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Chair

The Honourable Michael Chong

Standing Committee on Industry, Science and Technology

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● (1530)

[*English*]

The Chair (Hon. Michael Chong (Wellington—Halton Hills, CPC)): Good afternoon. Welcome to the 46th meeting of the Standing Committee on Industry, Science and Technology this 25th of November, 2009. We're here pursuant to Standing Order 108(2) for the study of the recent economic performance of small and medium-sized enterprises in Canada.

In front of us today we have six witnesses from four organizations. We have Monsieur Rémillard, who is the Executive Director of Canada's Venture Capital & Private Equity Association. We have Mr. Campbell and Mr. Wrobel from the Canadian Bankers Association. We have Mr. Hayes from GrowthWorks Atlantic Ltd. And finally we have Mr. Halde and Mr. Nycz from the Business Development Bank of Canada.

It's nice to see all of you here.

We'll begin with opening statements of about five to seven minutes from each of the four organizations, beginning with Canada's Venture Capital & Private Equity Association.

Mr. Richard Rémillard (Executive Director, Canada's Venture Capital & Private Equity Association): Thank you very much, Mr. Chair.

Good afternoon, ladies and gentlemen.

[*Translation*]

It is a great pleasure for me to be here with you today. If memory serves me well, this is the first time that we have been invited by the committee to testify. We are very mindful of your interest in our activities.

[*English*]

I'm going to confine my remarks to three broad areas: an introduction to the venture capital industry; some of the challenges the industry is facing, especially as they pertain to small business; and some solutions that have come to our mind.

We're the only national association for venture capital in Canada. We were founded with six funds in 1974, and we have grown to 130 funds, with $75 billion in capital under management. That's considerable growth over a 35-year period.

Venture capital funds invest almost exclusively—over 90%—in high-technology companies. Venture capital is the principal source of financing for the high-tech sectors in Canada, like RIM, Intel, Google, and Microsoft. Our investments are principally in information and communications technologies, life sciences, and, increasingly, clean technology.

Research that we commissioned together with Industry Canada, the BDC, and four provincial governments shows that venture-capital-backed companies tend to be high exporters, high job creators, and high R and D-intensive companies—much higher than the Canadian company average.

Venture capital is facing a perfect storm right now, and the perfect storm is a crisis on several fronts. Investments are down significantly by any measure. Fundraising is down humongously. There are no exits, no initial public offerings for companies, and merger and acquisition activity is incredibly slow. For example, in the third quarter of 2009 the industry raised $1 million in Ontario. That funds half a company for one year.

The consequences of this dire state facing our industry is that there are fewer smaller investments in Canadian SMEs, particularly in the high-tech sectors. Canadian firms get only about a third of what they do south of the border in the United States. Commercialization of all that R and D we invest in as a country is a missed opportunity. We are not creating the jobs that we could and should be creating.

We have a couple of solutions that I'll suggest to the committee.

One, government could set up a substantial fund of funds to help recapitalize the industry. There are some examples in Ontario, Quebec, and Alberta principally.

Two, major international corporations that are awarded government contracts should be encouraged to invest in venture capital funds, in part fulfilment of their offset obligations.

Three, retail investors should also be further encouraged to invest in the venture capital asset class. SR and ED tax credits should be further enhanced. There is one particular section of the Income Tax Act that is preventing foreign capital from coming into the country. It's called section 116, and it is a black mark on Canada's investment record and its ability to attract foreign venture capital. As a result, foreign venture capital numbers are going down in the country.

Lastly, we believe the committee might want to ask the Departments of Finance and Industry whatever happened to recommendation 37 of the Wilson panel. Mr. Wilson headed a panel on competitiveness and reported on it in June 2008. Recommendation 37—and I paraphrase—says that the Ministers of Industry and Finance should put together and release a paper on private venture capital options for consideration.

It's now mid-November and we haven't seen that paper yet. It's probably worthwhile to consider an expert panel on commercialization. We're missing a big opportunity.

Thank you for your time.

● (1535)

The Chair: Thank you very much.

We'll now hear from the Canadian Bankers Association.

[*Translation*]

Mr. Terry Campbell (Vice-President, Policy, Canadian Bankers Association): Good afternoon. My name is Terry Campbell and I am the Vice-President, Policy, for the Canadian Bankers Association. I am joined today by my colleague Marion Wrobel, Director of Market and Regulatory Developments.

We thank the chair and the committee for the opportunity to be here today.

[*English*]

As you may know, the Canadian Bankers Association works on behalf of 50 domestic banks, foreign bank subsidiaries, and foreign bank branches operating in Canada, and on behalf of their more than 263,000 employees. Canadians are justifiably proud of their banks, with their continued strength and stability, at a time when many banks around the world required massive taxpayer bailouts to continue operating and, quite frankly, while many other banks around the world no longer exist.

By contrast, our banks, as a result of being well managed, well regulated, and well capitalized, have not been a burden to taxpayers. In fact, they're continuing to provide financing to both consumers and businesses, including small businesses, through this tough economic period. This is an advantage for Canada as we begin our economic recovery.

On a year over year basis to June 30, 2009, credit authorized to small and medium-sized enterprises, that is the supply of funds by banks, increased by 1.2%, while the amount of credit outstanding, that is the demand for funds by businesses, declined slightly. What this means is that businesses are making sure they have access to credit but are using it only as needed.

The vast majority of bank business customers are small businesses, and banks have continued to work hard to meet their needs. We did a survey of SMEs just last summer, and we found that 89% of respondents felt they had a good credit relationship with their banks, with just 4% who believe they had a poor relationship. Also, 90% of respondents who approached their banks felt that the banks were willing to help them through this tough period, with over 50% noting that banks were very willing to help. Only 5% of bank customers felt that access to credit was their biggest economic challenge.

While the provision of credit to creditworthy businesses remains important, not all SMEs are seeking financing at this time. In fact, our survey found that 68% of owners said they were unlikely to seek additional credit for their businesses in the next six months, likely due in part to decisions to postpone investment and to postpone expansion plans as a result of the recession.

Something that's often overlooked in the question is that banks represent only about one-quarter of the broad business financing market in Canada. A year ago at this time, just as the global financial markets were at their most fragile, Canadian bank lending to businesses accelerated as banks stepped in to fill gaps left as other lenders reduced credit or as other lenders left the marketplace altogether.

Despite the fact that banks stepped in to provide some of the shortfall, they were not able to fill the credit gap completely, and this is where the federal government stepped in. The federal government recognized this in Budget 2009, with the introduction of the business credit availability program, BCAP, which provides at least $5 billion of additional lending to firms with a viable business model. The finance is provided through Export Development Canada and the Business Development Bank of Canada, in cooperation with private sector lenders. Banks are actively engaged with BCAP as part of their efforts to find solutions for creditworthy business clients.

Up to the end of August 2009, the total amount of financing extended under BCAP was approximately $2.7 billion, or almost 6,000 businesses. The vast majority of these businesses, 98% in fact, were small businesses with sales of under $25 million.

It's important to point out that SMEs turn to banks for a variety of business solutions, not just financing. From deposit services to cash management to foreign exchange and succession planning—these types of services—banks work day in and day out to provide advice and to help find solutions for their nearly two million SME clients. In fact, going back to our survey again, when asked about the most important factor in their relationship with banks, an overwhelming majority of 92% of business owners cited having a face-to-face relationship with their banker.

In conclusion, Canada's banks play an essential role in the operation of small and medium-sized businesses and are proud of these positive and long-standing relationships. Our banks remain open for business and are committed to providing credit and a host of other business solutions for SMEs. Banks welcome the opportunity to work with the government and parliamentarians to ensure the continued success of our nation's businesses and to be an instrumental part of Canada's economic recovery.

Thank you for the opportunity, Mr. Chairman.

I look forward to your questions.

● (1540)

The Chair: Thank you, Mr. Campbell.

We'll now hear from Mr. Hayes from GrowthWorks Atlantic Ltd.

Mr. Thomas Hayes (President and Chief Executive Officer, GrowthWorks Atlantic Ltd.): Thank you, Mr. Chair.

I'm pleased to have an opportunity today to address this committee on such an important topic.

My colleague, Richard Rémillard from the CVCA, has provided you with an excellent overview of the state of the venture capital industry in Canada along with several recommendations on how to fix it. In my remarks I will provide you with the perspective of an active venture capital manager who is dealing with these challenges on a daily basis, as we work with our existing portfolio companies to try to help them grow and prosper in this difficult economic climate. I should also mention that for a number of years I owned and operated my own business, which was also a recipient of venture capital.

First, a few words about GrowthWorks. Outside of Quebec and the Solidarity Fund, we are the largest manager of retail venture capital in the country, with total VC assets under management of $750 million. We are national in scope, with offices in Vancouver, Saskatoon, Winnipeg, Ottawa, Toronto, Fredericton, Halifax, and St. John's. We have invested in approximately 300 portfolio companies in the various funds we manage. In recent years we have merged with or taken over the management of the following retail funds: Working Ventures, Capital Alliance, Canadian Science and Technology Growth Fund, First Ontario Fund, Workers Investment Fund, the Ensis Fund, and our most recent acquisition, the Canadian Medical Discoveries Fund.

My specific responsibility at GrowthWorks is to manage the GrowthWorks Atlantic Venture Fund, which focuses entirely on investment opportunities in Atlantic Canada. However my observations and experiences in the Atlantic fund are very consistent with my colleagues who manage the other GrowthWorks funds across Canada.

Before going any further, I should define the term “retail venture capital”, which is also known as labour sponsored venture capital. Unlike institutional funds, which raise their capital from pensions, corporations, or endowment funds, we raise all of our capital from individual retail investors, who are encouraged to do so with the help of federal and provincial tax credits. Since this program was introduced in the 1980s, over a million Canadians have invested over $12 billion in this alternative asset class.

