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Chair

Mr. Rodney Weston

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• (1110)

[English]

The Chair (Mr. Rodney Weston (Saint John, CPC)): I call this meeting to order. This is meeting number 32 of the Standing Committee on Fisheries and Oceans. We are continuing our study of the Atlantic lobster fishery.

I'd like to thank our guests for being here with us today and taking the time out of their very busy schedules to come and share some information with the committee. Hopefully we can draw upon that as we put together our report for the lobster fishery.

Mr. Wrobel, you're going to begin.

We have some time constraints that we usually work around. I assume the clerk may have explained that to you beforehand. You'll hear a beeping noise coming from this device and it will alert you when the time is running out. I'd ask that if you hear that noise, you begin wrapping up your comments at that point in time. I generally don't cut our guests off. The members know they have time constraints to adhere to as well for their questions and answers. I'd ask you to be mindful of the timeframes in your comments here this morning.

Once again, thank you very much. I believe you're going to start with opening comments. In your opening comments, perhaps you wouldn't mind introducing the rest of the delegation, the representatives from the various banking institutions. I'll let you proceed from there.

Mr. Marion Wrobel (Director, Market and Regulatory Developments, Canadian Bankers Association): Thank you, Mr. Chair. Good morning.

My colleagues with me are Peter Conrod from RBC, Steve Murphy and Paul Seipp from BMO, and Craig Thompson from the Bank of Nova Scotia.

In the interest of time, I will be reading a shortened version of the opening remarks that I left with you.

It's my pleasure to be here today to participate in the committee's discussions of the Atlantic lobster fishery. I am joined today by colleagues from some of our major banks with expertise and experience in the fisheries industry, and together we would be pleased to answer more specific questions you may have. I have also provided you with an information package and a backgrounder related to our presentation today.

The CBA represents our 50 member banks, including domestic chartered banks, foreign bank subsidiaries, and foreign bank

branches operating in Canada. Our members are present in virtually every community across the country, and they are key contributors to local and provincial economies as well as to the national economy.

Banks have a long history of helping their customers through difficult economic periods. Today, banks are doing the same with their business and personal customers. We understand that some customers are going through difficult times, and we're asking those customers to come in and talk with their banker to see what solutions can be worked out. We deal with situations on a case-by-case basis and we want our customers to succeed. Indeed, we succeed when our customers succeed.

It's important to remember that banks are traditionally about half of the business credit marketplace and only about a quarter of the total financing marketplace. Our response has been to try to fill the gap left by non-bank providers who have slowed the growth of their lending or pulled out of the market altogether. The latest Bank of Canada data tells the story. Year over year, bank financing of businesses is up over 6%, well in excess of the 3.7% growth in financing by all providers. Banks have stepped up to the plate to fill the gap left by others, but while we are trying to fill that gap, we can't do it all.

On the matter of interest rates, let me simply say that interest rates are falling. As the Department of Finance stated earlier this week, average interest rates have fallen steadily for both households and businesses. The average effective business interest rate was 4.16% in May, compared to 5.75% in December 2008. That's only over a six-month period.

In closing, Canada's banks are strong and secure, and Canadians remain confident in their banking system. This is an advantage for Canada that other countries do not have. Keeping that advantage will be crucial to the recovery of Canada's economy and to the long-term prosperity of Canadians.

Our banks will do their part. They will continue to lend prudently and protect their depositors' money. They will also be there to ensure that individuals and businesses continue to have access to credit and are able to afford to repay their loans. We will do this because we know that consumers and businesses are the drivers of the Canadian economy.

I thank the committee for inviting me here today. I will be pleased to respond to your questions, but first I invite my colleagues from BMO to make their presentation.

•(1115)

Mr. Steve Murphy (Senior Vice President, Atlantic Division, BMO Bank of Montreal): Thank you, Mr. Chairman.

We're pleased to have the opportunity to appear before you to discuss our activities in the Atlantic lobster fishery. I'm joined this morning by my colleague Paul Seipp, who is BMO's commercial area manager for Nova Scotia.

I am extremely proud of how our team has been working to serve customers in Atlantic Canada. On the commercial banking side, more than one in four businesses in the region have chosen to do business with BMO Bank of Montreal, and our market share continues to grow. We intend to continue that growth and reach the number one position.

We bring a strong commitment to our customers throughout Atlantic Canada, including those involved in the lobster industry and the wider fisheries industry. In fact, for loan authorizations under \$5 million, BMO has provided \$142 million to businesses in the saltwater fishing industry in Atlantic Canada. That's 35% of the market among banks.

As all of you know, the Atlantic lobster fishery has been hit hard. The economic downturn has led to falling demand, particularly in the important U.S. market. The result has been a collapse in prices to a 20-year low of below \$3 a pound. No wonder Leonard LeBlanc of the Gulf Nova Scotia Fishermen's Coalition has said that the current price for lobster has made it cheaper than lunch meat.

BMO is committed to standing by our customers both in good times and in difficult ones, and we are committed to standing behind them now. Across the region, we have very seasoned bankers who know their customers well. Many of our employees live and work in the community and have seen first-hand the effect the current downturn in the lobster fishery is having on neighbours, friends, and family. We understand what they are going through.

When it comes to lobster fishers, we accept most requests for loans, and we are sticking with our clients when it's time for loan renewals. Our bankers are armed with high discretionary limits, which ensures that lending decisions are made by those bankers right in those communities—bankers like commercial account manager Rob MacLeod, who takes regular trips with his clients out to drop pots on the opening day of lobster season. Our message to our customers is this: come in and see us for a conversation about your financial situation so we can help you through this difficult time.

By the way, Mr. Chairman, for the benefit of my fellow bankers here today, we're delighted to see their customers too.

Voices: Oh, oh!

Mr. Steve Murphy: In fact, I'm happy to share with you something we have been doing for some time to help our customers manage in the downturn, including those in the lobster fishery. We are working with our customers to see what kinds of arrangements can be made to get them through, including deferral on loan or mortgage payments and special accommodations for commercial customers on a case-by-case basis. As I said, we stand behind our customers in their time of need.

Mr. Chairman, I want to assure you and your colleagues on the committee of our commitment to continue supporting the lobster industry and the fishery in general. I want to voice our support for efforts to provide direct assistance to those affected by the current difficulties, such as those announced by the federal government yesterday, but I also call on all Canadians to stand behind our lobster fishers by buying more lobster this summer.

I encourage everyone to bring more lobster home, invite your neighbours, and enjoy one of Atlantic Canada's real treasures in your own backyard. You'll be having a treat and helping out your fellow Canadians at the same time.

Thank you very much.

Mr. Peter Conrod (Regional Vice-President, Commercial Financial Services, Atlantic Region, RBC Royal Bank): Good morning, ladies and gentlemen. Thank you for allowing Royal Bank of Canada to contribute to the discussion on the lobster fishery and access to credit. My name is Peter Conrod, and I've been an executive officer with Royal Bank for six years. As regional vice-president of commercial financial services in the Atlantic region, I hold responsibility for our commercial business in Atlantic Canada and lead a team of 114 people dedicated to serving our commercial business clients.

Roughly 31% of commercial businesses in Atlantic Canada would consider RBC to be their primary banker, and RBC holds the lead market share in both business loans and business deposits. Recent numbers indicate we have \$202 million in authorized business loans to the fishing industry, with outstanding loans totalling \$111 million. Sixty-six per cent of our fishery loan portfolio is extended to processors and wholesalers, with 23% being provided to our harvester clients. The remaining 11% of the portfolio is extended to the finfish segment. Of the \$202 million in authorized business loans, approximately 89% is to the shellfish segment, with most of that to the lobster sector.

As it pertains to your area of interest, RBC has been active in providing financial support to the lobster fishery by way of term loans to the lobster fishers to finance the purchase of both vessels and licences. We provide term loans to the lobster fisher to finance equipment purchases, and provide operating loans, term loans, and foreign exchange facilities to lobster pound operators.

