impatient, or the poor. Turning an idea into a successful company is very risky, complex, and expensive. It takes patience, specialized knowledge, superior management skills, and lots of money.

As a nation, we have made impressive public investments in R and D, but we have yet to see this investment trigger a sufficient creation of globally successful technology firms such as RIM. We must do a better job of commercializing and fostering a greater commercial focus for our R and D. The government's role in helping catalyze these changes is as crucial as its support for the original R and D.

Fundraising for venture capital has been declining for several years, a predictable result of the industry's bad returns of the past several years. Large financial institutions such as pension funds—which have a fiduciary duty to maximize returns—have abandoned the field for more lucrative, less risky investments. And because up-front tax incentives for labour-sponsored funds have disappeared from large parts of the country, retail investors are also shunning it. This disappearance of institutional and retail money has happened at a time when, to succeed, technology firms need larger investments, for longer periods of time.

Canadian venture capital funds—which are not performing well—are too young, too small, and too many. Compared to their American peers, they lack scale, sophistication, experience, and capital. The average Canadian venture capital investment is usually only half that of an equivalent American investment.

The results are predictable. Canadian technology firms are deprived of money they need. Managers spend more time hunting for money than developing their businesses. Because there is still no late-stage Canadian investment fund, foreign investors are free to cherry-pick the most promising late-stage firms, dictating financial terms that are detrimental to the firm and its initial Canadian investors, as well as to the national economy.

In Canada, we oblige our new technology firms—at a very early point in their lives—to live without grant support and immediately capture investor support. This cliff-like step is a fundamental feature of our market, and it has great consequence for all parties. If the young firm's idea fails to attract investment dollars, it dies. If the investment is enough for continued existence, but not much more—as is often the case—the firm has little latitude to learn from error. Many fail at this stage, destroying venture capital value. Venture capitalists must put their money in very early, and leave it there much longer. At this early point in any firm's life, the range and scale of the risks are daunting, even for hardened venture capitalists. And even if the firm succeeds, the value of investor's return is lessened by the longer period of time it took to generate it. What this means is that our returns tend to be much lower.

I believe this fundamental point is worth repeating. For new Canadian technology firms, the transition from grants to private sector investments is a sudden, do-or-die affair. It is not a gradual or scaled decline in grants accompanied by a corresponding rise in venture capital investments.

Entrepreneurs and venture capitalists face another hurdle when they try to acquire clear ownership of intellectual property. In universities across Canada—the fonts of the R and D—-there is no consistent approach to technology transfer. For the most part, despite best intentions, the people who work in university technology transfer offices lack the authority to make the quick, firm decisions that the business world needs, or to structure deals that benefit both parties.

● (1155)

Finally, Canada lacks a sufficient number of a particular breed of entrepreneur—serial entrepreneurs—with enough experience and management expertise to take small companies global. Simply put, we need more of these people. Our economy is fundamentally constrained by our shortage of them.

I'll now describe what we at BDC do to facilitate commercialization in this generally sobering environment. We are and continue to be a crucial contributor to commercialization and technology adoption by Canadian companies.

Since 2001 we've focused on very early-stage investment to help entrepreneurs cope with the capital shortage I have described. We also invest in venture capital funds across Canada, to stimulate the market. In an independent report of last year, which we commissioned at the request of the government, Dr. Gilles Duruflé, a Canadian venture capital expert, found that we are fulfilling our role in the marketplace in accordance with our mandate and best industry practices and meeting many market needs, and that stakeholders perceive our presence as essential.

I will be candid. We have done a good job of seeding and building more than 400 technology companies since we started, but in recent years our financial returns in venture capital have been negative. This is true even when we set aside the impact of the new, obligatory, and purposely cautious accounting method called fair-value accounting, which is further depressing our results. When I compare our results with those of the private sector funds in which we've invested, I note that their results are similarly uninspiring. I'd invite you to regard BDC as a barometer of the industry at large.

Please allow me to offer a few observations and suggestions.

Broadly speaking, I believe we should take a more holistic approach to building a vibrant venture capital industry. We should act to improve its attractiveness to institutional and retail investors. We have to help our entrepreneurs improve their ability to take Canadian companies onto the global stage and to succeed. This is a question of management skill. So the challenge is clear: We must increase the number of people who master this skill.

With regard to the shortage of early-stage funding, we may wish to look at the different durations of time for which other countries allow new technology companies to be eligible for grants. Here in Canada we stop them at a relatively early stage. It may be that prolonging their eligibility for grants, grants made contingent on the company's potential commercial viability and proven ability to also attract investors, would spare them the travails of multiple financing rounds begun too early, with the consequential lower rate of return for investors.

As for the scarcity of late-stage funding, the government's recent decision to give BDC $75 million with which to create a new $500 million private sector later-stage venture capital fund is a decisive, practical way to help remedy this problem and help reduce the number of too-soon exits through sales to strategic buyers or initial public offerings. As you can imagine, attracting this kind of private sector money will be a challenge.

We might also wish to examine our tax incentives. We know that upfront tax credits often attract the wrong types of investors. Tax-free exits might attract more sophisticated investors.

Other incentives to reward successful investments at exit, a concept that several countries have applied, may have more meaningful impact. Israel is notable in this regard.

With regard to the transfer of intellectual property at universities, the University of Waterloo is a striking example of success. Its policies and practices merit close study, and perhaps emulation.

In conclusion, I believe that fixing this industry will take money, patience, expertise, and the combined efforts of legislators, policy-makers, and practitioners. BDC welcomes any opportunity to help. We are collaborating with NRC and NSERC, looking at how to integrate fundamental research into the creation of economic value. This fall we plan to host a round table of industry players to ensure we have a thorough understanding of the industry's problems, as well as ideas on how to improve things.

I thank you for your time and look forward to questions in English or French.

● (1200)

**The Chair:** Thank you very much, Mr. Simoneau.

We will start with questions from members with Mr. McTeague, for six minutes.

**Hon. Dan McTeague (Pickering—Scarborough East, Lib.):** Thank you, Chair.

I thank the witnesses for being here today. I think you gave us a fairly accurate, apt—if not grim—picture of the problems that are facing innovation and new technologies.

It seems to me that in summation, it would be fair to say that not only do you have to be smart, innovative, and ahead of most in terms of new ideas, but you also have to be rich in order to get your products into market.

I will begin with Mr. Wilkes and Mr. Mothersill.

The National Angel Organization would put together groups that would ultimately provide funding for new ideas if those new ideas were worthy and had merit. In terms of the extent of the investment you would make, do you hear some concerns about how much is required up front, the percentage of ownership of the patent or the new idea? Is this a bit of a barrier?

In other words, if you were putting together a group that demands, for example, 75% ownership in order to get through the early seeding, the early, past-the-bootstrap level, how much of a disincentive would that be to someone who just says, “Well, I'm going to lose that anyway”?