To cut to the chase, l would have to say our number one issue nationally at present is the lack of capital to invest in both existing portfolio companies and in new companies who approach us seeking investment. A close second would have to be the lack of syndicate partners to invest with when we are actively trying to make investments. What l mean by syndicate partners are other VC firms who help us with the due diligence, who share the risk, who help lever the investment dollars we have available. The number of syndicate partners has declined dramatically in recent years for the same reason, lack of capital to invest.

These issues have very serious consequences for the fledgling firms that we already support and for new companies seeking our support. The worst thing that can happen to a VC fund is to run out of capital. It's generally accepted that when we invest in an emerging company, the initial round is just that, the first step on a long road to moving this company through the various stages of growth to success. Follow-on investments in these portfolio companies are almost always a given. If we can't continue to support them with additional capital, two outcomes are obvious: the VC fund itself will get crammed down or diluted, significantly reducing returns to fund shareholders and, more importantly, the investee company itself will eventually run out of cash at a critical juncture in its development and either cease operations or move south of the border to try to access capital there. These are not outcomes anyone in the business wants to experience.

Is there a simple solution to all this? Well, Richard identified a number of initiatives that would certainly address these current challenges, and for simplicity I will focus on one that I think the federal government should consider as it relates to retail VC funds.

When this program of offering tax credits to investors was begun in the early 1980s, the federal tax credit was set at 20% combined with a 20% provincial tax credit. The annual contribution limit was set at about $5,000, the same level as the RSP limit at that time. The program became very popular in the 1990s and significant amounts of capital were raised. So both levels of government scaled back their tax credits to the current level of 15%. The annual contribution amount was not increased and remains at $5,000, even though the RSP limit now is north of $20,000.

● (1545)

Times have certainly changed. As Richard said, there are very few folks left in the business, even fewer who are actively trying to raise new capital, and for those who continue to do so, like GrowthWorks, the amount the industry now raises annually pales in comparison to the 1990s, excluding Quebec. In those days I think we raised about a billion dollars annually and today it's around the $100 million mark.

Can we reverse the fundraising trend for retail venture capital, thereby ensuring significant levels of additional capital becoming available for these new emerging companies who are focused on clean tech, information technology, life sciences, and advanced manufacturing as opposed to sunset industries? We think the answer is yes. And the simplest way of doing this is by modernizing the existing program, by reverting back to a 20% federal tax credit to match a number of provinces who have just done this in recent provincial budgets, and by bringing the annual contribution limit in line with the current RSP contribution limit of $20,000.

If these two measures were put in place for the 2010 RSP season, we are convinced the industry would increase its capital raising immediately and these moneys would flow to emerging companies shortly thereafter, as the infrastructure is already in place to make this happen.

Thank you.

I'm happy to expand on any of these points during the Q and A portion of the session.

[*Translation*]

The Chair: Thank you.

Next, we will hear from the Business Development Bank of Canada.

[*English*]

Mr. Jean-René Halde (President and Chief Executive Officer, Business Development Bank of Canada): Good afternoon, everyone. *Bonjour.*

On behalf of my colleagues at BDC, thanks for the invitation to join you today.

[*Translation*]

Naturally, we are pleased to contribute to your deliberations.

I would like to share with you BDC's observations on the challenges that small and medium-sized business entrepreneurs are facing. I will then share with you what we see in our portfolio of entrepreneur clients across Canada, as well as what they are telling us. To stay focused on the mainstream economy, I will not specifically address the situation of the technology-based businesses in which we invest as part of our venture capital program, but I will be happy to respond to any questions you may have.

[*English*]

Generally, Canada's small business entrepreneurs have shown real resilience over the past months, but they're not out of the woods yet. They're still under stress, and I think the next 12 months will be critical.

BDC provides over $13 billion in financing and venture capital, as well as consulting services, to in excess of 28,000 clients. We seek to build long-term supportive relationships with our clients. We have clients in most sectors of the economy and certainly in all parts of the country. We therefore believe that our portfolio, generally speaking, reflects the financing market for small and medium-sized enterprises, known as SMEs.

Our portfolio has changed since the start of the credit crisis and recession, and that's because in our role as Canada's development bank we have increased our lending to record levels. In the first six months of this fiscal year our lending went up by 54%. A large share of the new lending has flowed from our participation in the federal government's best business credit availability program that Mr. Campbell was talking about, known as BCAP.

Through BCAP, BDC is working with EDC and the private sector financial institutions to improve access to credit. Between February and October we provided $1.9 billion in financing to businesses under BCAP. I want to take this opportunity to acknowledge the fact that this increase in lending was achieved as a result of great cooperation between the financial institutions and ourselves.

We've always accepted more risk than private sector banks, and that's our role. But over the last year we've increased our support for entrepreneurs' high-risk projects. Our volume of high-risk transactions has increased by 60% compared to last year.

When we examine our portfolio for indications of how our clients are doing, we see very concrete signs of the continuing stress I referred to earlier. Let me give you some examples. The delinquency rate—the percentage of clients who've fallen more than one month in arrears—has reached a new peak. The percentage of clients whose files have been downgraded to “impaired”—generally defined as clients who've missed three consecutive payments—rose to its highest point this year in October.

There are other more subtle indications of pressure on businesses. The proportion of loans going to new clients is higher than usual, and I think this can be attributed to the difficulty they're having in obtaining credit elsewhere. Many entrepreneurs shop around when looking for credit. This means that a relatively stable percentage of potential clients—entrepreneurs to whom we have offered loans—say no and cancel their applications, usually because they've found less expensive alternatives. This cancellation rate is now the lowest it's ever been, which indicates to us that entrepreneurs require the close cooperation that we and the private sector financial institutions have fostered during these difficult months.

Let me turn to what our clients are telling us. They talk to us in two ways: through regular conversations with our employees across the country and through regular surveys. Our clients tell us that their top challenges are the general health of the economy and their competitive position in the marketplace.

An important sign of optimism is that three out of every four of our clients have investment plans they're considering moving forward, which is significant. A full 74% plan to make capital investments in the next 18 months, and that is a very hopeful development for the future.

To sum up, we're seeing both negative and positive signals from our clients. On the negative side of the ledger, we're seeing continuing signs of stress in our delinquency rates. We're seeing indications that many businesses have to search to get the credit they need. On the positive side, entrepreneurs are showing growing optimism and strong intentions to invest in their businesses in the coming months.

We at BDC are cautiously hopeful about the speed of the recovery, but we also believe we're coming to a critical juncture. We need to see more entrepreneurs turn their optimism and good intentions into action. That's what Canada needs now to accelerate the recovery. Regardless of where we are in the economic cycle, Canada's future prosperity depends in large part on risk-taking, hardworking entrepreneurs. We need them to create a greater number of adaptable, globally competitive companies.

● (1550)

In closing, BDC is here to support them, always in cooperation with other financial institutions. As you saw in the Statistics Canada study, which my colleague, Jérôme Nycz, forwarded to you this summer, the results speak for themselves: BDC clients generated more revenue, added more employees, and survived longer than other businesses. When clients combined our consulting offering with our financing, the results were even stronger.

We're proud of the difference we make to SMEs.

We'll happily answer questions you have. Thank you.

[*Translation*]

The Chair: Thank you.

We have 90 minutes for questions and comments from committee members. We will begin with Ms. Coady.

● (1555)

[*English*]

Ms. Siobhan Coady (St. John's South—Mount Pearl, Lib.): Thank you very much.

Thank you to each of you for coming here today and for your presentations. We certainly appreciate the information and your availability, so thank you.

This is a very important issue—access to capital—that we feel Canadian businesses are grappling with. And I think, as each of you indicated, this is continuing. This is not something that will come to a magical end any time soon.

I'd like to start with some questions on the venture capital side, if I may.

I appreciate, Mr. Rémillard and Mr. Hayes, your candour in bringing forth some of the issues you think need to be addressed in our country to ensure a robust venture capital market. I've been in the high-tech sector, so I know a bit about attracting financing and the difficulties and the challenges there.

There are two issues here. One is how we ensure that in Canada we have the environment to attract venture capital. I think, Mr. Hayes, you gave some indication as to how you can attract more money through a labour-sponsored fund. How do we attract and develop more robust venture capital, not only today but for the future as well?

We're looking at some of the challenges in this particular period of time. I know you talked about Mr. Wilson's panel and the fact that we should assemble an expert panel on commercialization and that we need to look at some of the venture capital options. Could you express some of what you think should be done in order to encourage a robust venture capital market? Mr. Hayes has given some indication of what needs to be done immediately for the labour-sponsored funds.

Second, could you talk to the issue of angel investment? I know you're on the VC side, but I think the first toe in the water is actually on the angel investment side, and that's weak in this country.

I'll turn it over to you, and then I have some questions for the banks.

Mr. Richard Rémillard: Thank you very much, Ms. Coady.

I guess, from our perspective, there is no single magic bullet you could fire that would solve all the problems tomorrow. From our perspective, it really has to be comprehensive and has to address several aspects or issues at the same time, almost concurrently. At the bottom, though, at the very heart of the problem, is that the VC industry needs to be able to attract more money so it can recycle that money, actively manage companies—that's its value-added—and then have really happy exits.

In the short term, there are some aspects of the situation that may be beyond many people's control. That has to do with the state of capital markets and the appetite of capital markets for initial public offerings of tech companies. There were none in 2009 up to the end of October; there was one in 2008. The industry needs some exits so it can post some returns and then attract money into its coffers.