Of most interest to this committee may be our support to the lobster fishers. Roughly six years ago we designed a term lending program to support the purchase of a vessel and a licence. The program provides up to 75% financing of both the vessel and the licence, with the vessel loan being structured to be repaid over 10 years and the licence loan over five years. In effect, given the typical split, this provides roughly seven years' financing of the combined assets.

This is purposely done over seven years, as we knew from our years of experience in the industry that there would be challenging years for our lobster fishers, and this structure allowed us to waive principal payments in those years when they were cashflow challenged. This past winter we saw another of those challenging years in which prices at the wharf were low and demand for the product in the United States and Europe was soft. We reached out to have one-on-one conversations with our clients, and where they were cashflow challenged, we offered to waive the semi-annual principal payment typically due on the loan: approximately 25% of our clients took us up on that offer.

The same offer is being made to our clients this month, as our loan structures typically have a second principal payment due the end of June. It's too early to determine how many of our clients may take us up on our offer to waive the principal payments this month.

Our fishing industry clients are typically served by RBC commercial account managers who work and live in the same communities where our clients live, such as Barrington Passage, West Pubnico, Yarmouth, Church Point, and Digby.

In summary, Royal Bank of Canada has been an active supplier of debt capital to the lobster fishery, and we will continue to serve this segment well. Our lending policies remain unchanged over the past six years, despite today's very challenging times, and we are open for business to support industry participants who are not clients of RBC today.

Thank you.

• (1120)

The Chair: Thank you very much, gentlemen.

Mr. Andrews.

Mr. Scott Andrews (Avalon, Lib.): Thank you so much for coming in.

Thank you, Mr. Chair. I'm going to share my time with my colleague Scott.

On the end there, you just hit at something that I was going to ask, so I'll probably start with that and I'll put the question to both Steve and Craig.

You said your lending policies have not changed over the last six years. Is that across the board for the other institutions as well?

Mr. Steve Murphy: Yes, it is. Ours are the same, as they have been, and today our support to the industry is what it was five years ago.

Mr. Craig Thompson (Area Vice-President, Atlantic Commercial Banking, Bank of Nova Scotia): That would be true with Scotiabank as well. There has been no change in policy.

Mr. Scott Andrews: Okay, because the perception out there on the ground and what we heard—and I want you to react to this—is that it has changed, that something has changed in the banking system. Fishermen have not been able to get access to the credit, as they used to be able to. Why would that perception be there if your policies have not changed?

Mr. Peter Conrod: I would suggest that some of the comments might relate to some of the challenges they've had from a cashflow

perspective. If a fisher was looking to acquire a new licence and acquire a new boat, that might have some impact on it. I can assure you our policies haven't changed, so to the extent that five years ago, if somebody wanted to purchase a vessel and licence, we would lend 75% over those repayment terms, those would still be the terms and conditions today.

Mr. Craig Thompson: And that would be true with Scotiabank as well. What we have seen is a bit of a drop in demand for financing in the last little while, which was no doubt in response to the fact that prices are down and people are concerned about the viability of the industry. The credit opportunities we've been presented with, we have approved. So again, to echo Peter's comments, credit that would have been approved last year, prior to the drop in prices, is being approved now, but what we have seen is a bit of a drop in the demand for credit.

Mr. Steve Murphy: That would be same situation for us too.

Mr. Scott Andrews: I have one other question.

Another issue for some of the bigger operators is getting the capital needed at the beginning of the season to get through the season. Has that also changed for them, for their getting access to capital?

• (1125)

Mr. Peter Conrod: From my perspective, it hasn't. I think this past winter we saw a number of the lobster pounders cautious about purchasing as much volume as they typically would have because of concerns around where the price might be in international markets and where exchange rates might be. So I think some of the lobster pounders were cautious around purchasing, and that had some impact on the lobster fishers, but in terms of accessing capital from us, there was no change.

Mr. Craig Thompson: Scott, are you speaking of the fishermen having difficulty accessing capital or the processors?

Mr. Scott Andrews: The fishermen. That was my first part.

Mr. Craig Thompson: Yes, and I think, again, what we're being told and what we're seeing is that a lot of the processing clients are holding excess inventory from last year at higher prices. So there may not have been as much demand for product, as it was being caught this year as well.

Mr. Steve Murphy: Typically, the fishers would have been operating a line of credit available to start their season, and that has continued to be the case.

Mr. Scott Andrews: Okay. I have one other question before I hand it over to Scott.

If your policies haven't changed and they haven't been working in the good times, don't you think that now that we're in the bad times, it's an indication that maybe your policies should change?

Mr. Steve Murphy: I'll take that one.

The policies we're looking at right now would be ones of flexibility. For instance, one of the messages we are giving to our customers is that if there is a situation where cashflow is challenged from the perspective of price declines, we would be very proactive in reaching out and letting our customers know that if an alternate arrangement is required, we are very much interested in participating in that.

The key is to have good conversations with our customers and to reach out proactively, to check in, to know what's going on in the industry, and to have visibility with our customers. And that's what we've been doing, more so this year than in any time previous.

Mr. Scott Andrews: Scott.

Mr. Scott Simms (Bonavista—Gander—Grand Falls—Windsor, Lib.): Just on that alone, I want to talk about the financing option.

To the RBC, you talked about a seven-year average. So you're looking at a 10-year financing for a vessel, five years for the licence. Now, the five years for the licence seems to be a pretty short timeframe. It was in October 2008 that you had the decision, which involved you, of course, *Saulnier v. Royal Bank*. So then you have a legitimate piece of property, or at least under the law. The Supreme Court says you're looking at it, so even though it's common property you're still looking at something that is legitimate to use.

My question is why the short period of time on the five years?

Mr. Peter Conrod: I think the reason would relate to the fact that a licence is more of an intangible asset. Its value has less certainty at some point in the future than perhaps a boat may have. The *Saulnier* decision, as I understand this, recognized the right of the bank to have an independent trustee in bankruptcy realize on that asset and to sell it and to apply the proceeds to whoever had a registered charge on that.

Many of our loans are to business entities, incorporated entities, and the licences are held by the individuals, and so typically we're taking a personal guarantee just by virtue of the fact that we need to get a charge on the licence. But in the absence of the individual declaring bankruptcy, my understanding is that we have no ability to realize on that asset.

Mr. Scott Simms: So this decision really hasn't changed your policy at all.

Mr. Peter Conrod: Well, it's provided some clarity to the situation, which had largely been untested up until then.

Mr. Scott Simms: But in regard to flexibility now?

Mr. Peter Conrod: The other piece that came out of it, which has been helpful, is that the Department of Fisheries and Oceans has agreed to take note of when there has been a loan granted against a licence and to record that in their records, so that at least for the benefit of any subsequent transfers of licence, they are aware that there is a registered charge.

Mr. Craig Thompson: If I might respond to that as well, part of the difficulty in extending a longer amortization is trying to get comfortable with the value of the licence or the quota. We've had meetings with DFO just as recently as a month ago where we said to them that the banks would be quite happy to lend more, but what we need DFO to help us with is to find the mechanism to value those licences. It can vary from zone to zone, species to species, year to year. So what we're looking for is some assistance in helping us establish what the value is for a licence in some of those zones for the species. If we can get comfortable with that and there's a mechanism in place to allow for that, then we know the banks, I'm sure, will be happy to look at longer amortization.

Mr. Scott Simms: What has the response been from DFO?

Mr. Craig Thompson: The response from DFO was that they were looking at gathering some information and hopefully would get back to the banks with some idea as to what the viability is long term, because they have all kinds of data, so they might be able to help us use that to determine what the value for a licence in a particular zone is.

Mr. Scott Simms: Do you expect that soon?