**Mr. W. Daniel Mothersill:** No angel group that I know of in this country would ask for 75% of the company in the early-stage financing or in any other tranche that angels may do.

**Hon. Dan McTeague:** What percentage would they ask?

**Mr. W. Daniel Mothersill:** Depending on whether there's going to be a follow-on VC round, in which angels are typically diluted, you're looking at probably something in the neighbourhood of between 20% and 30%, because we want to keep entrepreneurs motivated to show up. Over the last ten years that I have been involved in angel investing, there have been too many times when I've had entrepreneurs come to me and say “Look, I just need another $200,000 to get me over the next tranche. The problem is I've raised $1 million in $100,000 tranches, and I'm now down to 7% ownership of my company.” At that point I've turned to individuals like these and asked why they bother showing up. There's nothing in it for them.

Besides, one of the things that angels do, one of the characteristics of angels, is that they not only provide early-stage financing—and they're about the only people who are doing that right now in this country in any volume—but they also mentor companies, because most are serial entrepreneurs who have built successful businesses. Sometimes, the more you get outside of large cities like Ottawa, Toronto, Montreal, Calgary, or whatever, you find that there's an added component to it.

I spent a lot of time this year in places like Thunder Bay, North Bay, and the Soo. Angel investors, of course, want to make money, but they also have a real desire to give back to the community. That may sound a little like motherhood, but it is really part and parcel of the role that angels are playing. What we really have to do—which is why this year alone, the National Angel Organization will build ten new angel groups in Ontario alone—is provide discipline around investing and have term sheets that make sense and exit strategies that people can all adopt and feel good about to keep these entrepreneurs alive so they can go on to the next stage of investing. Without angel investors they never get to the VC landscape.

That's a very long answer, but it's so fantastic.

● (1205)

**Hon. Dan McTeague:** It's important, because it gives us a perspective on the challenges you face and some of the good work you're doing at a time when it becomes extremely critical. There is obviously concern among many that what is happening in Canada in terms of innovation, technology, and any new type of industry that creates opportunities, investments, and employment is in fact controlled by companies that operate and whose interests may lie outside of Canada, save and except for the commercial or consumer side of what Canadians may consume, given that it is a fairly wealthy nation.

I want to turn to a current reality that I think any of you can give us a bit of perspective on.

The liquidity in commercial lending as a result of what's happened in the United States and around the world has obviously put an even greater crimp on the ability to provide risk venture capital. At the same time, we have very lucrative options in commodities like oil.

Mr. Heller, how challenging is it for you to get these groups to come together with your organization to at least try to prod people and say you have to look to the future? Obviously, it is *de rigueur* to put money in potash or in oil, but not back into the economy that produces the kinds of jobs and outcomes that make us successful down the road.

**Mr. Jay Heller:** It's a real challenge right now.

In the first part of your question you alluded to banks. Probably venture-backed companies or angel-backed companies have been somewhat less hurt by the credit crunch than the economy at large because they don't qualify for bank loans to begin with. Most of these are loss-making companies. In our portfolio, some of the later-stage or more advanced companies do have bank loans, and certainly the banks are tightening their lending up and down our portfolio. We feel that every day.

With respect to getting capital, the answer is yes. I don't know if it's unique for this committee to hear three different witnesses from three different organizations come and basically say the same thing—

**Hon. Dan McTeague:** Yes, we noticed.

**Mr. Jay Heller:** —but there is not a lot of capital available for this industry right now. In part it's because lots of other sectors have done fabulously well and in part it's because technology has been, frankly, a very difficult place to make money for the last decade, as Mr. Simoneau mentioned a couple of times. Venture capital returns have been poor for a decade in this country; frankly, all technology returns have been poor for a decade in this country, and with that kind of track record it's tough to go cap in hand and raise money when the alternatives look good.

**The Chair:** Go ahead, Mr. Mothersill.

**Mr. W. Daniel Mothersill:** I'll mention one of the interesting differences between VC returns and angel returns. Recognizing that we are both in a very high-risk space, we just conducted a survey in partnership with our angel organization in the U.S., the Angel Capital Association of America. We went out and surveyed a lot of the members to discover that right now formal angel groups—angels who are banding together with some discipline and doing due diligence and whatever—are enjoying about a 27.5% IRR, internal rate of return, which is one the things encouraging people to come together in forming formal angel groups to take some benefit in terms of this. The trick that we face from an angel perspective is in the actual formation of these groups and the disciplines around it.

One of the things we have done, partly through getting a small grant from Ontario and a small grant from Western Economic Diversification Office, is to put together the first unified best practices on how we are going to do investing. They have been adopted by all angel groups across the country. We have a common agreement on that. We're absolutely....

I'm sorry.

● (1210)

**The Chair:** We're running over time. It's very good, but we are running over time. I know you'll get many more questions to expand on that.

Thank you, Mr. McTeague.

We'll go to Madame Brunelle.

[*Translation*]

**Ms. Paule Brunelle (Trois-Rivières, BQ):** Good morning and thank you for being here. Mr. Simoneau, in an article published last May I read the following:

> BDC should abandon investments that have no return and focus on its best opportunities, according to a study commissioned by the Conservative Government after years of poor performance from its Venture Capital Division.

You have been accused of funding lame-duck companies and, according to that study, of investing too much money in them. I would like to know how you react to that comment. What can you tell us about it?

You stated earlier that, very early in their life, new technology companies become ineligible to grants. Is there a link between those two factors? Are those companies becoming lame-duck because of that?

**Mr. Jacques Simoneau:** I want to start with that article in the *Globe and Mail*. The reporter stated that we provide our support too long to companies that have no hope of success. It is easy to say after the fact that a given company could not succeed. When you are working in that company, it is much more difficult to see if it will succeed or not. The report published on our portfolio underlined, with reason, that we might have provided our support too long to some companies. However, another mistake would have been to cut our support much too early to good companies. To correct that situation and to improve our decisions, we have improved our selection of the companies and have implemented very rigorous methods of reviewing their chances of success in order to focus our dollars as much as possible on those companies that are the most likely to succeed.

You are asking me if there is a link between those two things. Canadian venture capital must be invested very early in companies whose technology is not yet proven and which may not be even sure that it will work. It may happen that we invest venture capital too early in a project that will fail, which leads to a loss of capital. This appears in the statistics and adds to the poor performance of Canadian funds. If grants had been cut off more progressively, we would have lost less venture capital. The danger is that this will have an impact on the results of Canadian venture capital generally and that big investors will lose interest in this type of investment. The space we operate in is not appropriate to their performance expectations. We have to rebalance risk and performance in order to make sure that this sector will be attractive for investors.