On angels, I think angels are an important, valuable part of what we tend to call in our jargon the ecosystem of entrepreneurial risk financing. Many angels have formal, in some cases informal, relations with venture capital funds, particularly if those venture capital funds are themselves focused on early stage enterprises. For example, you have a genius with an idea but not much money and not much management. In many cases, after turning to family and friends, he or she will come upon an angel. We work very closely with them, so we see it as symbiotic. The angels tend to—and there are always exceptions to the rule—invest at an earlier stage with smaller amounts of money.

Ms. Siobhan Coady: I'll stop after this question, but there seems to be a hesitation in this country for funding in the high-tech sector—well, in any sector actually. There seems to be more hesitation than there would be in the international markets. I was in biotechnology, so we thought we would go outside, go to the United States, because there's a better appreciation. Has that been your experience, or could you speak to that issue? There seems to be a hesitancy, or a perceived hesitancy, for investments.

I see a troubled look on your face.

● (1600)

Mr. Richard Rémillard: Yes, I guess from our perspective, over 90% of venture capital investments are in high technology. The proportion depends from quarter to quarter. The last quarter was a little different, and I'll explain why in a second.

Generally, information and communication technologies take up 40% to 55% of investments. Life sciences, including biotech and medical products, take up 25% to 35%. Increasingly, clean tech is taking up more investment interest. In the last quarter, I think it was 26% to 27%, and that's off a low, just right at the bottom lows.

The lead on information communication technologies has been pretty long standing, and what we call traditional industries for our data collection purposes are minimal, less than 10%.

Ms. Siobhan Coady: I only have a minute left, so I want to ask two quick questions, and one is to Mr. Hayes.

I can appreciate that you need to attract more money into your labour sponsored funds. I know there is an issue. I know regionally—especially regionally, I'm from Atlantic Canada—there were some challenges there. You've given us some good ideas, I guess, as to ways we could help labour sponsored funds.

My concern, of course, is when we looked at that—and I'm from St. John's, Newfoundland and Labrador, and you say you have an office there—there wasn't a whole lot of involvement in the local community. How do we ensure that venture capital is spread across the country? Atlantic Canada has a specific challenge in that area.

Mr. Campbell, if you could, speak on the Small Business Loans Act for two or three seconds, because I know I'm running out of time.

Thank you.

Mr. Thomas Hayes: The first point I would like to make is that we did some analysis in our company, which we've included in a report that I sent to the clerk. Hopefully you'll get that eventually.

Governments and the private sector spend huge amounts of money—close to $30 billion a year in R and D—but there's a huge gap once that investment is made, and the gap is in commercializing all of that work.

It's not helping the labour sponsored funds. What I'm suggesting is the retail venture capital funds...we're just the mechanism. We're trying to deal with the supply side here and increasing the supply side. From our perspective, this is a very quick way of doing it.

This isn't just an issue in Atlantic Canada. If you listen to Richard's statistics, the Q3 statistics in 2009 were disastrous for Canada, not just Atlantic Canada.

Mr. Richard Rémillard: If I could, I'll just add to that. There was $16.7 million in investments in Newfoundland and Labrador in the third quarter of 2009. In Ontario, it was $24 million.

Mr. Thomas Hayes: I can speak to the other comment on angel investment in terms of Atlantic Canada. We have a good network now, the first angel network in the Maritimes. There's also an organization in Newfoundland and Labrador that is focusing on angel investment. It's very important. We deal with those folks all the time. Hopefully we're going to generate a lot of the companies, which we can then do A rounds of investment down the road.

The Chair: Thank you very much, Mr. Hayes and Madam Coady.

[*Translation*]

You have the floor, Mr. Vincent.

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

I am pleased to welcome you here this afternoon because we have many questions for you about businesses.

The first question concerns the economic downturn of the past year. Have businesses truly been impacted by this downturn? Have many shut down? Have many businesses declared bankruptcy?

I would also like to get your thoughts on the coming year. Are we heading in the right direction, or do you predict that the economy will stagnate? Is lack of financing a problem? Are business entrepreneurs really having a hard time getting venture capital to start up their business or to purchase needed business equipment?

The questions are directed to all of you.

[*English*]

Mr. Thomas Hayes: Certainly from my perspective, the challenge we have is lack of capital. In the particular fund I manage, we have 14 companies. All of them are struggling emerging businesses. Some of them are at a very critical stage in their development. It's essential that we have money in reserve to provide follow-on rounds and investments in these companies. It would be a shame to lose some businesses simply because we have no additional capital to invest.

It's a tough environment out there. The current economic climate has made the sale cycles longer for some of these companies. It's harder to attract capital. There's aren't as many players out there. All of those things impact the emerging types of businesses we invest in.

None of the companies we invest in are bankable. We're not providing credit; we're providing equity, which is the first stage in bringing a company to success.

It's a very tough environment. We're going to lose some of these businesses if we don't have the available capital to keep them going.

● (1605)

Mr. Terry Campbell: I agree with everything that Thomas has said. But I'm going to look at it from a bit of a different perspective —the macro perspective.

One of the perspectives we had coming into the recession was that a lot of existing small and medium-sized businesses—I'm not talking about start-ups or the venture capital clientele—are actually better positioned than in previous recessions. The balance sheets and debt loads are in better shape; they have a more disciplined approach to finances and cash management.

As a result—and I'm not denying for a moment that there aren't areas of problems—a lot of businesses have been able to withstand the pressures of the recession relatively well. They've been able to use the challenge they face and turn it into opportunities. They've been very disciplined on cost. They've been very disciplined in seeking out ways that they can become more efficient—because they do have challenges with existing customers who weren't able to carry on—in trying to find new markets.

It's not a gloom-and-doom story universally. There is strength coming into the recession on the part of small businesses. If you look at the global statistics on small businesses, there are actually more being created.

But for the 20% of the marketplace that exports, going forward the big challenge is the United States of America. Is that market going to turn around? Are American customers going to be buying again? Domestic firms that rely on the domestic marketplace have in some ways had an easier go of it. So I think a lot depends on what happens with our friends south of the border.

[*Translation*]

Mr. Robert Vincent: You talked about businesses that fared the best, that are the best organized, that have sound output levels or that successfully streamlined their operations. Would these be large or small businesses?

In 2007, the value of the loonie spiked, along with the price of oil. As a result, all businesses turned to a just-in-time production system. At some point, there is no additional room for improvement and costs can no longer be slashed. The businesses you are referring to were likely well-established ones, not new ones.

What happens to new businesses that cannot streamline their operations? Were they forced to file for bankruptcy or did they try and find other credit sources? Regarding Mr. Hayes' comments about new credit—in Quebec, we refer to the Fonds de solidarité FTQ—would it be fair to say that the $5,000 contribution limit should be increased and that we should revert back to a 20% tax credit for both levels of government, in order to directly inject some venture capital into businesses?

I'd like to get your opinion on these two questions.

[*English*]

Mr. Terry Campbell: There are many questions there, and I think my colleague Mr. Halde will probably want to take some of them.

I think it's hard to generalize with regard to small and large businesses. I found the testimony from the Manufacturers and Exporters and the CFIB on Monday very instructive. They have very, very different stories, and I think that makes sense. Much has to do, not so much with size, although that is a factor, but whether businesses are exposed to the dollar or more reliant on the domestic marketplace.

As you probably recognize, the dollar question is a two-edged sword. In one sense the run-up to the dollar has been happening for several years now. Companies have been able to make adjustments to that run-up, to the extent they can, which positioned them better as the recession hit. On the other hand, of course, it makes imports of machinery, productivity, and efficiency-enhancing capital investments that much easier.

It's not so much a question of big and small as it is where they're placed in the economy.

Jean-René?

● (1610)

[*Translation*]

Mr. Jean-René Halde: If I could just add to that, with our 28,000 clients, we have a pretty good cross-section of businesses. There is no question whatsoever that manufacturers that export their products, especially those that export mainly to the United States, are the most affected. Mr. Campbell's comments were spot on.

Mr. Robert Vincent: Admittedly, 85% of our exports are headed to the United States. Therefore, it's a serious problem.

Mr. Jean-René Halde: Except that not everyone is in the business of exporting their products, besides which not every business exports their products on such a large scale. Those businesses that do export the most are certainly the ones that need to make the most adjustments, and quickly. That is harder to do, and our data bear this out.

The Chair: Thank you, Mr. Halde and Mr. Vincent.

We will now go to Mr. Lake.

[*English*]

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thank you, Mr. Chair, and thank you to the witnesses for coming today.

It's an interesting meeting because all your organizations sound very similar—the names and the things you work on—but I sense your clientele is very different in many ways.

Someone touched on this. There have been several commentators around the world who have actually talked about Canada's relative strength compared to the rest of the world. Coming out of this global slowdown, I know the OECD recently said at the World Economic Forum that Canada would be one of two industrialized countries to come out in a more competitive position than we went in. I think Australia was the other one. Could you just focus a little bit on what we're doing right? I'm not doing this to elicit praise for the government from the witnesses, although that's nice sometimes.

What can we learn about what we're doing right? One of the witnesses talked, for example, about the SR and ED program. In the SR and ED program, we've made some changes that have been pretty positive, I think, but we've been asked for maybe more. We've heard from witnesses in different studies we've done on how the SR and ED program could be improved.

What are we doing right, and how can we learn from what we're doing right, to become even stronger?

Mr. Jean-René Halde: I can only speak to maybe the two programs that were in the last budget as a means to address some of the issues. I can tell you that those two programs are tremendously successful. One is the business credit availability program that was referred to earlier by my colleague and that I mentioned in my few words. The other one is the famous CSCF, where we're helping the asset-based securities market for auto loans and auto leases. I mean, clearly, there were steps taken that kind of took some of the problems head on, and I see that as being very positive. The BCAP is definitely working, there's no doubt.

Mr. Mike Lake: Okay.