• (1130)

Mr. Craig Thompson: It's with DFO right now.

Mr. Scott Simms: Thank you for that.

Can I get a comment from BMO?

Mr. Paul Seipp (Commercial Banking Area Manager, Nova Scotia, BMO Bank of Montreal): I'll take an opportunity, Scott, to respond to that.

With respect to BMO's perspective on the financing of the licensing, one of the other areas that we've paid some attention to is the wide range of values of the licensing over a number of years. Using LFA 34 as an example in the Yarmouth-Digby area, over the last three to five years we've seen values anywhere from \$300,000 or \$400,000 through to \$750,000 in terms of the market value. In financing, as Peter mentioned earlier, an intangible asset, we're trying to determine a reasonable period based on cashflow for repayment of the licence loan, recognizing that in this period of time there can be wide fluctuations in the price of licences.

Mr. Scott Simms: So it's not a hard and fast rule for you?

Mr. Paul Seipp: No. It's certainly based on the individual nature of the borrower, the balance sheet that the borrower brings to the bank, and of course the zone or lending area or LFA area that we'd be dealing with.

Mr. Scott Simms: Does anyone else wish to comment on that?

This is something I look at a lot. There's some shipbuilding that takes place in my riding and, of course, financing for the processors and the like. We received a bit of a jolt, we'll say, when the Icelandic banks collapsed, or almost disappeared. Why were they turning to financing of these Icelandic banks and not to you?

Mr. Marion Wrobel: I think the entry of the Icelandic banks into the Canadian market is a reflection of the changes in the Bank Act that occurred in the last round, where the federal government made it easier for foreign institutions, foreign banks, to set up shop in Canada. Previously, they could only set up shop by establishing a separate commercial entity, a subsidiary. Now they are allowed to enter simply as being branches of the bank back in Iceland. So a number of new banks came into Canada. They found it easier, cheaper—

Mr. Scott Simms: Sure, but what made them more attractive?

Mr. Marion Wrobel: It enhanced competition in the marketplace, and as they came in they saw opportunities. They wanted to get some market share, and they did what they had to do to get market share.

I think we think it's a good thing that the government opened up the doors to easier entry by foreign institutions to serve the marketplace.

The Chair: Thank you.

Monsieur Blais.

[*Translation*]

Mr. Raynald Blais (Gaspésie—Îles-de-la-Madeleine, BQ): Thank you very much, Mr. Chairman.

Good morning, gentlemen. I want to thank you for being here. I know it was not easy to get you here today. I will not attempt to explain what happened. We have wanted to speak to you for some time.

I represent the Gaspé and the Magdalen Islands, in Quebec. My questions will therefore be almost exclusively for the representative of the Royal Bank, as the Bank of Montreal has no branches in our maritime communities and the Bank of Nova Scotia has been replaced by the Laurentian Bank. The Caisses populaires Desjardins are much more present in our communities. However, the Royal Bank is present and, in fact, I am a customer. One might say I almost have a conflict of interest.

Mr. Conrod, I would like to better understand the value of the licences and of the quotas. You said that you had a meeting with the Department of Fisheries and Oceans quite recently. Was it at your request or at the request of the department?

[*English*]

Mr. Peter Conrod: I was not in attendance at the meeting, but there were representatives from the Royal Bank. I know Craig and Paul were there, so if you're comfortable, perhaps they could address that.

Mr. Craig Thompson: The minister was not in attendance at the meeting, and the meeting was held at the request of DFO.

[*Translation*]

Mr. Raynald Blais: Was it the first time you were attending this type of meeting?

[*English*]

Mr. Craig Thompson: No, actually, there had been a meeting prior to that in December 2008 also, with representatives of both the federal and provincial governments, specifically to discuss the financial health of the lobster industry in Atlantic Canada.

Mr. Paul Seipp: Similarly, at BMO we've met twice this calendar year with representatives of both the federal and provincial departments.

• (1135)

[*Translation*]

Mr. Raynald Blais: Were there any meetings of this kind before December?

[*English*]

Mr. Paul Seipp: I'll take a shot at that.

Certainly, looking back, during 2008 and late 2007 there were a number of stakeholder sessions held throughout the Atlantic Canadian provinces. Bank of Montreal did have representation at those meetings.

[*Translation*]

Mr. Raynald Blais: I assume that eventually, the fishing licence will end up having a value associated with the quota, that is

associated with the species. In the end, was the objective to quantify the value of the licence?

[*English*]

Mr. Craig Thompson: The objective of the most recent meeting was to discuss access to financing for the industry. As a result of the discussions that were held at that meeting, one of the issues was how to quantify quota. So it came out as a by-product of the discussion and a request from the banks for assistance in terms of how we might be able to value the quota or the licences.

[*Translation*]

Mr. Raynald Blais: When you study a file, there can be all kinds of people, all kinds of situations. It is practically on a case-by-case basis. Is there a significant difference between the processors and the fishers, or are they all on an equal footing? Are there different ways of treating them? I imagine the answer is yes, because processors have inventory, a particular product, facilities and infrastructure. The fisherman has the boat.

Do you do a different analysis of this or does it simply come back to a normal business relationship?

[*English*]

Mr. Peter Conrod: I'll speak to that.

We would view the risk associated with each of those two components of the lobster fishery as different. Typically, most of us would view the pounders or the processors as probably representing somewhat higher risk because they have market price risk. They don't know what they'll be able to sell their product for, but they have already purchased it. They know the cost of goods to be sold, but they don't know the revenue, so therefore they don't know their margin.

They are also subject to foreign exchange risk. We've seen very volatile exchange rates over the past six months. They may have purchased it believing they were going to sell it and convert it at a 78¢ dollar. Today we find ourselves with the dollar around 90¢. So that has created more risk for them as an industry. They recognize that. It's not us telling them that they have more risk; they tend to be cautious. Right now they're stocking up on lobster inventory because they feel comfortable with where the market will be during the summer. But not many held on to a lot of inventory following the new year because of those concerns around market price and exchange rates.

Mr. Paul Seipp: We will see some difference among the different areas of the industry in terms of what their balance sheets look like, where their asset classes are and so forth. So we do treat those a little differently.

The other thing I find is that the bank's requirements for the processors and the harvesters are different. When we talk about the processors, there is often a cash management or a foreign exchange component that gets involved where they need some help. That is an element that typically we don't have to spend as much time or due diligence on with our harvesters.

Mr. Craig Thompson: I would agree with what has been said. I would point out that the risk assessment will also depend greatly on the species that is being processed. A scallop processing operation these days would be viewed to have certainly less risk than lobster because of the stability of the species and the market demand.

[Translation]

Mr. Raynald Blais: I would like to touch on one final aspect with Mr. Wrobel. One small part of your presentation was of particular interest to me, that is when you spoke about access to credit and the cost of credit. You said that traditionally, the banks represent about half of the business credit market and only about a quarter of the total financing market.

I understand that the others are financing companies, but is this changing? Why do you not traditionally have a greater share than you have, because you are very close to maritime communities, in principle?

[English]

Mr. Marion Wrobel: In fact, Mr. Chairman, the market share of the banks in the last six years or so has actually increased a little bit. We have been growing our business credit faster than others in the marketplace. And those others are credit unions, caisses populaires, life insurance companies, unregulated financial institutions, the capital markets in general—the equity markets and the bond markets. We actually have been increasing our market share, particularly over the last couple of years, when other parts of the market have found it difficult to access financing and then do lending.

So in fact, we have not been pulling back; we have been increasing our lending.

• (1140)

The Chair: Thank you.

Mr. Stoffer.

Mr. Peter Stoffer (Sackville—Eastern Shore, NDP): Thank you, Mr. Chairman. I apologize for being late this morning.

And thank you very much to our presenters for coming today.

What is the total percentage of your business that deals with the fishing industry—including aquaculture, processors, harvesters, and individuals? How much does the industry play in your business realm?