**Ms. Paule Brunelle:** In 2003, BDC negotiated an important agreement of $300 million with the Caisse de dépôt et placement du Québec. This had allowed you to improve your position. What is your assessment of that initiative today?

**Mr. Jacques Simoneau:** It is working very well. These are not investments that we would call venture capital. They are investments of subordinated debt in order to loan money to companies that have no assets to provide as collateral but have good results and will have good cashflow in the future. The agreement is working very well and investments are increasing. We renewed the agreement a year and a half ago for another $330 million and we are very pleased with it.

**Ms. Paule Brunelle:** I am very interested in one of your initiatives. You have set up a $25 million fund for women entrepreneurs. We know that it is always difficult for women to borrow from banks.

Do you think this situation is improving?

In the past, we used onto say that women entrepreneurs were more timid and had more difficulties but that their companies survived longer. I wonder if it is still true.

**Mr. Jacques Simoneau:** I believe that this situation is improving. We deal with more and more female entrepreneurs and female CEOs. Many of them have very good results and are very successful in business.

● (1215)

**Ms. Paule Brunelle:** Are you the only lending institution having a fund for female entrepreneurs?

**Mr. Jacques Simoneau:** I do not know about the others but it is one of our concerns. We want to make sure that everyone has an equal opportunity to become an entrepreneur and to get funding for their company.

**Ms. Paule Brunelle:** Mr. Mothersill and Mr. Heller, I have a question for both of you: do you invest in Quebec?

Do you do anything relating to networking, at the BDC, that is to say a sharing not only money but also experience, with experienced entrepreneurs when people want to start a new company? Does that exist at the bank?

[*English*]

**Mr. W. Daniel Mothersill:** That's an excellent question. It's interesting that I'm leaving this meeting to go to speak in Montreal along with a group called Anges Québec, which is the newly formed angel group in Montreal. I'm speaking before 175 entrepreneurs in the province of Quebec about how to attract and build financing.

Angel groups co-invest with a lot of other angel groups in various provinces. So it's a direct effort, it's a co-investment effort between angel groups right across Canada.

It's an excellent question. We're very much involved in the province of Quebec.

**Mr. Jay Heller:** We currently have only a couple of investments in Quebec, and that's just due to the nature of the rules governing the pools of money we manage. We are currently out trying to raise a specialty life sciences fund, and as part of the terms of that fund we plan to open an office in Montreal and make some life sciences investments in Quebec, because there are great opportunities there.

[*Translation*]

**The Chair:** Thank you, Mrs. Brunelle.

[*English*]

We'll go to Mr. Stanton, please.

**Mr. Bruce Stanton (Simcoe North, CPC):** Thank you, Mr. Chairman.

Thank you all for painting a somewhat grim but nevertheless very definitive picture of what we face here.

I would first like to thank Mr. Wilkes and Mr. Mothersill for giving a very comprehensive report here with some suggestions. I'm going to leave that as it stands and move on to some other questions, but well done.

First, to Mr. Johnston—I want to bring you in here for a second—as an organization that really deals with bridging this gap over this so-called valley of death, do you have any comment on what that picture looks like in Canada relative to where Canada sits? What does the landscape look like outside of Canada compared with the kinds of circumstances we're facing here in terms of bridging that gap?

**Mr. Paul Johnston (President and Chief Executive Officer, Precarn Incorporated):** There are two parts to the answer. One is in direct relation to the comment by Monsieur Simoneau. That is, the cliff in public funding, especially for smaller companies that are trying to get to a prototype stage or are trying to get to the technology demonstration stage, is exactly the kind of thing that we try to provide. Therefore, it would tie in perfectly.

As I say in my paper, beyond public research in universities and hospitals, to the point where venture capital firms should come in, is the place we operate. So our view is the same, that there is not the balance right now in Canada.

**Mr. Bruce Stanton:** But what is it like in other countries?

**Mr. Paul Johnston:** It's interesting that you ask that—and I didn't even plant this. Between Tuesday and today, I discovered that in the United Kingdom—and staff probably already knows this—the Technology Strategy Board has just released a paper on innovation in the U.K., and it's a billion-pound investment, 711 million pounds of which is to go directly to programs for business. For example, the first three in one of their descriptions is exploratory awards—so very early awards to smaller companies—proof of concept, and then collaborative research and development. These are exactly the kinds of things we're talking about as well.

They're also going beyond these 711 million pounds and they're coordinating that with some 120 million pounds from the granting councils and another 111 million pounds from other places. So they're trying to put together a new billion-pound initiative to support innovative businesses in the U.K.

**Mr. Bruce Stanton:** Thank you very much.

Mr. Heller, I think you've again painted a very specific picture here. What specific things would your organization recommend that we look at doing, or that a government or the business of commercializing R and D look at, to begin to put this bridge together? Are there a few concrete things you would recommend we consider doing here?

● (1220)

**Mr. Jay Heller:** I do have some ideas. First, partially to protect my precious five minutes, I specifically didn't put any recommendations in my presentation, but I think it's important that there become a broader general awareness of how bad the problem is before we lose ourselves in specific recommendations. I think if this committee can take that away, that is the most important thing, rather than specific recommendations.

I think there are a host of ideas, and I would look at it as what are the sources of money. How can we get more out of government, out of institutions, out of retail, out of foreign investors? And there are small programs that could work on all of them. From retail investors there's a focusing, re-invigorating labour sponsor fund program and facilitating the angel programs from institutions. The Government of Ontario has a small program to encourage institutions, like pension funds, to do more in venture capital that they're just rolling out. It's a good idea. Unfortunately, it's a small program, but with some federal dollars behind something like that, it would be fantastic and probably complementary to what Mr. Simoneau is working on at BDC with his $75 million grant.

Then for foreign investors there are a number of measures that the government can take to encourage the flow of foreign capital into this country, some of which were enacted in the last budget, but there are more to come. The CBCA has spoken to those in front of this committee, I believe.

**The Chair:** You have a minute and a half.

**Mr. Bruce Stanton:** Thank you, Mr. Chair.

Mr. Simoneau, in terms of BDC's business and how it would be allocated, compared with 2002, say, how much of your work is in venture capital, as compared with traditional lending? I have some familiarity with BDC, but how has that changed in the last five years?

**Mr. Jacques Simoneau:** Well, venture capital has increased gradually since 2002 with the new mandate that was given to BDC to invest in knowledge-based industries. So we've increased the venture capital from a much smaller number at the time. I don't have the accurate figure right now, but I would say in the order of magnitude of $100 million at the time. Right now, we have about $700 million engaged in venture capital. That compares with about $10 billion in loans to SMEs that are operating SMEs and not technology-based SMEs.

**Mr. Bruce Stanton:** So just shy of about 10% or thereabouts.

**Mr. Jacques Simoneau:** Yes, it's about that in terms of dollars.

**Mr. Bruce Stanton:** You may not have enough time to do this, but you raised the idea or the notion of tax-free exits. I wonder if you might be able to give us a little bit more information drilled down on that idea. What does that mean?