Mr. Terry Campbell: I would echo Mr. Halde. We think the BCAP program is a good one. We had been working, both of our organizations, on stronger cooperation before the recession hit, and I think the BCAP program has certainly accelerated and deepened that.

What I would also say—and I'm speaking just for the banks now—as I said in my remarks, is that our industry came into this recession well managed, well capitalized, but also well regulated. I think our perception is, particularly in those areas focused on the stability of the system, ensuring there's liquidity in the system, that the government has been both targeted and appropriately restrained, I guess is the right word, in the sense of targeting measures that focus right in like a laser on where the marketplace had some issues. Not the banks; the banks were solvent. But sometimes the market wasn't working very well. When we look around the world, there has been a fair amount of cohesion among authorities around the world. But if you look at what's happening in the United States and the United Kingdom, where there really was a very serious problem with the banks, the degree of intervention, the enormity of the intervention, is very different from the situation here. So the government, I think, has been very appropriately targeting, and I think that kind of very balanced approach going forward is the right way to go.

Mr. Mike Lake: Do either of the other fellows want to comment?

Mr. Thomas Hayes: If I could just say, one of the other comments I made about one of our challenges was there's a lack of syndicate partners in the VC space. One of the exceptions to that statement would be BDC and the continued support the government is providing BDC in the venture capital space. They're one of our key partners throughout Canada. However, I do want to say to my friend here that I wish he'd reopen the office in Halifax—

Voices: Oh, oh!

Mr. Thomas Hayes: —so we'd have some feet on the ground in Atlantic Canada. They are a national organization.

● (1615)

Mr. Richard Rémillard: Thank you very much for the question.

I'm glad you referred to the World Economic Forum report. The one that came out earlier this year, I think it was late September, classified Canada as being ninth in terms of competitiveness worldwide, and that's not a bad place to be out of 140, 150 countries. When it came to venture capital availability, we ranked 18th, not ninth. The dialogue or the text in that report, which you can check, refers to that as a competitive disadvantage for Canada.

It's not a question of governments doing things wrong or doing things right. I think the issue really is doing more things right. I echo the comments of my friend Tom over there. BDC venture capital has had an increase in its capital authorization, very positive, and the situation we're facing is dire enough to have me at this table saying that we actually need government to do more.

I have one final comment. What is government doing right? One of the absolutely basic building blocks of successful venture capital is a high-tech base from which you can draw out of universities, other post-secondary education institutions, research hospitals—take your pick. Depending on how you calculate it, we're spending $9 billion or $10 billion a year. The problem is constipation. All that stuff is there and none of it's getting out into companies. That's the problem.

Mr. Mike Lake: I'll ask one short question to Mr. Rémillard.

You talked about setting up a fund. Where we live and work we have to deal with 120,000 constituents, many of whom might have concerns about the government throwing money into a big fund to be loaned to venture capitalists or other people. How would you explain it to one of our constituents who might have concerns about the government putting money into such a fund? And how big of a fund are you talking about?

Mr. Richard Rémillard: Thank you very much for the question.

We're looking at a minimum of $300 million from the federal government.

What I'd say to your constituents, and please have them call me—

Voices: Oh, oh!

Mr. Mike Lake: Read your cellphone number into the record.

Mr. Richard Rémillard: I would say that what the government is doing can be explained in maybe two ways. Number one, the government is actually investing. It's not lending money to venture capital companies; it's investing in venture capital companies. As an investor, it can legitimately expect a return on its investment. Those are the expectations of the Ontario government, the Quebec government, and the Alberta government that have smaller entities that they have recently set up.

Two, what's this all about? The answer is, if we're concerned about the jobs of tomorrow, jobs in growth areas, value-added jobs, then we have to fund our high-tech industries. If you take out venture capital, there's no funding. It's as simple as that.

To come back to what Siobhan said earlier, the industry in the third quarter of 2009 only raised $65 million across Canada. There was $1 million in Ontario, $32 million in B.C., and $32 million in Quebec. That's not enough to fund very many companies. Right now, today, compared to five years ago, we're funding less than 40% of the companies that we used to fund because the money isn't there.

The Chair: Thank you very much, Mr. Lake.

Mr. Marston.

Mr. Wayne Marston (Hamilton East—Stoney Creek, NDP): Thank you, Chair.

I think it's quite appropriate that although Mr. Hayes is a very nice gentleman, since I'm invested in GrowthWorks, perhaps I won't direct any questions to him. It might complicate my life, but it won't complicate his.

Mr. Campbell, you're now on the hot seat.

Mr. Terry Campbell: I'm sure you do invest in banks through your retirement plan.

Mr. Wayne Marston: One of the things I noted in the conversation was how well regulated our banks are, and we're quite pleased to see this. I recall in the eighties, when in the U.S. there was this move to deregulation of just about everything. We won't start pointing fingers at a particular President. As a result of that, I think we opened the doors, or they did down there, to some of the problems we have today.

When this downturn started to happen, when Chrysler, in particular, was getting into trouble, I dropped by our local Chrysler dealership and asked how things were going. They were starting to come out of it, but they were saying to us that they were having difficulty getting their clients funded. People were being turned down, which they'd never seen before. I wouldn't mind a few comments on that, if you would, and then I'll ask a couple more questions afterwards.

Was there a particular thing happening? If people were employed in industries that weren't at risk, they were still being turned down. That's what I was being told.

● (1620)

Mr. Terry Campbell: The situation in the auto sector, as you and everybody around this table will know, was just an extraordinary sequence of events, almost cataclysmic, over the last year to year and a half.

Specifically, in terms of auto dealers, I have just a couple of things contextually here. In terms of financing individual customers, the bulk of that financing market was held by the captive finance companies of the auto dealers. Those were precisely the companies that were severely impacted by the financial crisis. They relied upon securitization in the commercial paper market, and that just dried up. So a lot of the problem for dealers, entirely apart from the problems they had with their parent companies or their supplier companies, was that the main suppliers of financing were in crisis.

Banks had a very small part of that market. As you know, banks cannot provide lease financing. We can provide loans. I think we're finding over the period of the last year that our lending to and through dealers is actually going up.

Our motto is that we lend to people who are in a position to pay it back. We'd like to be able to capture more of the marketplace. But there was a significant disruption, not from the banks but from other suppliers of financing, which, quite frankly, had the rug pulled out from under them by the market.

Mr. Wayne Marston: Since I get to share the mike with my friend beside me, I'd best ask you at least one question.

The earlier testimony was that there appeared to have been rationalizations in the venture capital firms. Was that through mergers and acquisitions, or were they just dropping out of the market?

Mr. Richard Rémillard: Thank you very much for your question.

I guess a few things have happened. First, there has been consolidation both in the retail sector and in other sectors of the business. Second, some have dropped out entirely, and previously active players are no longer around.

Third, what's driving much of the activity is the inability of funds to raise capital. If you take your typical venture capital fund that's out there raising a fund of $100 million from pension funds, from institutional investors, he or she can knock on six doors in Canada. If they all say no, then there's nowhere to go except outside these borders, and that's a process that can take well over a year. Also, you have to maintain an office and infrastructure, everything to run your business, and still raise capital.

So a number of our funds that I know of have simply given up the ghost. They can't raise the capital and are exiting the business. They are managing down their portfolios, and when they get a return, they will wind down.

My counterparts in the United States are predicting a contraction of between 25% and 30% in the American venture capital world. They are facing some of the issues that we are. They're not as acute and they didn't face them quite as early, but that's what they will be going through.

Mr. Wayne Marston: Thank you.

Mr. Jean-René Halde: May I just add to what was said? I absolutely agree with the state of the industry as described by Richard. I mean, we have a terrible string of poor results by the companies, thus poor results for the funds, and thus a lack of ability to raise new funds. Then we go into a pretty vicious cycle.

The one thing happening that I think is positive, and that is probably the only positive light on the horizon, quite candidly, is the fact that the funds will now be much larger. Venture capital is still a relatively young industry in Canada compared to the U.S. One of the things we've learned through this is that starting a great number of small funds was not the right way to go, because you didn't have the financial clout to invest big ticket items into one company and you couldn't afford the right expertise, so we spread a lot of the money around to a lot of small funds.

I think what everyone is saying today is, yes, let's raise more money, but let's do it in much larger funds and much more capable funds. I think that is going to be a plus for the industry.

● (1625)

Mr. Richard Rémillard: If I could just build on what Jean-René has said, a larger fund gives you better diversification. It also enables you to do what's absolutely critical: you can do the follow-on rounds. Tom can probably address this better than I can.

That first investment a fund makes in a company is not the last investment they'll ever make. It needs to keep some dry powder in its back pocket so that when the company needs another round of financing, it can be there, either alone or with other partners. The larger the fund, the better you're able to do that.

Mr. Jean-René Halde: Would I be allowed a very quick follow-up to that?

The Chair: Yes, go ahead.

Mr. Jean-René Halde: The exit that's required for the venture capital fund to get the capital back and make a profit comes from either selling to a strategic buyer or doing an IPO of the business. That's not happening these days, which means that venture capital funds today... I can tell you that's the way we approach it at BDC. We need to put enough money aside to take the company we're investing in at the start all the way to cashflow positive, because there just might not be an exit. The markets may not be open. So you've got to be able to go through all the way to the day when that technology company is cashflow positive. That means you need to put a fair amount of money aside.

The Chair: Thank you very much for those answers.

We'll now go to Mr. Valeriote.

Mr. Francis Valeriote (Guelph, Lib.): Thank you, Mr. Chairman.

I don't want to be the cloud that rains on everything, but if I had not lived through this last year and I walked into this meeting, I would not think we had gone through a recession. I would think that credit was available to pretty well everyone who asked for it. I only wish some of you had had the opportunity to sit in my riding office and receive the number of calls I received. I swear that every one of those 5% of bank customers felt access to credit was their biggest challenge. You would think it was that 5% that called my office.