Mr. Peter Conrod: I could certainly get you that specific data. My guess would be that somewhere between 5% to 6% of our loan portfolio would be related to the fishery.

Mr. Peter Stoffer: Does that include the west coast, central Canada, the east coast—all across the country?

Mr. Peter Conrod: No, I'm speaking just on behalf of Atlantic Canada. I don't have those numbers. But I can get them for you, if it's important.

Mr. Peter Stoffer: Second, you're aware of what a trust agreement is?

Mr. Peter Conrod: Yes.

Mr. Peter Stoffer: You hear this when you're on the dock. If buddy wants to go out and get a loan for a boat and a licence, he

can't get it. So he goes to a processor, someone with deep pockets. That person is able to go and get the loan because they have other assets. Does your association look more favourably on someone with a bunch of other assets than someone who doesn't?

I'll use the example of a guy who once told me this down at Yarmouth. He's 25 years old. He wants to buy a boat worth about \$50,000, with all the gear and everything. The licence is about \$350,000. So you're looking at a \$400,000 option. He walked into a bank just basically with the clothes on his back. He tried every institution he could, and he couldn't get a loan. He went to a fellow who had deep pockets and was able to get what he needed.

I'm wondering where this guy would have got the money, the guy he went to, who now holds the trust. Where would he get the money to do that? Obviously he would have to go to a financial institution to borrow those funds. His concern was that it was easier for the other fellow to get the money than it was for him. Is that a fair perception?

Mr. Peter Conrod: I'll take a stab at that.

I would say that wouldn't be widespread. You reference the fact that he was 25 years old. Typically, we would be looking at his experience as a captain. If he had very limited experience as a captain and was mainly just a boat hand, then obviously that would represent a riskier venture for us. If he had no money to contribute to it, if he was seeking 100% financing, then that would represent a riskier proposition for us.

That being said, if he was 25 years old and did have good experience, I fully expect our bank would be supportive of that under our existing loan policy. We're a large bank. We have lots of business loans outstanding. By virtue of having a big portfolio, you can afford to take on some people you think will be successful in the future, even though the risk may be a little bit higher at the start.

The issue is that if we finance 75%, where does the down payment of 25% come from? Historically, sometimes other industry participants or the vendor of the licence have provided that. My understanding is that under the new trust regulations, that's no longer permitted because it's considered a new trust arrangement. So that may have had some impact.

But I'll open it up to my counterparts here.

Mr. Craig Thompson: Yes, I would agree with that.

In terms of the scenario of the young person coming in looking for 100% financing and encountering some difficulty, the bank lends using a variety of criteria. As Peter mentioned, experience in the industry, some equity, and some support in terms of perhaps sponsor support from a guarantor would all be factors taken into account. But somebody coming in with no experience and looking for 100% financing would encounter some difficulty in getting financing, whether it was in the lobster industry or anything else.

Mr. Paul Seipp: I just have one addition to make.

Certainly, in looking at past scenarios of who we've considered for that 100% financing or a new fisher to the market, an option would be off-balance-sheet security, if that's available. In the scenarios that I've seen that look similar to this one, we do put a lot of weight on whether this person can bring to the bank a character reference, someone we would know who will vouch for him, who will indicate that he is capable of doing what he feels he can do with the licence. Then further to that, there may be an option, by way of the buyers or otherwise, to offer some sort of financial support into that transaction. But that's not necessarily a requirement; it's something we look at on a case-by-case basis.

• (1145)

Mr. Peter Stoffer: In the media a while back, Mr. MacDonald of Clearwater indicated, in a reference from a media point, the fact that they deal with the Icelandic banks because they have a much better knowledge of the fishing industry than their own domestic banks. Is that a fair assessment?

Mr. Steve Murphy: We just recently took a position where the Icelandic bank went into receivership on a well-known publicly traded company in Nova Scotia, to the tune of \$40 million, and our due diligence on that I think was very well received. Similarly, we've been looking at other opportunities throughout Atlantic Canada where an opening has been created because of the departure of the Icelandic banks. We have been successful in working either independently or with other banks, BDC, or EDC to put a structure in place that's satisfactory.

The Chair: Thank you very much.

Mr. Calkins.

Mr. Blaine Calkins (Wetaskiwin, CPC): Thank you, Mr. Chair.

I want to start off by saying thank you very much to the witnesses for coming here today and thank you for the excellent work you do.

The reality on the ground right now is that we are in a global economic recession. The IMF, the OECD, and other organizations have constantly praised Canada and its lending institutions for the excellent position that our country is in. That's due in large part to the regulations, obviously, but it's also due in large part to the fact that the banking institutions in our country take reasonable and responsible risks, not only in providing credit but also in providing a stable environment for our ability to conduct business in Canada.

I just wanted to let you know that we're not here on a witch hunt. We're not here to try to scapegoat anybody. From our perspective—at least from my perspective—we simply want to know. When we hear about incidents or anecdotal stories on the ground, it leads to some larger questions. I'll start off with that.

You say the lending policy has not changed, that it's 75%-25%, with 25% down and 75% lending. But I would expect—and I think it's a reasonable expectation for most Canadians—that while the 25% down payment might one of the qualifications, during a time when there is an economic downturn and so on the other bars may have crept up a little insofar as making a determination as to who is risk-worthy and who is not risk-worthy. Would that be a fair comment?

Mr. Peter Conrod: I'd like to comment.

Some of my clients are certainly more challenged today than they were before. Our risk rating for the industry remains unchanged, but certainly some of our clients are more challenged, so we're working more closely with them than we would have in the past.

Mr. Blaine Calkins: Does anybody else want to comment?

Mr. Craig Thompson: I would agree with that.

Mr. Blaine Calkins: I have one more question, Mr. Chair, and then I'll turn it over to Mr. Allen, who I think has some questions.

From my perspective, we understand that there are challenges in the industry. We clearly get that, and I want to congratulate BMO particularly. And Mr. Conrod, I think you've spoken eloquently on behalf of the Royal Bank, as well as providing the flexibility for fishermen. I know that the same thing happens for farmers out in Alberta, where I'm from, and it certainly is appreciated.

But from an overall policy perspective, we've heard two concerns. When I'm talking about policy, I'm talking about government policy. I heard you say that one of the issues the bank has is putting evaluation or a mechanism in place to determine the value of a licence so that it provides some groundwork, obviously, to go forward from a lending perspective. Also, obviously there's a wide range of licence values, depending upon location. Those are two things that I think are going to be very beneficial for the committee to hear about.

From another perspective, for example, we've recently announced billions of dollars to go into EDC and BDC to backstop and to broaden loan portfolios. What other policy directives could we do as a government and could the Department of Fisheries and Oceans engage in that would make the industry seem more creditworthy in the eyes of financial institutions? Is there anything else other than those two things that you've identified so far?

Mr. Marion Wrobel: Let me answer that by talking about the things the industry has been doing with the government, both individually and collectively, through the CBA. The government announced a number of extraordinary financing frameworks in the previous budget, including the BCAP. We've been working within the CBA with our members, the Department of Finance, and the crown financials to understand how they want us to report our initiatives, how we are working with the various crown corporations, and how we report those initiatives to the government for its own quarterly reporting.

When it comes to policies with respect to the fisheries, or economic policies in general, our members work within the existing environment. It's up to Parliament and the government to initiate those policies. Within that framework and environment, we work with our members. Our banks work with their customers to make sure they have access to the best possible credit. In more specific instances, like policies related to the fishery, it's up those participants and stakeholders who understand the industry to make the suggestions on what the policy should be like. We will work within the framework that Parliament makes available to us.

• (1150)

Mr. Mike Allen (Tobique—Mactaquac, CPC): Thank you, Mr. Chair.

I want to ask three questions in three different areas: trends, risk assessment, and the arrangements you're making with the fishers now.