**The Chair:** Very briefly, Mr. Simoneau.

**Mr. Jacques Simoneau:** Briefly, sir, it could be to encourage people to get out of their technology investments. It's a matter of rebalancing risk and reward. So you're selling the investment at a given price. If the investor can keep more, you're rebalancing the risk that they've taken at the beginning.

Since the main metric you can use to measure that an industry is not doing well is the return, if we could do something to rebalance that in the meantime, while the industry recuperates, it would be great for the industry and more money would flow in.

**The Chair:** Okay, thank you.

Thank you, Mr. Stanton.

**Mr. Andrew Wilkes:** Can I add something?

**The Chair:** Very briefly. We're well over time.

**Mr. Andrew Wilkes:** One of the previous finance ministers asked us about five years ago what was the one thing that the government could do for angels to get them to put more money to work. They looked at this idea of being tax-free at the end, and they said it wasn't the issue; the issue to attract capital was the tax credit at the beginning.

So we have a different view of surveying the private individual investors.

**The Chair:** Thank you.

Thank you, Mr. Stanton.

We'll go to Ms. Nash, please.

**Ms. Peggy Nash (Parkdale—High Park, NDP):** Thank you, and hello to the witnesses.

My first question is about why we're getting so little investment in some parts of the economy. I'd like your opinion as to what the key economic challenges are here, aside from the comments you've already made. I'm wondering what the impact of the high Canadian dollar is in terms of the lack of attractiveness of investments outside of the commodities sector, and what other kinds of barriers there may be for the commercialization of Canadian technology.

● (1225)

**Mr. Jay Heller:** I have to take that on.

The dollar has had a devastating effect on Canadian technology firms. When you think about the impact of the dollar, manufacturing comes to mind. But when you think about a young technology company, the chances are that most of its sales are in U.S. dollars, and if they're doing their R and D here, the R and D costs and personnel costs will be their biggest expenses, so the vast majority of their expenses will be in Canadian dollars. So they have the profile to be clobbered by the dollar, and that in fact is what has happened.

**Ms. Peggy Nash:** You don't hear much about that. We've talked a lot about the manufacturing sector. We've not heard much at all about the impact on the high-tech companies.

**Mr. Jay Heller:** It certainly has had a big impact.

Now, think about it. Most young technology companies raise money knowing that in a couple of years they're going to have to raise more. They raise multiple rounds of venture capital, starting with the angel rounds and going through to the expansion rounds, so they know they're going to run out of money and will have to go for more. And what the dollar has done is that it has taken their two years of runway and turned it into 18 months of runway, or one year of runway. From the beginning, they knew they were facing that problem—but it has been very, very significant.

I guess the other other point is that ultimately, the demand for most types of innovative technology is very cyclical. In the Ottawa area, a lot of the technology companies make telecom equipment, so it winds up that their customers are Bell South and Verizon, the big telecom companies, whose capital spending is very, very cyclical. They spent a fortune on new technology around the year 2000, and they've spent less and less ever since.

So that is just a business cycle, which everyone in tech knows we have to bear, and that's why we know it's a high-risk and hopefully high-return asset class.

**Ms. Peggy Nash:** Thank you.

**Mr. W. Daniel Mothersill:** From an angel perspective, angels are investing right across the board in every sector, save for pharma, because pharma is a 10- to 12-year investment and $100 million. And it's binary: it's going to work or it's not going to work. That's not a place where angels tend to play.

Having said that, angels are increasingly looking for a liquidity event in two and a half, three, three and a half, four years. In other words, they're looking to get their money back within that timeframe. That doesn't mean the company is sold out; it just means they build that into their terms. So when you're looking at trends and whatever, I would argue that angels have not been discouraged by the high dollar in terms of the investments they're making. Just to underscore that, it's right across the board, including service industries, in which VCs have traditionally tended not to invest.

**Ms. Peggy Nash:** I'm interested in the commercialization of technology. It's a value-added sector that can capitalize on the big R and D investments that Canada does very well. You know, if venture capital is going into the commodities sector and not into the value-added sector, I think that's going to damage our economy for years to come.

So are there specific suggestions that you have, perhaps on the dollar or specifically on high-tech companies, that would help get us over what I hope is not a long-term disadvantage in terms of the value of our currency?

**Mr. Jacques Simoneau:** If I may, what you're alluding to is the fact that the people who manage big pools of money have to decide between asset classes and they have to decide whether we are investing in technology or in natural resources or commodity factors. The natural resources sector has been pretty good to them in the last few years: less risky, they can plan their investment, and they know they will get something out. Venture capital, technology, is a lot more risky. To make those risky investments, you need better rewards. The rewards, for all kinds of reasons, have not been there in the last few years. This is why we're suggesting a few ways to try to rebalance that, at least the time it takes for the industry to recover.

You'll all remember that technology bubble that burst in early 2001, let's say. Before that there was an overshoot in the value of investments and everybody was getting rich, at least on paper. At some point the market realized that the value wasn't there and it fell through. The industry in Canada still has to recover from that. The new investments that were made after that are three, four, five years old. It takes six, seven, eight, ten years to build a company. So we're still in that recovery mode.

● (1230)

**The Chair:** Mr. Wilkes, you wanted to comment.

**Mr. Andrew Wilkes:** Yes, on the same comment. I've recently invested in a warehouse automation company in Mississauga. The dollar really clobbered them, especially on contracts they had out two or three years ago. They ended up losing money because they sold in U.S. dollars and the value of the revenue went down substantially.

You know, they're still at it, and they're working hard. They understand the dollar's here for a long time and they're going to succeed. But the key, and the reason I'm interested as an angel investor, is we have to transform them from a Canadian company to a global company. They're selling to Avon Products, to the limited brands, to Lands' End and automating their warehouses, and they can go around the world. So I see angel investors stepping in today, because if we don't, nobody else will. The banks won't.

I see it as very opportunistic.

**The Chair:** A very brief one, 20 seconds.

**Ms. Peggy Nash:** Thank you.

On the labour venture funds.... I'm from Ontario. I can't remember the specifics, but I remember there were problems with the labour venture funds. If I remember, people were getting tax credits without really significant output at the other end. I think that might have been it, or there might have been management problems.

If you're saying this is still something that you see as a viable investment tool, what would be the mechanisms to prevent that problem in the future?

**Mr. Jay Heller:** The point you're referring to is really an issue that cropped up in the mid-1990s, when a number of the labour-sponsored funds in Ontario raised way more money, frankly, than they were expecting to raise and that they could reasonably deploy, so the funds had too much cash and it took a while to work that off.