Mr. Campbell, I can't resist asking you this. You say that more than 90% of the respondents who approached their banks felt the banks were willing to help them through this period, with more than 50% noting their banks were very willing to help. I have to wonder how many people you asked, because you quote 90% of respondents.

But more importantly, I'd like you to reconcile that statement with the statement on page 3 from the BDC report that states:

> The proportion of loans going to new clients is *higher* than usual. We attribute this to the difficulty they are having in obtaining credit elsewhere.

Something in your report is just not consistent with my experience. Many of my constituents were begging for credit, and many were told to not even apply because they weren't going to get it. In fact, some of them were asked to increase the interest rate by 1%, in the middle of a recession. I have to have an answer to that.

Mr. Terry Campbell: Sure.

There are three or four questions embedded in that.

First of all, our survey, by the way, has been borne out by PricewaterhouseCoopers and by Grant Thornton. They have done surveys of SMEs in Canada and have come up with largely the same result, that, by and large, about 90% of small businesses in this country report that funding issues—access to credit—were not constraints, were not limitations on their ability to do their business plans.

In terms of our own survey, it was done by Strategic Counsel and is statistically valid. It was a survey of SMEs. The sample size was 200 small businesses, and it had the usual measure of accuracy, accurate within 19 times out of 20, and all that kind of stuff. But it has been borne out by other studies as well.

In terms of what you're hearing from your constituents in Guelph —where I live, by the way—what we find is that if we look at the whole financing marketplace, banks are about a quarter of it. We hear all the time, “I can't get credit here.” When we probe and look, there are a range of providers out there who over the last year have either exited the market or have cranked back their funding activities considerably. There is a very well-known U.S.-based company that actually has on its website that it is no longer writing business in Canada.

There are other examples of foreign entities that have what you might call opportunistic lending: they got into Canada when the going was good, and then when they had problems in their home country, they literally left their customers high and dry.

It comes down, basically, to a question of banks being open for business and lending to creditworthy customers, and they will stand by their customers. But the question here is that you have a situation where, if you have a good customer, a good client, and they're running into problems, our banks are saying two things. They're saying, please, for heaven's sake, come and talk to us. The worst thing a business can do is go silent and the bank doesn't know what the situation is. We're inviting our customers to come forward and talk to us. If you have a problem, let's see if we can work it out. There's a whole bunch of tools in the toolkit here to restructure debt and restructure your payments. What the bank is going to look for is whether there is some strength in your balance sheet, whether there is some resiliency there, whether you know what your problems are and do you have a plan to get through them. They want to help you. It's trite to say, but we succeed when our customers succeed. Nobody wants to say, “Goodbye, you're out the door.”

That said, sure, we are in a recession. There are real problems out there. There are companies whose business model, quite frankly, has now collapsed and is not going to work. They are over their head in debt. If a customer is drowning in debt, giving them more debt is like throwing them an anchor rather than a life preserver. Those are hard stories and they do exist. There's no question about that. The question is, can we help that company get to the next stage where they have to go?

I am not saying, sir, that every customer is creditworthy. What I am saying is, if a customer is having problems, come and talk to your bank.

● (1630)

The Chair: Thank you very much, Mr. Campbell.

Go ahead, Mr. Wrobel.

Mr. Marion Wrobel (Director, Market and Regulatory Developments, Canadian Bankers Association): I would just add, if you want to get a sense as to the appetite of banks to make business loans, look back to the fall of 2008 when there was the greatest financial turmoil that we've seen. That was actually when bank business lending accelerated at the most rapid rate it has in a number of years. Clearly, when there was a great deal of risk, banks were willing to step in and make loans that other people weren't making. I think that's a very good reflection of their willingness to lend.

The Chair: Thank you very much.

Mr. Van Kesteren.

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

Thank you to the witnesses for coming forward.

Just to set the record straight, Mr. Campbell, you mentioned those other lenders in the auto industry. We used to have somewhat of a joke that if you were standing up and breathing, you could get loans from some of these institutions. So it was good practice. It was good practice and it's put you in the position you are today, and I applaud you for that.

And that's not said enough in this country, the fact that we have institutions that, first of all, remember that the money they're working with is the customer's money. I expect some day, if I'm saving money, to go to your bank and get that money out. I don't want to hear about bad risks that you've taken. So I applaud you for what you've done.

Mr. Terry Campbell: Thank you very much, sir.

Mr. Dave Van Kesteren: I want to ask you, though, when I look at this picture, when things were really rocking, when money was loose and people were making money, I would think that at that point, venture capital, the more money people have.... Once we've come through this period of time—and it's been a period like at least nothing I've ever seen—that's shifted. So there's a shift here.

I just finished a book, *The New Deal in Old Rome*, written in 1939. You know, there's nothing new under the sun. You have graphs; you follow these things. I put this out, first of all, to maybe the banking association, and maybe BDC. Can you see a parallel to past history, possibly our last recession, with where we are today, in relationship to that? Are we edging up to the point where we're going to start seeing a little more money? Today's paper said $650 million in the BDC in savings. Are we approaching that?

● (1635)

Mr. Terry Campbell: I think there are probably two questions there.

One is, in terms of looking at history, how does this recession compare, where are we in the recession, and are we coming out of it? To paraphrase what I said earlier—and then I'll turn to Mr. Halde, because I'm sure he'll have commentary too—in many ways with this recession, the old line "This time it'll be different"...well, it's not going to be different this time. There are business cycles.

The one thing I would emphasize is that while we are seeing problems among manufacturers—but not across the board, because there are different strengths—there was greater strength in our industry going into this recession than maybe in previous recessions, and greater diversity certainly. But there was greater discipline on the part of fiscal health, financial health, balance sheet health on the part of SMEs going into this. So at this stage of the recession we're not seeing huge numbers of bankruptcies. Compared to previous recessions, the number of bankruptcies is remarkably mild. And that's a surprise. The number of SMEs that are being created is actually going up. Now people can say that's because unemployed people have become self-employed, but nevertheless we're seeing those numbers go up.

For where we go from here, I think much depends upon two things. Much depends upon the continued resilience of Canadian households. Canadian household balance sheets are way better than U.S. household balance sheets. We're able to continue to spend. Our unemployment, though still higher than any of us would like it to be, is much better than the United States. So I think the domestic demand side is going to stand small businesses, who focus on the domestic economy, in good shape. The problem is what's going to happen in the U.S.

You talked—and I thank you very much for your remarks—about the prudent lending here in Canada. The United States is still paying the price for very imprudent lending, and we're going to see resets of variable mortgages there next year, which is going to continue the crisis. So that's where I see continued problems.

Jean-René?

Mr. Jean-René Halde: Let me try to come at it slightly differently. I think the SMEs during this recession have been amazingly resilient. I have to tell you that our losses are lower than what we had anticipated, and that's a big plus. And I agree with Mr. Campbell, I think the organizations focused on cash quicker, they learned, and they did have better balance sheets to go into the difficult situation.

I think we are in a better position than probably we all expected, honestly, 15 months ago. We're not out of the woods, as I said, because there's always a bit of a lag period and there are still companies hanging on by their fingernails, and whether or not they can make it through remains to be seen in some circumstances.

I'd like to maybe offer a couple of comments on BDC. I don't want to make this a commercial, but just try to outline the difference between the more traditional financial institutions and ourselves. We do have a higher risk appetite. Even though we also are looking for creditworthy businesses, we maybe don't put the line in exactly the same place as these guys do. One of the things we try to do to help entrepreneurs during those tough periods.... We've allowed many entrepreneurs to postpone capital payments for a while—7,000 of our 29,000 people were offered capital postponements: simply pay off the interest, don't pay us your capital, we'll postpone it, start repaying six months from now. That has helped an awful lot the working capital of those businesses.

The other thing we're doing is there are a lot of people who buy long-term assets and have a tough time finding a long-term debt to finance the long-term asset, and what happens is it eats into their working capital if they don't get the matching right between a long-term asset and a long-term debt. So we're really focused on providing those entrepreneurs with long-term debt.

Thank you.

● (1640)

The Chair: Thank you very much.

We'll now go to Monsieur Paillé.

[*Translation*]

Mr. Daniel Paillé (Hochelaga, BQ): I didn't know that I would find myself in familiar territory barely 24 hours after being sworn in as an MP.

I would especially like to welcome Mr. Halde, since we did have business dealings in a previous life. The ones I'm thinking about were profitable. I worked as an investor for the Caisse de dépôt et placement and for the Société Générale de financement, and as a financial director for a company with sound liquidity for growth, as well as for other businesses that were rather poorly equipped to weather the crisis.

Mr. Campbell, we will do everything we can to ensure that you are not forced to call in any business loans. Clearly, you don't want to end up owning any businesses. Costs, fees and restrictive clauses are all additional burdens that the business entrepreneur must shoulder. There are restrictions as to what he can or cannot do. In terms of return, interest rate margins are no longer very high. Would you not agree that the fees charged during the crisis were outrageous? Would you not agree that the pendulum swung too far in the other direction? The entrepreneur relies on his business for his livelihood. Mr. Halde stated that 75% of people definitely want to reinvest. That's good to hear, because they are entrepreneurs. They see the world through rose-coloured glasses, but they also have to work hard.

There is a saying that an entrepreneur cannot start anything without first getting permission. I'm listening to you and I would say that entrepreneurs are almost being harassed. Given what happened to the Canadian economy, don't you think that the screws were tightened a little too much? Ultimately, the entrepreneur cracks under the pressure. Isn't there some way for bankers to adopt a more entrepreneurial approach?

I also have a question for you later about start-up capital.

Mr. Terry Campbell: I'm sorry, but I will have to field that question in English.