BMO said it has \$142 million out there and RBC has \$202 million. That's 5% to 6%. Can you tell me what the trend has been over the last six years? How has that number changed, gone up or gone down, over the last six years?

The second question is on risk assessment. You're on a 4.16 average now, as opposed to 5.75 in December 2008. How does that compare? How does that spread compare with the prime at those two points in time? I'm hearing from the forest industry that institutions will make them loans but that their risk premiums have gone up. A lot of people are concerned that you're willing to lend, but the risk profile is rising.

The third question has to do with the perception of local decision-making. You talked about bankers being armed with discretionary limits. RBC said the same thing—that lending decisions are made by bankers right in those communities. How do you counter the perception that those people will go into the local communities but that all the decisions are made in Toronto, Halifax, or the regional office, and they are just a small fish in a big pond?

Mr. Marion Wrobel: I'll answer the second question and leave it to my colleagues to answer the first and third.

Let's look at the cost of credit and that cost in relation to the Bank of Canada benchmark. The Bank of Canada benchmark, since its peak in the fall of 2007, has fallen by 425 basis points. Bank prime has fallen by 400 basis points. It's about 95% of that. That's a very close correlation. Any borrower with a fixed prime-plus contract, or in some cases a prime-minus contract, has seen a 400% basis point reduction in his loans. There have been some readjustment in some instances.

As the financial markets are starting to work a little better, we've moved into a fairly serious recession. Loan losses and loan loss provisions have gone up. In some cases, loans that were prime plus 1% are now prime plus 2% or 3%. On balance, the cost of credit to businesses has fallen. It has not fallen in all cases by 425 basis points, because in many instances it's more expensive for financial institutions to raise capital funds. In some cases, the cost of raising funds has not fallen as rapidly as the Bank of Canada benchmark. But I think when you take into account all of those factors, on average, the cost of lending to the business community has gone down.

Mr. Peter Conrod: Perhaps, Mr. Chair, I'll take a moment to address the three issues.

In terms of the trend in the fishing industry, the demand for credit in the fishing industry has been slower than the demand for credit in other industries. My business loans are up 9.7% year over year. Our growth in our fishing industry exposure would be less, but that would primarily reflect demand.

The second issue is with respect to the credit approval. We have a lending limit in Atlantic Canada of \$7.5 million, so it's only credits above that amount that would go into Toronto. As you can appreciate, that deals with probably 98% of people in the industry who fit into the commercial market segment. My account managers

typically have a 15% discretion on whatever has been approved, so it means that if we had a \$2 million credit approved, my account manager on the ground could grant another \$300,000 in credit, on his own decision.

The industry risk rating is only about 10% of the overall risk assessment that we do, so we rely very heavily on our people on the ground to testify to the quality of the fisher person or the person in the industry and their experience. We rely heavily on that, because that's our most unbiased source of information.

• (1155)

Mr. Mike Allen: For instance, the \$2 million original credit, where would that original credit approval come from?

Mr. Peter Conrod: Halifax.

Mr. Steve Murphy: Mr. Chairman, in terms of trends, I would say that over the last year we have had three or four substantial financings that we've done to the fishing industry. So by extension, our exposures actually to the industry have been going up as a result of those financings, and as a portion of our business outstanding.

In terms of decision-making, we have within Atlantic Canada a decision authority up to \$20 million, which covers 99% of the opportunities we would have. The base for those decisions would be in Halifax with senior on-the-ground leaders in all of our major centres, such as Fredericton, St. John's, Saint John, Charlottetown, and what have you.

In terms of risk in pricing, what we're finding is that we're working well with our customers. The one informative benchmark we use is our customer satisfaction ratings, simply to see how we are doing in this particular economy. They've actually been going up, so we're very pleased to see that as well.

The Chair: Thank you very much.

Gentlemen, I'd like to thank you today for coming. Once again on behalf of the committee, thank you for taking time out of your very busy schedules to come and meet with the committee and answer some questions the committee has had. We really do appreciate it.

We'll take a five-minute break as we prepare for our next witnesses.

• (1155)

(Pause)

• (1200)

The Chair: We'll call this meeting back to order.

I'd like to welcome Ms. Métivier, who is with us today.

Ms. Métivier, I don't know if you were here earlier when I discussed the timeframes. You'll hear a beeping noise from the front here. There are certain timeframes we try to adhere to for questions, answers, and presentations. We generally allow 10 minutes for a presentation. So if you hear a beeping noise up here, that's the alarm going off. I'll ask you to maybe start to wrap up at that point.

Thank you very much, once again, for joining us here this morning. I'll turn the floor over to you for any comments you'd like to make to the committee.

•(1205)

Mrs. Edmée Métivier (Executive Vice President, Financing and Consulting, Business Development Bank of Canada): Thank you very much, Mr. Chairman.

[Translation]

Good afternoon. Thank you for having invited me. I'm very pleased to be here with you today.

I understand that within the context of your study of the Atlantic lobster fishery, you would like to know what the BDC is doing to improve access to financing. I would like to give you an overview of the BDC's activities, including a description of its participation in recent budget initiatives intended to ease access to financing. I will then tell you about the support we are offering to the fishing industry. But first of all, a brief description of the BDC:

We have a staff of 1,800 employees working out of 100 branches across Canada, including 13 offices and 150 employees in the Atlantic provinces. We offer three types of support: financing services, venture capital and consultation. We support 28,000 entrepreneurs. These clients carry out their activities in all sectors of the economy, including the fishery.

With approximately 3% of the term financing market, BDC is relatively small. Our network of branches is modest in comparison with the roughly 6,000 branches of the 6 big Canadian banks, but our 600 account managers are in direct contact with thousands of entrepreneurs every month. These conversations give us a good idea of what is happening in the market.

Currently, we can see two forces at work. The first is the recession. Many entrepreneurs are reluctant to launch new projects. They are waiting to have a better appreciation of what is in store. We see that the number of entrepreneurs seeking project financing is, as a result, lower than usual.

The second force is the tightening of credit conditions. This situation is the result of three factors: (1) the withdrawal of certain foreign banks and unregulated financial institutions because of the sharp decline in the securitization market; (2) a difficult bond market; and (3) the difficulty, for financial institutions, of giving out loans in a climate of economic uncertainty.

[English]

For those entrepreneurs who are seeking credit, what does that mean? If he or she has a long-standing business relationship with the Canadian banks or credit unions, they are less at risk. If they are operating in a sector that is strongly affected by the recession, they are at greater risk. Their risk rises again if they have lost their financial partner and are trying to establish a relationship with a new financial institution. For Canadian banks, the exit of foreign non-regulated peers means that we are straining to meet new significant demand. This is certainly the case at BDC. New increased demand has caused our portfolio to grow more than anticipated. Also more mid-size companies are approaching us, and transactions over \$5 million have increased 50% year over year.

The recent budget had two initiatives to improve business access to credit, the business credit availability program, the BCAP, and the

Canadian secured credit facility, the CSCF. Both are on track. I'll start with BCAP and then turn to the CSCF.

BCAP is a program in which BDC, Export Development Canada, and private sector banks are participating to help ensure that at least \$5 billion in loans and credit support is made available to creditworthy businesses whose access to credit would have been restricted otherwise. It is best understood as an enhanced cooperation between private sector financial institutions and BDC, to refer creditworthy clients when there is a desire to share in the risk. Thus far, BCAP has five components.

The first one is the working capital support. BDC provides either partially secured or unsecured working capital to Canadian businesses so they can sustain their operations. In general, these businesses targeted by this program carry out too much risk for most banks. At the time of the transaction, BDC will have to make a judgment call as to the ability of the business to succeed even if it is having temporary difficulties. This part of the program will end in 2012.