Frankly, the industry would kill for that problem today. It's long gone. If the market turns around such that labour-sponsored funds can raise that kind of money again, probably the committee does need to hold hearings on why there isn't enough venture capital in Canada. It's a broader point that refers to your previous question.

A lot of government programs are cyclical in this area, when they should be counter-cyclical. It's much easier for people like us to come to the government and ask for support for our industry when our returns are super high. But the truth is we probably don't need the support at that point in the cycle. Now is the time in the cycle when the government should be stepping up, yet it's a tougher ask because we have to ask you for support in some form or another at a time when the returns are poor.

It's a challenge for government to get programs across the finish line against the wind, but that is actually the time when you should be doing it. And that's, broadly speaking, where labour-sponsored funds are at today, and all types of venture capital.

**The Chair:** Thank you, Mr. Heller.

Thank you, Ms. Nash.

We'll go to Mr. Cullen, please.

**Hon. Roy Cullen (Etobicoke North, Lib.):** Thank you, Mr. Chairman.

Thank you to the witnesses.

I'm going to throw out a few questions. Then, if you could hold your powder dry, whoever wants to can jump in.

It's been a while since I looked at this issue, so I feel a bit dated, especially when you talk about a national angel organization, because my impression then was that in the continuum of finance, angel capital was friends and relatives, and that moved then to venture capital, which was slightly different. That has evolved, obviously, when you have a bunch of friends and relatives gathering into a national organization, so maybe you could help me to better understand the difference between angel capital and venture capital.

By the way, one of the issues I had with the labour-sponsored venture funds was that they wouldn't look at anything less than $500,000, so they started to group it together, and it seemed to lose some of its value over time.

We're looking at tax advantages. Surely making the scientific research tax credit refundable would help early-stage companies in loss carryforward positions in their early stages. Making that research credit refundable is something that's been around, and people have proposed it.

Also, I was glad the government extended the accelerated capital cost allowance, but surely they could have extended it for a period beyond one or two years if you look at the planning horizon of corporations.

When we looked at this some time ago, one of the problems.... Actually, this group I was with was looking at commercializing federal government research, because there is a fair bit of federal government research going on. We looked at commercializing it. One of the things we bumped into was intellectual property rights.

You know the problem of researchers: a lot of them aren't very good at tech transfer or tech diffusion, so intellectual property rights could maybe be an incentive. We looked at models. Mr. Simoneau, you mentioned the University of Waterloo. I was familiar with that one. Also, Guelph had a company called GUARD Inc. , which was the bridging corporation between the scientists and the capital markets. It seems to have worked very well; in fact I wondered, and we wondered, if we should actually do that at the federal level—have a bridging company between the scientists and the capital markets to help put the prototypes together and advance the file and get the capital to do that.

I'm wondering if you think we should be doing anything on intellectual property rights and if we should be doing anything with that particular model—building on the University of Waterloo model or the Guelph model—to provide that mechanism in between.

● (1235)

**The Chair:** Let's start with Mr. Mothersill. You indicated you wanted to start, so I think you want to start with the angel and VC question.

**Mr. W. Daniel Mothersill:** In the very early stage, there are three forms of funding. The first is usually from the entrepreneur, who puts in cash, maximizes his credit cards, mortgages his house, and sells his kids for medical experiments. That's the first money in. That's skin in the game.

Second are, of course, the three Fs: friends, family, and fools. These people are usually relatives or acquaintances, and they put in a little bit of cash, usually less than $100,000.

Once you get past that, you get into angel investing. Angels are, according to the various securities commissions within the provinces, sophisticated high-net-worth individuals who can assume the kinds of risks that they take. All members of an NAO, for instance, and all members of angel groups have formally signed off on the fact that they are indeed accredited, sophisticated investors. That's when the angels begin to play.

There are those three early stages. Then it may pass on, depending on the size of the investment, to venture capital. One very quick trend that's happening is that angels, because they're investing together, are now getting into VC rounds, so it's not uncommon to see $3 million, $4 million, or $11 million rounds just in angels alone.

**Hon. Roy Cullen:** Thank you. That helps a lot.

What about the other questions on refundable research, accelerated CCAs, the bridging mechanism with Waterloo, and...?

**The Chair:** Does anyone want to...?

Go ahead, Mr. Heller.

**Mr. Jay Heller:** I can speak to a couple of those. Maybe I'll leave the Waterloo question to Mr. Simoneau.

SR and EDs are a hugely important government program for knowledge-based industries, and any enhancement is certainly welcome. It's not quite as good as venture capital, because it's refundable—you have to have the money before you can get it back—but certainly if you've raised some money and you want to have that take you down a longer runway, the SR and EDs are extremely important.

CCA, capital cost allowance, is somewhat less so, because, frankly, most of these companies don't pay tax and have tons of losses already. They don't need more.

I did want to speak for a moment on your point about labour-sponsored funds not doing smaller deals of less than $500,000. It really speaks to the point that there is a continuum of finance in which the angels are most efficient at providing capital at a certain size and stage of a company, and then the VCs come in. There's no clear break where that occurs, but probably around $500,000 is in the ballpark of getting pricey for the three Fs and getting more appropriate for an institution, a professional money management firm. That's why that is the way it is, and it's just a natural market force, I think.

**The Chair:** Very briefly, we'll hear Mr. Simoneau on intellectual property.

**Mr. Jacques Simoneau:** In the university transfer, what is important is that they should be very business-minded in their approach and have a quick process, and right now, that's not what we see, and therefore it drags on for too long. The decision level is not in the hands of the people the entrepreneur is talking to. This makes it very difficult.

Waterloo is a different concept. That's why we say it's probably the one we should start looking at. I'm not very aware of the Guelph one: having a more unified approach.

**The Chair:** Thank you.

Thank you, Mr. Cullen.

We'll go to Mr. Carrie, please.

**Mr. Colin Carrie (Oshawa, CPC):** I'll be splitting my time with Mr. Van Kesteren.

Mr. Johnston, when you were here last time, for the members who were here I think your quote summed up what this study is all about. You said that you actually have to start just working on the people, changing their approach to life, so that their goal is not to finish university and get a job, their goal is to finish university and create a thousand jobs.

Could you provide specific recommendations that Canada's federal government could implement to move forward? What's the best thing we could do to back up your statement? I thought it was a great statement.

**Mr. Paul Johnston:** Thank you.

I think I would start with a general statement that just says again that it relates to a balance in the system, but it also relates to the gap.

I'll use very specific anecdotal evidence. Back in 1990 we were funding a program in universities called IRIS. There's a graduate student by the name of Shahram Tafazoli who invented some technologies for managing heavy equipment: monitoring it, etc.—all sorts of different aspects. When he graduated, he started a small company called Motion Metrics, and through our Precarn side, through Precarn funding, we were able to provide small amounts of funding into that company. Following that, he actually worked with Syncrude on a larger project.