[*English*]

There are a couple of things—costs, covenants, and entrepreneurialism. In terms of costs, it's really important to step back and put this into context. Perhaps my colleague, Marion Wrobel, will have some comments on this as well.

If you go back as recently as, say, August 2007, the prime rate was standing at 6.25%. The prime rate now is 2.25%. Now, you take a prime rate and it's adjusted up or down. If you have a home mortgage, you're in the best condition ever. But even with adjustments, effective interest rates for businesses and consumers are at their lowest rate in literally years and years. The Bank of Canada, for instance, does a regular survey of what it calls effective business interest rates. It's a blended rate, but it gives you an indication of where things stand. Its latest report in October indicated that the effective business interest rate in Canada was about 3.33%.

When you look at the issue of cost, the price of loans, you have to take two things into consideration. As you know, one is the cost of funds to banks. As you pointed out, compared with last year, when the cost went really crazy, it has gone back down to normal, but it's still not at what we would call historical norms. We fund a lot of our stuff, we try to match it, as you know, we try to fund it off the bond market, and that is going to vary. That has to be taken into account.

The other thing that has to be taken into account, as it always does, but particularly so in a recession, is the issue of risk. When we see loan losses elsewhere in our industry, where loans are not being paid back, there is an impact on the prices for everyone.

So it's our cost of funds, it is the risk of individual customers, and it's the operating environment with loan losses.

Marion, do you have any other comments?

● (1645)

Mr. Marion Wrobel: I think you said it all; it's simply the sequence of events. The first thing that happened was this financial market turmoil, and that's what really increased the cost of funds, because financial institutions were in fact very risky at that time. We saw a lot of big players failing and at risk of failing. As that market started to normalize over that period, then we went into a recession. In a recession, all of a sudden credit risk went way up. We had these two things; one followed the other.

[*Translation*]

The Chair: Thank you, Mr. Paillé.

Mr. Daniel Paillé: May I continue?

The Chair: Yes.

Mr. Daniel Paillé: Thank you. I can appreciate your comments for the most part, but one cannot complain insofar as bank profits are concerned.

I want to talk about venture capital and about creating a funds of funds. Someone suggested that a funds of funds be set up. I agree that we shouldn't set up many small funds, because we would get lost in all of the fees. When the funds get overly large, we can buy tickets and build up a bigger pool. However, would you not agree that SMEs or, as we call them in Quebec, the PPEs, which stands for "petite, petite entreprise", are shut out of this type of structure? The danger is that the funds of funds will be set up far away in Toronto or in Montreal, and that the Gaspé region will be overlooked. Isn't there some risk that small businesses will be shut out of the bigger picture?

Mr. Richard Rémillard: I''m not sure if that question was intended for me, but I will try to answer it.

The majority of our venture capital funds have a cash value of under $100 million. So then, this isn't a problem for us right now and it won't be a problem for us tomorrow, or the day after that. You've asked a good question, but it isn't the question of the hour. The burning issue insofar as all funds are concerned, whether start-up funds or later stage funds, has to do with the shortage of capital. I don't know whether I've answered your question.

The Chair: Thank you for your questions, Mr. Paillé.

I forgot to congratulate you on your election. Welcome to our committee.

[*English*]

We'll go to Mr. Warkentin.

Mr. Chris Warkentin (Peace River, CPC): Thank you, Mr. Chair.

Thank you, gentlemen, for joining us this afternoon.

I just want to follow up on a number of different comments that were made. We're trying to, I guess, assess the availability of capital for small businesses. We really appreciate your testimony thus far this afternoon.

Mr. Campbell, in your testimony, you referenced the fact that what has made this downturn somewhat different from other downturns is the general financial health of small business. I'm wondering if you could expand on that. Actually, my question originated before you said that.

When you talk about the general health of a business, are you talking about the general cash reserves vis-à-vis their debt ratio? What exactly goes into your assessment of the general health of a company? Maybe you can expand on that. I don't know if you gentlemen have comments with regard to that, but I'm very interested in that point.

Mr. Terry Campbell: I'm going to ask my colleague, Marion Wrobel, to address that, if you don't mind.

Mr. Marion Wrobel: Generally, when we're thinking in those terms, we're looking at the balance sheets of firms. We find that the debt-to-equity ratios are much healthier than they have been in the past. That's true of small businesses as well as of large businesses, generally.

Also, when we look at the data we have on lending to smaller businesses, we find that over the last few years what they've been doing is making sure they have access to credit, but they haven't really been drawing down on it. They've been drawing down on it in smaller and smaller amounts. They want to make sure it's there, but their utilization rate has been falling. The authorizations are there. We're lending to them. But the outstandings have not been growing proportionately. They are, in fact, using their credit very prudently and are using it only when they actually need it.

● (1650)

Mr. Chris Warkentin: Thank you. That's interesting. I guess I just assess the general debt load of the average Canadian, and unfortunately we've seen something of a different paradigm when it comes to the personal finances of Canadians. I appreciate your perspective on that.

In terms of those lines of credit, I would reference some of the things my constituents are telling me. They're concerned about the banks' activities. Some banks and some institutions were pulling back on those lines of credit if in fact the borrowers were not utilizing them. Maybe six months ago there was a real effort there. Do you have a sense as to where that stands today? Are banks continuing to go after these unused lines of credit? As you said, many companies were trying to ensure that they would have that leeway if they fell into a situation of needing it. On the flip side, they felt that the banks were requiring that there be a fee now levied against those businesses. What's your assessment of that? Have you done any research on that?

Mr. Marion Wrobel: If I recall correctly, there was one bank that had that policy, which they very quickly reversed.

Mr. Chris Warkentin: You're not seeing a trend in that.

Mr. Marion Wrobel: No.

Mr. Chris Warkentin: That's great news.

I also appreciate the testimony of the gentleman from the BDC. You talk about the fact that BDC has grown in terms of its lending because the traditional lenders have not been stepping up to the plate and lending in the ways they had been. Often constituents will come to my office and ask what we are doing for small business to help them out. I often direct them to you. As a matter of fact, I share a hallway with the BDC in Grande Prairie, so it's not so far. Oftentimes, after going to BDC, they'll come to my office. We have a good working relationship.

Mr. Jean-René Halde: It is hopefully with a smile.

Mr. Chris Warkentin: Well....

Voices: Oh, oh!

Mr. Chris Warkentin: What I am often asked is what capacity you have that is different from the conventional lender. What makes you different from the conventional lender? What makes you different from the average bank? How much leeway do you have in comparison? Obviously you don't want to undercut the traditional banks. Maybe you could just explain that to our committee, because I think, oftentimes, this question bubbles around.

Mr. Jean-René Halde: Our approach is to be complementary to the financial institutions. Our role is not to take a deal away from the financial institution. That would not make sense. Through BCAP, which was referred to in both presentations, the concept is that if financial institutions really aren't prepared to do something, because they feel the risk is maybe a bit too high, they will refer them to us. You have to understand that there are 6,600 branches of the chartered banks in Canada, unless I'm mistaken. We have 100 branches. For us to lend more, we need referrals from the banks, obviously, and we've been getting those, thankfully.

I think a lot of entrepreneurs that would have been turned down because they were not considered creditworthy enough we would, in some cases, still take. Having said that, we also will only lend to someone who is creditworthy. We just might draw the line as to what's creditworthy in a slightly different spot.

The Chair: Thank you very much, Mr. Warkentin.

Mr. Marston.

Mr. Wayne Marston: Hamilton, as you know, was a centre of manufacturing, and a lot of that hinged on the American dollar. At about this time last year, I had two companies tell me that if we go above the 85-cent dollar, we're in severe trouble. Number one, what impact has that had across the banking area in terms of defaults?

The BDC testimony talked about the fact that as people started to get into trouble, you recognized that and you gave them breaks by six months of interest only payments. Is that standard banking practice as well?

The very first testimony here talked about investing in technologies. I'd like to hear people talk about the future of green technologies and how you see that breaking out in our country.

Mr. Terry Campbell: I think the first set of questions was addressed to us. I'm going to ask my colleague, Mr. Wrobel, to talk about the dollar issue.

● (1655)

Mr. Marion Wrobel: The dollar issue manifests itself very much with respect to customers that are manufacturers and exporters. Clearly, that is an area that is under a great deal of stress right now. As we do in virtually every other sector, we work with our customers on a case-by-case basis. We try to assess their long-term viability. We work with our customers and we do certain things that we would not do over a normal course of events. It depends very much on the individual case. If a business comes to a bank and says they need some help for a short period of time, if they have a good business plan and they can demonstrate how they can get through this particular cycle, the money will be there.

Because we have long-term relationships, we recognize that there are ups and downs. If over the longer period of time we can make money by lending to these customers, we will. So we will make certain adjustments to lending practices, but we will not change those lending practices.

Mr. Terry Campbell: As an additional point, the dollar by itself, the level of the dollar, is a factor, but I think you need to look beyond that and look at the strength of the client's customer base, if they have a viable plan, and what their cashload is. The dollar will have an impact, but it's rarely the single factor that pushes somebody over the edge or not.

Mr. Thomas Hayes: I just wanted to comment on the green technologies. Clean technology is probably the fastest-growing space within the venture capital industry, probably in North America—environmental technologies and so on. We consider GrowthWorks to be one of the leading investors in that sector. It's very much a growing part of what we do, and we're adding to our complement of investment managers who have experience in that sector.

I also wanted to say to my friend here that I have a couple of companies in my portfolio that would love that principal deferment, so we'll talk.

Mr. Jean-René Halde: Can I just piggyback on this?