The second component is referrals. Other financial institutions direct clients to BDC when they want to share risk with us. In some cases we share the term loan *pari passu*, half and half. At other times, the financial institution will retain the operating facility and we will take the term loan.

The third component is syndication. BDC participates in financing syndicates with others, by invitation from other financial institutions, usually to replace departing players.

The fourth component is the purchase of commercial mortgages. BDC buys a 50% share in small bundles of commercial mortgages. Our goal in doing so is to liberate capital so the other financial institution can then put it back in the market.

Finally but not least is refinancing. BDC acts as a buffer to replace departing foreign players that have exited or are exiting the market, leaving good companies without proper financial support.

We have completed all the work related to the creation of a new operating line of credit guarantee, which I understand has been of interest to your constituents. It gives financial institutions the means to guarantee an incremental portion of their clients' operating line of credit. We, BDC, provide the guarantee to the financial institution that holds the client account and act as the behind-the-scene partner throughout the process. So businesses interested in the operating line of credit guarantee should request it directly from their financial institution, which will in turn contact us.

The new BCAP collaboration is working very well. Entrepreneurs are getting more opportunities to make their case, potential deals are being referred, and businesses are benefiting in general. You may recall that in November 2008 the government announced a \$350 million capital injection for BDC. We have received and already put to good use \$250 million of this via our regular services and the BCAP. We recently received the other \$100 million, which is to support the new line of credit guarantees. We will therefore be ready to proceed as soon as the final agreements with financial institutions are signed.

•(1210)

Through BCAP, we at BDC have provided more than \$600 million in new financing to Canadian businesses since February. If we add to this financing the regular financing we provide as part of our usual business, this rises to almost \$1.1 billion.

Secondly, the new budget created the Canadian secured credit facility, CSCF, to provide liquidity to the equipment, vehicle loan, and lease financing market. It has an allocation of up to \$12 billion to purchase term asset-backed securities. Its primary objective is to stimulate economic activity by supporting sales and leases of cars and equipment in Canada. The CSCF is now up and running. We have already allocated in excess of \$10 billion through two rounds of allocations to two distinct groups.

Allow me now to turn to BDC's involvement in the fishery sector, which we know is experiencing challenging times. We fully understand these challenges. We support the fishing industry across Canada. We currently have \$160 million of our portfolio in support of fishermen, fish processors, wholesalers, and retailers. And this does not include the last 90 days of credit approval.

Those of you from Newfoundland will recall how our support grew after the mid-nineties cod moratorium, which saw several financial institutions reduce their presence. We are committed to continuing our support and are looking at various ways of doing so. Following the Saulnier decision of the Supreme Court of Canada, we are reviewing the value we attribute to licences and are meeting with DFO officials.

I would like to conclude now with two fundamental points, if you will allow me, Mr. Chairman.

First, it is essential to remember that BDC is an instrument of public policy and has a very specific mandate. The BDC Act requires us to limit our support to projects in which the person—the entrepreneur—is engaged, or is about to engage, in an enterprise in Canada. Second, the entrepreneur must have a continuing commitment to the business. And third, the enterprise must have a reasonable chance of success. That is the law for BDC.

While we limit our support to viable projects proposed by creditworthy businesses, we do take a greater degree of risk than private sector banks. And we price for that risk to protect our capital base, which is public money. We ceased to be a lender of last resort in 1995. We cannot support failing businesses, and we do not offer grants and subsidies.

The second essential point to remember about BDC is that its sole mandate is to promote entrepreneurship, that we actually exist to support entrepreneurs. We give every entrepreneur who approaches

us a fair hearing and an opportunity to make his or her case. This, of course, includes entrepreneurs in the fishery sector.

I thank you very much for listening to me today, and I am open for questions, Mr. Chairman.

•(1215)

The Chair: Thank you very much.

Mr. Andrews.

Mr. Scott Andrews: Thank you, Mr. Chair.

And thank you for coming in today.

You talked about budget 2009 and the increase of \$1.5 billion to BDC. You said you had \$600 million of that out there now. Is that correct? Did I hear you correctly on that?

Mrs. Edmée Métivier: Yes, it is.

Mr. Scott Andrews: Okay. How much of that is in the fishery sector?

Mrs. Edmée Métivier: Our portfolio in the fishery sector at the moment is \$160 million.

Mr. Scott Andrews: How about in the last 90 days?

Mrs. Edmée Métivier: In the last 90 days, we just approved probably about \$20 million, I would say.

Mr. Scott Andrews: So out of the \$600 million, only \$20 million went out in the last—

Mrs. Edmée Métivier: That would be only for the last transactions in the last 90 days, yes.

Mr. Scott Andrews: So \$20 million would represent how many companies?

Mrs. Edmée Métivier: We do have about 400 companies that bank with BDC at the moment in the sector, so that would represent probably an acquisition of between 10 to 15 clients, because our average loan size is about \$350,000.

Mr. Scott Andrews: So that would be 10 to 15 clients who access that \$20 million, right?

Mrs. Edmée Métivier: Yes, exactly.

Mr. Scott Andrews: Under the BCAP, you mentioned the five areas. One of them was refinancing, and you related to foreign policies, foreign...?

Mrs. Edmée Métivier: Foreign banks.

Mr. Scott Andrews: Foreign banks. How would the impact on the Icelandic banks have an impact on you, the problems they have? Would companies that normally dealt with them then be able to come to the BDC?

Mrs. Edmée Métivier: Some have. As a matter of fact, there are two ways. When this bank failed, a lot of these companies didn't have alternatives. They either knocked on our door or knocked on the door of a financial institution. In some cases, the financial institutions have come to us to share the risk. I am aware, for instance, of two or three cases that we have looked at in the last 90 days, where we're about to replace the Iceland bank. We did one, actually, in the last 10 days—a financing that was publicly announced. It's a company you would know. We replaced in part—not all of it, but in part, with other financial institutions—the departing banks at the time.

Mr. Scott Andrews: I have one last question, then I'm going to pass it over.

In your beginning, you said you were there when companies have access to credit that is restricted. What did you mean by credit that was restricted but they could come to you for access to that credit? How could one's access be restricted but then you guys would fill in a gap?

Mrs. Edmée Métivier: The BCAP program was a collaborative effort, so instead of a bank declining a transaction—for instance, because they have reached a limit internally, either on the sector or for the borrower—instead of declining access to credit, they would refer it to BDC. That's what I mean by a limited access to credit. In some cases, for instance, a bank could have a limit on a borrower, a limit in the sense that we don't want to exceed \$50 million or \$40 million. This is not really the reality of the smaller transactions. It's more the mid-size companies where you're going to see that. So the bank, instead of declining access to credit, will simply phone BDC and ask us to share this transaction. Then we'll do it 50-50 or we'll take a portion of it. That's how we make it available.

Why it was needed is that BDC has hundreds of branches across Canada. It's relatively small in terms of reach. It doesn't have the same number of branches as financial institutions, so by working in collaboration we were actually trying—and that's what we've been doing—to make sure that access to credit continues to be there.

On the \$600 million that we did under BCAP, in a recession the activity of BDC would diminish, decrease, because normally the entrepreneurs are not likely to make new projects. They'll wait until the time is better for them. It's just the economy of the project. What we've experienced in this recession is an increase in our activity, which is counterintuitive. Why? Because the marketplace all of a sudden lost many players; they just disappeared, like the Iceland bank.

• (1220)

Mr. Scott Andrews: Thank you.

Mrs. Edmée Métivier: You're very welcome.

Hon. Gerry Byrne (Humber—St. Barbe—Baie Verte, Lib.): Madam, you said the bank currently has a loan portfolio of approximately 400 clients. Is that correct?

Mrs. Edmée Métivier: The BDC. I think the exact number is probably about 380.

Hon. Gerry Byrne: Okay, 380, but there are about 26,000 fishermen in Atlantic Canada, incorporated or non-incorporated enterprises, so in other words, the BDC has a very small footprint in terms of the fishery itself.