So we filled the gap, as it were, and now literally his company is selling his technology around the world. It's still a very small company, but that's an example of what I mean, because now he employs nine or ten other high-value-added people in his company. It's a matter of getting the technology matched against a user need and then filling the gap a little bit so that the company can become successful.

But that's only part of it. We've talked about tax credits, the dollar, capital cost allowance. All of these things have to be balanced to create the right environment. My argument is related to filling in the gap as well.

● (1240)

**The Chair:** Mr. Van Kesteren, you have two and a half minutes.

**Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC):** Mr. Simoneau, as a crown corporation, what were your profits last year?

**Mr. Jacques Simoneau:** The profits last year? From memory, I believe they were $130-some million.

**Mr. Dave Van Kesteren:** Thank you; that's very commendable.

We're developing a picture here showing that Canadians, by and large, as we found in another study, are very good at banking; that means we don't lose money. Are we a little bit cautious? Is that part of the problem?

I see your hand, but I want to just finish my statement here first. I'm wondering: if investors don't want to make the plunge, the first thing we start to do is point at the government; but will we then become part of that three-F as taxpayers? Is it just part of our national identity that we're very cautious, that we don't like to take those plunges?

Okay, Mr. Wilkes

**Mr. Andrew Wilkes:** Absolutely. Part of the problem is that we criticize our entrepreneurs when they fail. In the United States, failure is a good thing. They've gone out and tried to build a business and they move on to the next business. It is a mindset; yes, we are risk-averse. But you can't train somebody to do their first paper route. They just go out and do it and they collect the money—or the lemonade stand, or getting on the airplane and going to Southeast Asia.

I'm sorry; you were going to add...?

**Mr. Dave Van Kesteren:** I want you to finish my statement. I know where this is going to lead. If we can't get the money from investors, there's going to be pressure put on the government to start investing. Is that a good idea?

**Mr. Andrew Wilkes:** I would argue that you should let private enterprise do it.

**Mr. Dave Van Kesteren:** So we shouldn't take the profits from the crown corporations, for instance, and say “We want that $100 million”?

**Mr. Andrew Wilkes:** No. I think you should develop a program—you know, we had tax credits that went into the labour sponsored investment funds program—and let private enterprise work alongside and decide which entrepreneurs to back. It's a private-public partnership that is really going to help these entrepreneurs. As Mr. Mothersill mentioned, what the angel investor brings is the passion of doing it before. They understand the passion of the entrepreneurs, and they work alongside the entrepreneurs. They don't charge for their time and they try to help them out.

**The Chair:** Thank you.

Go ahead, Mr. Mothersill, just briefly, please.

**Mr. W. Daniel Mothersill:** Very briefly, I think the role of government is not to try to pick sectors and solve all the problems. It is to incentivize those people who are already risking dollars and mentoring these companies. Government should never, in my understanding, be a substitute for encouraging serial entrepreneurs and angel investors to get involved, roll up their sleeves, and do it. Andy has a couple of tax recommendations and whatever, which we support, which would help attract many more people to this field in terms of helping to commercialize innovation.

● (1245)

**The Chair:** Thank you, Mr. Mothersill. Thank you, Mr. Van Kesteren.

We'll go to Monsieur Vincent.

[*Translation*]

**Mr. Robert Vincent (Shefford, BQ):** Thank you, Mr. Chair.

Should there be a better balance between investing in research and development, in any industry, whether it be in the universities or elsewhere, and the money invested in commercialization? I have the feeling that we invest far too much money in research and development of new products in comparison to what we invest to commercialize those products which may in fact remain on shelves because nobody can really use them.

[*English*]

**Mr. W. Daniel Mothersill:** Absolutely. I would argue that we invest far too much in R and D. Our universities have become warehouses of innovation. The problem is that we can't get it out. Roughly speaking, about 2% of what is warehoused in universities is actually commercialized. We put very few dollars against the commercialization of what we already have. To me, the balance is way out of whack with respect to what we're spending on R and D and what we're spending on commercialization. Just look at the numbers, look at the success rate, or the lack of a success rate, and, gee, maybe there should be just a little better balance there. That's kind of a “doh” statement, at least from my perspective. You raise an excellent point.

[*Translation*]

**Mr. Jacques Simoneau:** I would not be so critical. Basic research is important for preparation. Results can only be seen in the long run. Canadian universities carry out research in all kinds of fields which do not necessarily lead to commercialization and I would not want to criticize that. However, as far as commercialization is concerned, with a bit more money we might be able to get much more from research by a leverage effect. That is why we say that more money has to be invested in commercialization, in order to ensure a smoother transition from research to commercialization.

**Mr. Robert Vincent:** If we invest three dollars in innovation and one dollar in commercialization, it is not balanced. What would you recommend to rebalance that in order to market our products and create new jobs?

**Mr. Jacques Simoneau:** There is no magical ratio. Some say that there is a gap between the moment when an idea funded by research is sufficiently developed—up to being patented, even— and the moment when it can be marketed.

The granting phase should be progressively reduced and eliminated to be replaced by private capital in order to ensure a continuum. We must begin by selecting, among the research projects, those that can be marketed. From then on, we might try to establish a reasonable ratio.

[*English*]

**Mr. W. Daniel Mothersill:** We agree, but there is a problem in terms of getting it out, particularly in getting it out of the universities. There's no standard with respect to who owns intellectual property. It's very difficult sometimes to get this, to commercialize this, because the universities say they own it, or that at least they own a huge percentage of it. And it's very difficult, sometimes, to raise money on that. We're finding that some of our universities—at the risk of being unpopular—are almost double-dipping, because they get the money to operate, then claim that they own the intellectual property.

Therefore, if you're going to commercialize this, because there's no standard, it's very difficult sometimes to break it out. Some of the best universities in Canada have gotten around this problem. But getting that technology out, from an angel investor point of view, still remains for many a hurdle.

[*Translation*]

**The Chair:** You have one minute left.

**Mr. Robert Vincent:** Mr. Johnston, I see that Precarn is suggesting a five-point program, one of those points being priority research and development, collaborative projects led by industry and involving small and large companies with the establishment of international links.

I would like to know what you think of that approach.

[*English*]

**Mr. Paul Johnston:** I apologize, but there was no translation of that question.

● (1250)

[*Translation*]

**Mr. Robert Vincent:** On its website, Precarn offers an integrated five-step program where research and development is a priority. They are collaborative projects led by industry and involving small and large companies with the establishment of international links.

I would like you to tell us more about this new approach.

[*English*]

**Mr. Paul Johnston:** Thank you.

Precarn jointly submitted to the international science and technology program of the Department of Foreign Affairs and International Trade to run the program that they refer to as the ISTP program. We jointly formed another not-for-profit company called ISTP Canada, which is working with funding to form relationships between Canadian companies and companies in the three developing countries of China, India, and Brazil. The hope is that will then be expanded. The point of that is to establish R and D in Canadian companies with a specific view that they will hopefully form trade linkages into other countries, so that they will form relationships with organizations in these other countries, and their marketing will have a natural link already built in.