On the dollar, you have to realize that it was not that long ago when we had the dollar in the 60-cent and 70-cent range. Many manufacturers at the time, I think, under-invested in the capital that they should have invested in. There's no reason we should not be competitive at par. The problem has been the rate of adjustment for many of them. Some people saw the train coming, invested properly, and are doing okay. Others did not see the train coming and are really struggling with the speed of the dollar's increase. The advice we tell our clients is to assume the dollar is at par and you should be competitive. That way at least you'll be in a good position.

I think it speaks to more than just the dollar. It speaks to the mindset of how to be good in a global environment. That doesn't mean you have to be across the world, but it means understanding in your own industry what's happening, what's happening to your clients, what's happening to your clients' clients, and figuring out a way to expand just outside of your normal comfort zone. I think that's how Canadian companies will do better.

Mr. Richard Rémillard: If I could just add a comment to Mr. Marston's question about clean tech and build on what Tom has said, if you look at public policy in the United States and in other jurisdictions, including China and the European Union—but let's focus on the U.S.—the U.S. under the Obama administration is committing multi-billions of resources to clean-tech ventures of one sort or another. The last number I saw was $85 billion. We're not quite there yet, to say the least.

I know of two funds that in the past two years have tried to raise dedicated clean-tech funds from investors, and they gave up; they just stopped, because they couldn't raise the money. There's one more out there right now that launched back in September—has not been public—and they're trying to raise $200 million. We'll see if they can do it.

The Chair: Thank you very much.

Mr. Sweet.

Mr. David Sweet (Ancaster—Dundas—Flamborough—Westdale, CPC): Thank you, Mr. Chairman.

I thank the witnesses as well.

I wasn't going to ask a question, but just now we were talking about clean technology. You're talking about private investors. We have ecoENERGY and ecoTrust. We've also invested money in the community adjustment fund FedDev for southern Ontario investments. There's a quite a bit going on federally. But because we're in a federation we have lots of provincial and territorial participation. There's a lot going on at the provincial level as well, not the least of which was the huge program Ontario announced a little while ago on solar investment for a 20-year guarantee.

You're saying that as far as private funds, we don't have the attraction. Is there any reason for that? Do you think the industry has to mature more before investors are going to get involved?

● (1700)

Mr. Richard Rémillard: If you look at our recent numbers going back a year and a half or so, you'll see a secular upswing in the proportion of venture capital investments into clean technology. In the last quarter, that was 26% to 28% of all investments. That's the good news. The bad news is that in actual dollar terms that number is going down.

The proof will be in the pudding. The proof for me is how successful funds are in raising capital for their clean technology ventures, and the jury is out.

Mr. David Sweet: I'll go back to that in a second.

Mr. Halde, you mentioned that your high-risk loans had increased by 60% over the last year. Give me an idea of what that number is. Previously, what percentage of your portfolio would you allow to be higher risk? Give us an idea of what the total is today.

Mr. Jean-René Halde: I'll consult with my colleague here.

We have a rating system for all loans in terms of the risk level. Above what we internally call a 4.0 becomes a high risk. On the percentage, I'd like to get back to you rather than quote a wrong number.

Mr. David Sweet: Fantastic.

Mr. Rémillard, you mentioned there's only one-third of venture capital capacity here compared to the United States. I believe that's what you said, but correct me if I'm wrong.

Mr. Richard Rémillard: When you look at the amount of money put into Canadian companies by their venture capital investors compared to the amount of money American venture capital investors put into their companies, it's about one-third.

Mr. David Sweet: You're talking about a significant contraction that you felt was going to happen in the United States.

Mr. Richard Rémillard: At the risk of boring you to tears with numbers, if I look at my third-quarter data for 2009, the industry collectively invested $191 million in Canada across the country, and exactly five years ago the industry invested $500 million. That line goes straight down. We invested in 97 companies in the third quarter of 2009, compared to just under 200 companies five years ago. That's what's happening.

Mr. David Sweet: We had a significant round table at McMaster University a couple of weeks ago on the gap between the lab and the shop floor—between the actual researchers and their translation into getting it commercial ready and the investor understanding the technology. That seems to be the critical place. My concern is that if there's less venture capital money here, there's already a risk that the value chain will end up in another country. Most often it ends up south of the border where there is more venture capital.

Do you have any insight into narrowing that gap? We had some conversations about developing a centre for commercialization. Do you see that as a private initiative? I'll leave it with you and whoever has some thoughts around that. I think that's a huge piece, as far as our competitiveness internationally and us creating jobs.

You talked about clean technology. Whether it's clean tech or high tech, we have to make sure the value chain stays here. We have lots of emerging technologies happening in all of our research universities, but capturing that and keeping it here right from the lab all the way through to the finished product is my main concern. Anything we can do to encourage that is what I think we should be focusing on.

Mr. Jean-René Halde: Maybe I can try to answer that. We have a number of our projects that come from university labs, where we invest at a very early stage, obviously, because it comes out of a university lab.

There are two suggestions I could make. One is, some universities are much better than others at transferring the intellectual property to the new company at a price that's reasonable, because the venture capitalist will not put the money down unless he or she knows the property is theirs. Right now, it's a difficult process in many universities, so I think this is something that could be improved in some universities.

● (1705)

Mr. David Sweet: By the way, the universities know this. They actually talked about having a centre for entrepreneurship to teach researchers.

Go ahead.

Mr. Jean-René Halde: Quite honestly, I just lost the second item I wanted...

Mr. Thomas Hayes: If I could just make a comment on that, we did a scan of all of the investments that we've made over the years at GrowthWorks, and over 40% of the companies that we've invested in, either directly or indirectly, originated through research at a university.

Richard and I listened to an entrepreneur last week, a very successful chap here in Ontario, who has probably raised in excess of $100 million for three different companies. We got into a bit of a philosophical discussion over whether this is an issue for the private sector to deal with or for government to deal with, but what he explained was it's got nothing to do with that; it's all about country versus country. He travels to China, I think once a month he said, Richard, and 60 times in the last five years, and the kinds of incentives and the kinds of resources that folks in China are prepared to make available to his company, if he were to move there, are just incredible.

So it's really about whether we want to encourage new technologies in this country, and develop the new industries, the new emerging technologies. That's what it's really all about. Government has a significant role to play there, in my view.

The Chair: Mr. Halde, have you recovered your second thought? Why don't you go ahead?

Mr. Jean-René Halde: Yes, I have redeemed my second thought.

The Chair: Then we'll go to Mr. Rémillard.

Mr. Jean-René Halde: The thing was about the mindset of the professors.

One of the things you notice when you go to Stanford in the U.S., which is well known for how good they are at doing this, is that the professor who has a business mindset, who really tries to create a company, is seen as someone quite special and is highly valued. I wish we could have the same mindset in many of our universities.

By the way, my colleague did find an answer to your previous question on the percentage and the amount of higher risk, and of the $1.9 billion that we did in BCAP, $690 million was for high risk.

Mr. Richard Rémillard: To add my two cents' worth, if I may, to build on what Jean-René has said about intellectual property, universities might have a look at what the incentives are for tenured professors to leave and to come back. I've had over the years some of our members say to me that it's really tough to get a hold of a university professor who has this idea for something absolutely revolutionary, because if it fails, and many do, he can't come back to the university, he's off the tenure track, and it's really tough. So intellectual property control is one part.

The second one is, thinking about our friend from last week, it might be interesting to have a look at increasing the talent pool of serial entrepreneurs. There are a number of those in this country, and when you look at some of the research we have done in concert with Industry Canada and BDC, we see that they tend to have this snowball effect. They don't just go and create one company, but they create 10 companies, or 30 companies, and we need to find a way of packaging that and improving it—get more serial entrepreneurs.

Lastly, I think government has to look at everything it does. We suggested that the government offset program with respect to large contracts be revisited, at least in terms of getting money into venture capital funds. Government procurement...government is a great big purchaser. How does it use that power?

I have one final comment. I was in Israel two years ago on a very small “t” trade mission. You get very impressed with what they're doing in that country to generate a venture capital industry, which they grew from zero 14 years ago to where it's rivalling the size of Canadian industry today.

The Chair: Thank you very much, Mr. Rémillard.

Madame Hall Findlay.

Ms. Martha Hall Findlay (Willowdale, Lib.): Thank you, Mr. Chair.

I'll echo what everyone else said and say thanks for being here. I know that some of you have come a long way, so thank you very much for that.

Mr. Halde, in your presentation you mentioned two things—an increase in the delinquency rate, but at the same time an increase in the number of your clients who are looking to invest in the future. That, to me, just reinforces what I think, that, as it has been historically, at times of recession a weeding out happens.

We recognize that it's difficult for some, but it is an opportunity if it's taken advantage of. What it says to me is that this is a particularly important time to ensure that those stronger ones do not in fact suffer from a lack of capital. If there is a time to really take advantage and really help those that are showing promise, this is the time not to allow them to be jeopardized by the lack of access to capital.

I'm putting this question to you and Mr. Hayes and Mr. Rémillard.

We certainly, from the Liberal perspective, are recommending in the pre-budget finance committee report that there be increases in both the amount available for tax credit for venture capital and the amount available to be creditable. We are moving, I think, in the right direction, at least in terms of recommendations, but we're also hearing real concerns about continued exodus to the United States for some of these companies.

Mr. Hayes, you mentioned the continued gap between R and D and then the next step of commercialization. That is part of what is leaving to the United States.

In addition to some of those recommendations that you were saying for venture capital from a tax credit perspective, what else can government be doing in particular that you could recommend to us now to bridge that gap specifically? As well, what are we not doing in terms of numbers vis-à-vis the United States?

I know that some of that has been answered so far; just more succinctly, please.

● (1710)

Mr. Jean-René Halde: I guess I'd like some clarification on the question.

The numbers I quoted on the increase in delinquency and impaired are from our general population of clients, the 29,000 clients. So is the 75%; our very large survey of thousands of our clients shows that 75% are looking at investments over the next 18 months.