You mentioned co-writing lines of credit. You mentioned earlier about how a private sector lending institution may indeed want to provide a line of credit, but the risk, of course, has been increasing. So what would be the footprint of the BDC in that regard?

Mrs. Edmée Métivier: Prior to the recession, BDC had never actually offered an operating line of credit. We are not in that business. We are in the business of financing projects, and the projects are normally the purchase of fixed assets or the expansion of a market, or if you want to develop a new product, we provide term financing, which is normally for three years up to about 30 years. So we're a long-term lender.

This recession is different from the previous recession, because normally the operating facility was well covered by financial institutions, including the foreign banks and including the non-regulated players. Now some of them have completely gone out of our market in Canada. So the banks and financial institutions have been attempting to fill the market gap but, quite frankly, will not fill the whole market gap. So BDC was asked to provide a guarantee on an operating facility to facilitate the maintenance of an operating facility or in some cases the increase of operating facilities. But normally we're not a player in an operating facility.

Hon. Gerry Byrne: What would be the numbers, then?

Mrs. Edmée Métivier: For operating facilities, the guarantee is about to be launched as soon as it is announced by the Canadian government. So it's just about to be put in place.

Hon. Gerry Byrne: Are you anticipating...? Obviously you've crunched the numbers—

• (1225)

Mrs. Edmée Métivier: Yes, we're anticipating about \$300 million over a period of 18 months.

Hon. Gerry Byrne: Do you have any idea how many clients that would represent in terms of small transactions?

Mrs. Edmée Métivier: In small transactions, that would be 350 to 400 average probably, so I would say that's just about \$300 million over that.

Hon. Gerry Byrne: That's actually quite relevant. Right now, the BDC is a significant player probably—I don't know for sure—in the larger loan portfolio, mostly to the processors, I would imagine, or to larger offshore vessel owners. But the inshore—and we're examining the lobster fishery here—is made up of a group of 10,000 fishermen who have enterprises that probably would draw upon lines of credit of anywhere from \$25,000 to \$100,000 to \$150,000.

What we're seeing and what I'm hearing is that the BDC has not been a player in that. And I'm not blaming, I'm just trying to state a fact.

Mrs. Edmée Métivier: It has not been in the operating facility, you're quite right. But we have actually some of these processors as well as fishermen as clients for the long term, there's no doubt.

Hon. Gerry Byrne: Yes, there are about 380 of them in total—

Mrs. Edmée Métivier: Exactly.

Hon. Gerry Byrne: — out of a pretty large field.

Mrs. Edmée Métivier: I think what I could suggest to you is that probably a certain number of these that you're looking at could benefit from having the operating line of credit guarantee when it is available.

Hon. Gerry Byrne: Based on your knowledge of public policy and the overall assistance to financial markets provided by the Government of Canada, what has been available for the last six months or so? What improvements have been made that fishermen, that enterprise owners could actually tap into, say in the month of April or May when they really need it? We've heard expressions that there has been increased access to capital. The evidence doesn't seem to point in that direction, though, when you look at BDC only having a loan portfolio of 380 in the fishing industry as well as the fact that it has does not provided access to lines up until now or soon to be—

Ms. Edmée Métivier: Exactly.

Hon. Berry Byrne: What other things have been available to small enterprises that are going through a rough time?

Mrs. Edmée Métivier: I think there are two things. The ones who are really in dire need at the moment are the ones who didn't have a relationship with a financial institution.

Allow me to be transparent here. The second piece is that some of these players had difficulty even before the recession. So one could argue that perhaps their business model wasn't the right one even before the recession, so it's even harder for them today to find financing.

There will be a restructuring of the fishery market or the sector. The sector will have to restructure to some degree. There are players who are well positioned, actually, to take advantage of that. These people are able to raise financing today if they have a relationship with the financial institution.

As for BDC, we have the working capital support program, whereby we look at a company and if we feel that company can actually go through this temporary period of difficulty and succeed, we will support them. So they can have term financing, and in some cases for our clients, we've simply given them a non-repayment period of time so that they can preserve their working capital.

The Chair: Thank you very much.

Monsieur Lévesque.

[Translation]

Mr. Yvon Lévesque (Abitibi—Baie-James—Nunavik—Eeyou, BQ): Thank you, Mr. Chairman.

Mrs. Métivier, I do not have many questions to ask you. You were very clear in your explanations, as well as in your answers. However, there is something I am wondering about.

As far as interest rates charged to businesses, is the BDC, the Business Development Bank of Canada, competitive compared to other banks?

Mrs. Edmée Métivier: That is a very good question.

In fact, I would refer you to the Business Development Bank of Canada Act. The BDC must work in a complementary fashion in the marketplace. As a result, if it takes more risks, it also has to charge a

little more. The answer to your question is that we have a slightly higher risk premium than the other financial institutions.

• (1230)

Mr. Yvon Lévesque: About the same as the CDIC.

Mrs. Edmée Métivier: I could not say what the CDIC fee structure is. I am sorry, I do not have that information.

As far as the BDC is concerned, if we compare ourselves to a traditional financial institution, we always charge a little more; it is around 50 basis points and often a little more.

It also depends on the risk we are going to take. You must understand that in some cases, we have no security. Also, we bill as a result of the risk taken by the BDC. In the end, we have to be profitable. The BDC has to have the ability to fund its activities.

Mr. Yvon Lévesque: If ever the Department of Fisheries and Oceans provided, for example, loan guarantees to fishing firms in certain sectors and during certain periods of time, could this improve the interest rate that the BDC might charge its clients?

Mrs. Edmée Métivier: We did so in the past in certain very specific cases. Within the history of the BDC, there have indeed been times when certain departments chose to guarantee part of the risk premium. This is therefore something we could consider.

Mr. Yvon Lévesque: I will ask my colleague if he has any other questions to ask.

Mr. Raynald Blais: Mr. Chairman, I have a supplementary question.

Mrs. Métivier, you speak about the profitability of the Business Development Bank of Canada. What is the rate of return on loans to the fishery sector?

Mrs. Edmée Métivier: I do not have that information at the moment. The portfolio is performing as well as the rest of the bank. We do not have more loans in difficulty than in the remainder of the portfolio. It is more or less the same.

This year, the bank will be publishing its annual report very soon. You will have the opportunity to consult it. Our operations will break even, as you say in English: there will be neither profit nor loss, because last year we had a rather difficult year. Only the profits dealing with financial instruments will be shown. As far as the bank's own operations are concerned, the fraying of the portfolio was rather widespread last year.

Currently, the fishing industry is not the only one experiencing difficulty; so are the automobile and forestry sectors.

Mr. Raynald Blais: You will probably help me explain the situation. I am under the impression that for the fishery sector—or the manufacturing and forestry sectors—the loans that are made are not necessarily higher risk loans than those in other sectors in the economy, like the mining sector, where there are very significant fluctuations.

Mrs. Edmée Métivier: In fact you are right. This is a sector we have always worked with and we will continue to do so. The BDC will not abandon any sector because they are temporarily in difficulty. One-third of our portfolio is invested in the manufacturing sector. And this sector has already been in transition for two years now.

As far as the fishery is concerned, it is the same thing. It is a cyclical sector. We are aware of that and we live with that. We go through good times and bad times alongside our clients. Many of them have been with us for many years.

To answer your question, I would say that it is a cyclical sector with which one needs to have a bit of expertise in order to be a good lender, in the end.

Mr. Raynald Blais: Are your clients mainly processors?

Mrs. Edmée Métivier: There are processors but also fishers. I was looking at these statistics. They show that in the case of fishermen, it is the number of loans that is high, whereas in the case of the processors, it is the amount of money. We're talking about approximately \$82 million.

Mr. Raynald Blais: What kinds of loans are made to fishermen and to what end? Are they for purchases, for repairs?