So the point of our international aspect is to try to link—in a more formal way—a Canadian development to an international partner.

**The Chair:** Thank you.

Merci, Monsieur Vincent.

We'll go to Mr. Arthur.

[*Translation*]

**Mr. André Arthur (Portneuf—Jacques-Cartier, Ind.):** Thank you, sir.

It is extremely interesting to follow this discussion between people asking questions and people having answers and suggestions. It is impossible to avoid the conclusion that Canada has a cultural problem.

A while ago, I asked my colleagues why these people are so depressing. Their answer was that it is quite normal because they are bankers. I have been told that Canadians make excellent bankers.

In Quebec, we would like to make entrepreneurs but, if you talk to entrepreneurs in our province, they will tell you that, if you suggest a business opportunity to a Quebec entrepreneur, he will immediately ask you how much money you want to make. On the other hand, if you make the same suggestion to an American, he will tell you how much money he will make.

If you were to gather ten Canadians, you could easily get them to admit after a few minutes that what government does is never very successful and that government is not very effective. However, if you were to continue your conversation with those same ten Canadians and were to submit a specific problem to them, they would tell you in a few minutes that government should do something about it.

In a country where economics is not taught in high schools, do you think we will ever be able to have a culture of entrepreneurship where people are willing to risk their money on other people's ideas? Are we not rather moving more and more towards a society where people ask government to resolve their problems and, if there is any money to be made, they want to know how much the other guy is going to get? Is there any hope that the Canadian economic culture, in Quebec or English Canada, will one day be able to change if we do not start soon to teach economics to our children?

[*English*]

**Mr. W. Daniel Mothersill:** Amen.

**The Chair:** I don't know if the translators got that.

Does anyone else want to comment?

Mr. Mothersill.

**Mr. W. Daniel Mothersill:** On top of the "amen", teaching economics is absolutely right. And if we're looking at education, particularly in the grade schools, in the high schools, and of course in the universities, we have a situation in Canada where we focus our entrepreneurial efforts around the MBA programs. Wonderful. MBA programs typically teach people how to work and they play an important role in teaching people how to work in Fortune 1000 companies. Great. That does nothing in terms of addressing how to manage entrepreneurial companies. There is nothing wrong with MBAs, and I'm not criticizing them, but we have not gone far enough.

So it's a bit of an advertisement. I'm working currently with Ryerson in Toronto to actually form a group and a course of studies that will address management in entrepreneurial companies—and entrepreneurial companies alone. But this is a pilot, the first that we know of. We have to have a whole lot more of that kind of thing going on, to encourage grassroots, to give entrepreneurs the skills in order for them to take their companies to the next level.

You're absolutely right. It's not only a funding problem, but it's a cultural problem that has really come to pass because of our take on the educational system, which says somehow we're not going to touch business and economics.

● (1255)

**The Chair:** Mr. Heller and Mr. Simoneau, very briefly.

**Mr. Jay Heller:** Similar to Mr. Van Kesteren's comment, I do agree that there are aspects of the stereotypical Canadian attitude that are not necessarily conducive to successful entrepreneurship. But that is a generalization that is very often not true.

And I do think there is great reason for optimism, because there are places in Canada where the attitude that is maybe generally lacking is certainly found in abundance. Kitchener-Waterloo.... Drive half an hour west of here to Kanata and get off the highway. Ten years ago there was nothing there. If you asked a business person, "What's Ottawa?", they'd say, "I don't know what happens in Ottawa". And now there's a very vibrant, exciting technology community there, and in Quebec, around Montreal, in the life sciences sector.

So we have these cores surrounding successful companies, universities where there's a growing culture of entrepreneurship. Look, it took 40 years for Silicon Valley to turn into what it is. It started in the seventies. We only started here in the nineties. So by having only half as much time, we're doing okay.

**The Chair:** Mr. Simoneau, please.

[*Translation*]

**Mr. Jacques Simoneau:** I do not want to repeat what has already been said but I agree that it would be a good thing to start teaching economics in our high schools. I believe things will start changing when people start seeing industrial parks expending, better jobs being available and young people having interesting things to do. We do have a big cultural problem but things are beginning to change.

Let me give you an iconic Quebec example, the Cirque du soleil. This is not a high-tech company. It was a set up in the eighties by people who decided to create a company rather than a cooperative. You all know how successul it has been all over the world. Everything relating to that company is a model.

The same thing applies to Kitchener-Waterloo. I went there recently and I saw how very much things have changed over the past ten years.

[*English*]

**The Chair:** Merci, Monsieur Arthur. I apologize for that, but we did have a shortened time period today.

Ms. Nash, I understand you have one question. We don't have time for answers, so I'll let you put your question. I have a couple of questions. We'll just put them on the record and I think we'll perhaps have the witnesses respond by e-mail. I apologize for that, but the time is up.

Mr. Silva.

**Mr. Mario Silva (Davenport, Lib.):** I have a point of order. I just want to know if we still have time to deal with the motion.

**The Chair:** I will deal with the motion immediately thereafter.

**Mr. Mario Silva:** Thank you.

**The Chair:** Ms. Nash.

**Ms. Peggy Nash:** I actually should have asked my question earlier—it didn't occur to me then.

What everyone is talking about are the changes to IP policy, investment, the business environment, university policy, etc. But what we're not talking about is the financial state and the stability of our university graduates and young researchers, especially in the science and technology fields.

Tuition increases have gone up dramatically. I know in Ontario they're up 8%. So young people are graduating with a huge debt. And if we want them to take risks and to become more entrepreneurial, isn't it more difficult for them to do that when they're graduating with that burden of debt and that insecurity, going forward? It's less likely that they're going to be taking risks of any kind, let alone financial risks.

**The Chair:** Okay.

I'm sorry, we're going to have to table that question.

Witnesses, I have a couple of questions myself that I do want to put on the record. Perhaps we could ask you to come back, and if you're amenable to that we could finish off this session, because you were deprived of 40 minutes of time because of the vote.

I want to put two questions on the table.

Mr. Heller, you have a very good presentation here. You talk about the four funding sources, and you talk about the role of government. How do we ensure that government funds, whether they partner with the private sector or not, continue to fund early-stage companies, where you said the need was, rather than become conservative and fund at a later stage? How do we ensure they're fair to taxpayers? What sort of a governance structure would you recommend?

The second thing is about the National Angel Organization, with respect to flow-through shares, innovation, productivity, and tax credits—very intriguing ideas. Flow-through shares have been promoted to me by Ballard and other companies for years. As you know, the finance department is not all that amenable to that. With the innovation and productivity tax credit, if there is any further information you have on those two initiatives that you can supply, stacked like that to the committee and that we can chew on, that would be very helpful to us.

I just want to put those two on the table from the chair. Unfortunately, we can't have any responses, because we are out of time. The vote prevented us from being here earlier.

I want to thank you for your time here today. It was a fascinating discussion.

Members, we are going to suspend for a minute, and then we'll discuss the motion.

Thank you.

● (1300)

(Pause)

● (1300)

**The Chair:** Okay, members, let's find our seats.

Does everyone have a copy of Mr. Brison's motion?

As the chair, I'm going to explain what I'm going to do in the context. The motion and the context surrounding it have put the chair in a very difficult position. I hope you all know I try my best to be a very fair chair and to govern by the rules. I am going to rule a certain way on this motion, but I do want to give the context to the committee.

This motion does not technically satisfy the 48-hour notice requirement. The clerk advised Mr. Brison's office that the committee would require unanimous consent to allow a member other than Mr. Brison to move his motion, given that Mr. Brison would be absent today. Based on this advice, the office of Mr. Brison advised the clerk not to put the motion on notice for the meeting of Thursday, May 15.

But in fact if a member is properly signed in as a substitute for Mr. Brison, that member would indeed be allowed to move the motion. That was, I think, the McGrath committee recommendation in 1985. So a substitute enjoys the same rights and privileges as a regular member of a committee being replaced. Substitutes are counted for purposes of establishing a quorum, and they may participate in debate of motions and votes.

What happened here was that the motion does not technically satisfy the 48-hour requirement, but that is a result of incomplete advice from our clerk, unfortunately.

The notice of motion was originally sent to the clerk on Monday, which was within the 48-hour requirement, but because of the advice given and because of the action of Mr. Brison's office as a result of the advice, we do not have the 48-hour requirement fulfilled.

I am going to rule this motion out of order. Obviously, if the motion is ruled out of order, any member can appeal that decision. If the decision is not sustained, the motion would be debated and voted upon, and that's an option.

Another option is that committees can deal with motions at meetings while they travel. If we do travel the week of May 26, the motion could be debated in Winnipeg on May 27.

I want to give the context, I want to give options to members, and I want to explain why I'm ruling this way. The reason I'm ruling this way is that I accept fully that incorrect advice was given unbeknownst to me, but the advice was not given in bad faith. Technically it does not satisfy the 48-hour requirement, and I'm ruling the motion out of order for that reason.

Mr. Silva.

● (1305)

**Mr. Mario Silva:** Mr. Chair, I've sort of taken carriage of the motion, given the fact that I'm replacing Scott Brison.

I don't want to challenge your ruling, but maybe you would ask the indulgence of the committee that it would give consent to at least allow the motion, given the circumstances, given the fact that it was done in good faith by Mr. Brison to table it on Monday, given the fact that the information that was given back to his office was incomplete, and given all these circumstances.

There are times when people have to realize that it is not just Mr. Scott Brison's situation that needs to be respected. It really affects all of us as members, because when we do things within the proper legislative rules, and then we're not given full advice, we should not be punished for that. I think it would be unfair for the committee to punish Mr. Brison when he in fact did put it in as of Monday.

I ask you to ask the committee members if they would allow for unanimous consent to allow the motion to go through.

**The Chair:** Okay, I'll certainly do that.

Do I have unanimous consent from the committee to allow the motion to be discussed today?

**Some hon. members:** No.

**The Chair:** Unanimous consent is denied.

Mr. Stanton, do you want to speak to this?

**Mr. Bruce Stanton:** In support of your decision on this, we understand perfectly well that these kinds of things do happen. But in point of fact, the rule we agreed to at the start of this session was simply that the 48-hour clock was based on the time the motion was actually distributed to the committee members. It's a rule, and there are a lot of occasions when these circumstances come into play. We all have to accept them and be bound by them. As you pointed out, Mr. Chair, the obvious alternative here is to move that up to other business.

I'm also cognizant of the fact that we had a shortened session today and had to cut off our witnesses' presentations and questions from members because of the inadvertent vote—I guess it wasn't inadvertent on some people's part. The day moves on here. We're past one o'clock now.

I suggest we move this to our next order of business, which will be in Winnipeg, as you suggested, and take it up there.

**The Chair:** Thank you.

Mr. McTeague.

**Hon. Dan McTeague:** I recommend we go in camera, Chair.

**The Chair:** Okay.

[*Proceedings continue in camera]*

● (1305)

(Pause)

● (1325)

[*Public proceedings resume*]

**The Chair:** We are now back in public.

Mr. Carrie.

**Mr. Colin Carrie:** Thank you very much, Mr. Chair.

I would like to make a friendly amendment, that after the phrase “the Standing Committee on Industry, Science and Technology”, we add “when the committee resumes in the fall”, concerning the policy on financial assistance from the Economic Development Agency of Canada, etc.

**The Chair:** So the amendment is to add, after “the Standing Committee on Industry, Science and Technology”, “when the committee resumes in the fall”.

**Mr. Colin Carrie:** Yes, sir.

**The Chair:** That's the amendment.

Monsieur Crête.

[*Translation*]

**Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ):** I just want to state publicly that we will vote against the amendment because it seems important to us that the Minister appear as soon as possible, considering the present situation of the related organizations in Quebec.

[*English*]

**The Chair:** Merci.

Ms. Nash, do you want to speak to this?

**Ms. Peggy Nash:** Yes. I just think that if we're going to vote to have the minister appear before the committee based on things that are happening now, it would be better to have the minister here before the House adjourns for the summer.

**The Chair:** Thank you.

Mr. McTeague.

**Hon. Dan McTeague:** Mr. Chair, I think consensus has been achieved here. We will have the minister before the committee.

There are probably a couple of weeks left. We're away next week and travelling the following week. That brings us perilously close to the possibility of the House rising within days.

Whether it's June or whether it's September—the motion by Mr. Brison did not specify a time—I think this is another example of the spirit of compromise that has worked for this committee, and I thank all members for their help.

● (1330)

**The Chair:** Thank you.

I'll call the question.

[*Translation*]

**Mr. Paul Crête:** I ask for a recorded vote.

[*English*]

**The Chair:** Okay, it is a recorded vote on the amendment by Mr. Carrie.

(Amendment agreed to: yeas 7; nays 3)

**The Chair:** On the main motion as amended, do you wish to have a recorded vote?

[*Translation*]

**Mr. Paul Crête:** No.

[*English*]

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

**The Chair:** Thank you.

The meeting is adjourned.

**Published under the authority of the Speaker of the House of Commons**

**Publié en conformité de l'autorité du Président de la Chambre des communes**

**Also available on the Parliament of Canada Web Site at the following address:**
**Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante :**
**http://www.parl.gc.ca**

---