Mrs. Edmée Métivier: It could be to purchase the building they are in or equipment they need for processing. In the end, the loans serve to purchase whatever they need to work well. We concentrate on the equipment they need in order to manufacture. In this area, loans pertaining to operations given by financial institutions affect operating funds, that is to say the money these people need in order to be able to buy and to produce.

• (1235)

Mr. Raynald Blais: Excuse me, but what you are saying is more applicable to processors. What about fishermen?

Mrs. Edmée Métivier: In the case of fishermen, the applications concern boats, permits, in fact all the resources they need in order to carry out their activities.

Mr. Raynald Blais: For what purposes did fishermen and processors come to see you over the last year? We are talking about a cyclical phenomenon. I would imagine that behaviours differ from one cycle to another.

Mrs. Edmée Métivier: In fact, we have always had clients from the fishing industry. In order to understand the current changes in behaviour, you have to realize that the funding the fishermen and entrepreneurs want is for operating funds. This is what they need. They do not want money for investments: they do not have time to deal with that kind of thing. They just want to survive.

This is why the program we have set up to support the operating funds will help them even more than in the past, in my opinion. That is what we are trying to do.

Mr. Raynald Blais: Thank you.

[English]

The Chair: Thank you very much.

We'll go to Mr. Van Kesteren.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair.

Thank you, Madame Métivier, for appearing before us. We were very pleased and happy to see you before the industry committee. You provided us with much-needed information, and you're doing that again this morning.

Could you tell me—I haven't heard the reason yet—why the Icelandic banks failed?

Mrs. Edmée Métivier: I don't have all the reasons. It's actually a very good question, and I may not have a satisfactory answer for you today. What I suggest is that I get back to you or the committee later on.

I think that at one point they could not raise capital to continue to do what they were doing, or the cost of doing their business became overwhelming. So it was a combination of bad debt and an inability to continue to raise capital that caused them to fail. That has created quite a lot of disruption in the marketplace in Canada, particularly in Atlantic Canada, because they were heavily invested in Atlantic Canada.

Mr. Dave Van Kesteren: You testified earlier that you were a lender of last resort and that the act restricts your involvement and the degree to which you can conduct business. Has the government relaxed some of those rules? I understand, of course, that they have to work within the confines of the law. But have they given you a little bit of flexibility?

Mrs. Edmée Métivier: We have not been a lender of last resort since 1995, simply because it wasn't a viable bank, basically. If you truly want to be a development bank in Canada and help the companies that have the potential to be competitive and succeed, you have to focus on the ones that are well managed and that have a viable business model. That's where you have to focus your attention.

Mr. Dave Van Kesteren: I'm sorry, I said last resort. I should have said the ones that have fallen through the cracks.

Mrs. Edmée Métivier: Yes, the ones that are falling through.

There are two things happening in the marketplace at the moment. When you go through a recession, the weakest point will be the one that will fail. One has to ask the question of which one you want to invest in, the stronger one that will come out of the recession and help the recovery of the country, or the weakest one where you're only going to delay the end result.

That's what BDC tries to do. BDC has sufficient power to be able to exercise its mandate. But banking is an art; it's not a science. It is the art of sitting down with an entrepreneur and looking at all the elements—the marketplace in which they are, the way they have structured and organized their business, their financial strength or not, and the entrepreneur behind it and what the entrepreneur has vested into that business. All of that helps the banker to make a decision.

In the situation at the moment, I would say there are places where, if the government wants to have an intervention and help support companies that are perhaps on the verge of failing.... It's a different approach from that of a development bank; it's grants and subsidies, whereas BDC's role is to stretch itself, which we will, and we are. We took substantial provision for losses last year and we will take substantial provision for losses this year. Having said this, it has to be temporary, and at the end of the day we have to have the sense that the business we're supporting is going to succeed, even if it's high risk.

•(1240)

Mr. Dave Van Kesteren: I want to split my time with my colleagues. I have one last question. You might not have this right at your fingertips, but maybe you can provide this for us.

In relation to the GDP and what that represents in Atlantic Canada, what is the proportion of funds? We want to make sure there is fairness across the board. Is that something you can provide this committee with? What amount of money has been loaned through BDC?

Mrs. Edmée Métivier: I can actually give you an appreciation of what we have in portfolio. We have a portfolio of about \$11 billion. I'm just going to give you a rough estimate, but you can see how it's spread across Canada. The western provinces have \$3 billion, Ontario has \$3 billion, Quebec has \$3 billion, and a little over \$1 billion is in the Atlantic provinces—it's actually \$1.3 billion. That's how our activities are spread across Canada.

In terms of the proportion to GDP, I don't have the data. We could come back to the committee, if you wish.

Mr. Dave Van Kesteren: Thank you.

Mrs. Edmée Métivier: You're welcome.

[*Translation*]

Mr. John Weston (West Vancouver—Sunshine Coast—Sea to Sky Country, CPC): Mrs. Métivier, I believe we are all impressed by your understanding of the issues and by your preparation. We thank you.

I have three questions. I am beginning to understand how the management of BDC works for the first time. Could you send us a copy of today's presentation?

Mrs. Edmée Métivier: Absolutely. I would be pleased to.

Mr. John Weston: Thank you.

Furthermore, I feel—and this is not necessarily the committee's opinion—that one of the biggest problems in this industry is the marketing. Could the BDC possibly do more marketing, in order to inform fishermen and businesses that—

[*English*]

Mrs. Edmée Métivier: That we exist.

[*Translation*]

Mr. John Weston: That's it. Is more needed?

Thirdly, our role is to provide advice to the minister and to the House of Commons. What should we do, in your opinion?

[*English*]

Maybe we'll miss it, unless you tell us.

Mrs. Edmée Métivier: Do you mind if I answer in English? It's easier for me. Banking terms are all in English, unfortunately.

Let's talk about marketing. You are right, BDC is perhaps not as well known as it should be, simply because of our size. If you compare BDC to the size of the financial institutions that were here an hour ago, it's very different. As I said, we have 100 branches; they have 6,000. We can do some publicity, but that's not going to solve it all by itself.

BCAP, in my view, is going to help us much more, because it is forcing financial institutions before they decline a loan, if they feel it is a creditworthy company, to refer the business to BDC. That's helpful. Having relationships with the financial institutions, with other crown corporations, with all of you here in this room, is what we need, so you need to talk about BDC and its role.

We invest every year in marketing and we try to do it across Canada. Having said that, the main goal of BDC and why we're able to sustain ourselves is to give it back to entrepreneurs. The main goal of BDC is to provide financing, consulting and so forth, not necessarily to only do marketing. We try to balance the two.

BDC is starting to be much more known during this recession than before, so that is a good thing for us. It's an opportunity for us at the moment, that we are grasping with all our passion.

Your third question is one that requires a little bit of reflection, because you're basically asking what is in the best interest of the industry. That's what you are asking. What is in the best interest of the industry may not be in the best interest of every player, hence the difficulty we are facing today.

In good times it's easy to get into business. It's easy to start a business and it's easy to make money—or not, but when things are going well, there's lots of money in the marketplace. In a recession, we are going into a contraction. Offers exceed demand today. That is the issue. Therefore, it is going to be painful, and some form of rationalization will have to occur. The difficulty is there, and I think the minister understands this. I had a chance to sit down with her about 30 or 45 days ago, actually, and we had a discussion around that, and I believe she understands this deeply.

An hon. member: Thank you.

Ms. Edmée Métivier: You're very welcome.

•(1245)

The Chair: Thank you very much, Ms. Métivier. We really appreciate your coming in today and taking time out of your very busy schedule to meet with the committee and answer our questions.

Thank you very much.

Mrs. Edmée Métivier: It was my pleasure. Thank you very much.

The Chair: Thank you.

The meeting is adjourned.

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