That is, quite candidly, very different from the clients we have in the venture capital sector or from the investee companies we have in the venture capital sector. So I'd just like to clarify whether you're talking about the overall economy generally or specifically the venture capital sector. The dynamics are very different.

Ms. Martha Hall Findlay: It's a little bit of both. If in fact there is a weeding out going on, then I'd go back to the premise that this is the time to really focus on those that are looking at positive growth. Those are the ones we really want to be able to make sure don't suffer from lack of capital. My suspicion is that there are some who may end up turning to venture capital. There may be some that are just starting out and looking to start out with venture capital.

So it may be a little bit of both, but it is really the venture capital side that I'm looking at, especially because that's where we're seeing an exodus to the United States—that group of companies that are really relying on the VC market.

Mr. Jean-René Halde: The definition of venture capital that I think we're all using around the table is very much young technology companies. That's really it and nothing else, right? We're focused on that?

So the question you're asking is what else could we be doing?

Ms. Martha Hall Findlay: Yes.

Mr. Jean-René Halde: I'll turn to my colleague here.

Voices: Oh, oh!

Mr. Richard Rémillard: What else could we be doing? I have no shortage of ideas on that.

We need a goal. Going back historically, ever since we started collecting statistics, the Canadian venture capital industry has been half the size proportionately of the American—period, full stop. Generally in Canada, as every Canadian knows, it's 10:1. They have 10 times the population and they have 10 times the economy. Sometimes it's 12:1.

In our case, it's 20:1—ouch—so the goal of public policy and the industry is to narrow that gap.

Ms. Martha Hall Findlay: But how? How do we do it?

Mr. Richard Rémillard: I'm coming to that. You have to have a goal first, and then strategy.

There's my wish list and our wish list that I put down in my opening remarks, but a number of other discrete steps could be taken.

You ask how you define success. Well, one very small indicator of success will be this: the next time the Minister of Finance or the Prime Minister goes out to China and sits down with the head of the trillion-dollar Chinese sovereign wealth fund, Mr. Tom Hayes is right next to him in the photo.

That's my version of success. We'll be able to get more capital from abroad than we're getting now.

That's the key. And that's what we're going to do.

● (1715)

The Chair: Thank you very much, Madam Hall Findlay.

Mr. Van Kesteren.

Mr. Dave Van Kesteren: As we're talking about these things, I'm thinking of the $5,000 tax free savings fund. Has that helped at all? I'm looking at the lure we need for investors. Have you seen a little bit of an increase with that, or is there possibly something there? Any money made from that tax free interest, of course, is not taxable. Have you seen any interaction there? Is that a spot where we could maybe start to encourage people to invest their money?

Mr. Thomas Hayes: It's early days, but in fact what we found last year is that retail venture funds, with the exception of Solidarity in Quebec, can't sell directly to clients. You have to work through independent third-party investment advisors. In fact, the tax free savings account wasn't meant to, but in some ways it competed with our ability to raise money into the retail venture capital funds.

What I wanted to say a moment ago is that we've had a lot of movement at the provincial government level in the last year to enhance the retail funds and add to the supply of capital. British Columbia increased the annual contribution amount—we call it the ticket size. Saskatchewan increased the tax credit from 15% to 20%. Nova Scotia, Newfoundland and Labrador, and New Brunswick increased the tax credit to 20%. Quebec, for one fund, has increased the tax credit to 25%. Manitoba has increased the contribution amount to $12,000. All of these things are helpful, but unless the federal government can match, to complement the initiatives the provinces have taken, they won't be as effective.

I'm back to this message: there are two quick things you could do if you really want to affect the supply of capital in the short to medium term, and that is to revert the tax credit back to what it was, 20%, and increase the annual allowable contribution amount.

Mr. Jean-René Halde: Can I add to this for a second and come at it from a slightly different angle? Right now, money to venture capital funds comes either from pension funds—and they're looking to maximize returns, so they're looking at the returns now of B.C., and they're not putting money in B.C. It comes from governments, various provincial or federal, and it comes, in some cases still, from the retail sector, as Mr. Hayes has indicated.

The challenge in all cases is for these funds—thus for the companies in those funds—to be profitable and to make decent returns. So I would say we need to be careful, before we open the floodgates, that we're pretty comfortable we'll do so in a way that increases the chance of those funds being profitable. That means size; it means expertise. There are a lot of caveats that you want to have in place, or else you'll end up basically taking a lot of money from the public, and unfortunately they'll be disappointed.

It's not a bad idea to raise money on the supply side, but you need to make sure it has a structure around it that increases the chances of success.

Mr. Thomas Hayes: Rest assured that if those emerging companies run out of capital, they'll never be successful, so it's a double-edged sword.

Mr. Dave Van Kesteren: I like the way you think, Mr. Halde. I want to compliment your organization as well. The BDC has performed well in the past, because it is a crown corporation, and as a government we expect you to treat it as such.

In the past you've always shown a little bit of return—actually, a pretty decent return—with those statistics you've shared with us today, some of the delinquencies and that. Where do you see us with our next year-end? Are we looking at a loss this year? Are you still on target to do what you've traditionally done?

Mr. Jean-René Halde: We have been profitable since BDC was created back in 1995, every year, and in every year we've returned a dividend to Ottawa.

I have to say that we forecast a loss in our corporate plan this year simply because we thought our losses from write-offs of bad loans would be high. I suspect we'll still end up in the red, but thankfully, a lot less than we had forecast in our corporate planning.

The Chair: Thank you very much, Mr. Halde.

Mr. Lake, did you have a brief question?

Mr. Mike Lake: No, that's okay.

The Chair: Go ahead, Mr. Sweet.

● (1720)

Mr. David Sweet: I have a brief question to follow up on something.

Help me understand why the TFSA would actually... The TFSA is simply an instrument, and you can use it in any way. Why would it compete? Once somebody has a few years in a TFSA, they could move that into a venture capital fund, couldn't they?

Mr. Thomas Hayes: They can, but not in all provinces. Remember, when a client goes into an investment advisor, the investment advisor is going to pitch him on a variety of alternative investment vehicles. This year, with the kind of money that was...I think it was CIBC that had a huge advertising campaign and the TFSA was a very popular instrument.

Mr. David Sweet: The TFSA could very well be funds that could be used for venture capital. Of course it's just the first years of it.

Mr. Thomas Hayes: It's early stages, and some provinces haven't amended their income tax legislation to allow TFSAs to be eligible for labour funds.

Mr. David Sweet: I'm certain you'll encourage them in an appropriate way.

Mr. Thomas Hayes: We've been trying.

The Chair: Thank you very much.

Monsieur Paillé.

[*Translation*]

Mr. Daniel Paillé: I'd like to take up where Ms. Hall Findlay left off on the issue of solutions. You stated in your presentation, Mr. Robillard, that businesses that secure government contracts should be encouraged, pursuant to the terms of the contract, which remain to be determined, to invest venture capital in Canada and Quebec. This is an especially innovative suggestion.

Would you care to say anything more on the subject? Furthermore, would it not be the appropriate time to launch a proper business start-up program on the heels of a recession? Some have already opted for this approach.

Mr. Richard Rémillard: Thank you very much for your question, Mr. Paillé. Regarding programs that involve large companies, that is multinationals like Sikorsky, Boeing or Pratt & Whitney that are generally awarded federal aerospace or defence contracts, they allow these companies to invest in venture capital funds. The current system doesn't exactly encourage or facilitate this type of investment. According to our research, only two agreements of this nature have been concluded, one with Boeing and one with Sikorsky. The agreement between Boeing and the venture capital corporation was three years in the making!

A number of people believe that we are on the cusp of a major expansion in terms of defence and aerospace procurement that will play out over the next decade. Several people have quoted a figure in excess of $200 billion. So then, if we want to make it easier for high-tech or cutting-edge businesses to access capital, one possible solution is to facilitate, encourage and promote investment by Boeing and other companies.

The Chair: Mr. Vincent.

Mr. Robert Vincent: On the same note, do you believe that government contracts awarded to Canadian or Quebec companies should in fact be carried out here, and not transferred to firms operating outside the country?

Mr. Richard Rémillard: I'm not sure that I understood the question correctly. The bulk of current venture capital investments, that is between 80% and 90%, are made here in Canada.

Mr. Robert Vincent: Let me be more specific. All types of government contracts are awarded to companies. However, certain companies opt to transfer the contract to China or some other country, instead of giving the work to people here at home.

Do you think companies might benefit if federal government contracts were awarded to companies that carried out the contract here in Canada, that gave the work to Canadians and Quebeckers instead of exporting that work elsewhere?

Mr. Richard Rémillard: Unless I'm wrong, according to the rules that currently govern major defence and aerospace contracts, companies are required to invest in or to subcontract a portion of the work to Canadian companies.

● (1725)

Mr. Robert Vincent: I think this is an important point, because in the case of large contracts...This is not so much of a problem with small and medium-sized businesses. If a contract is awarded to a small business, or if a small business bids on a contract, I would imagine that this firm would be able to manufacture the product right here and not have to outsource production.

Mr. Richard Rémillard: As far as I know, this is the current rule. In the case of a $1 billion contract, there have to be some offsets here in Canada, that is to say, some of the products must be manufactured in Canada.

The Chair: Thank you.

We will wrap up with Ms. Coady.

[*English*]

Ms. Siobhan Coady: Thank you very much. This has been most informative. I'm going to be rapid-fire, as we only have five minutes left and I have four big questions. So if you could be very succinct in your remarks... I'm going to ask all the questions first.

Mr. Campbell, please comment on the Small Business Loans Act and whether or not it needs improvements. What do you think needs to be changed in that?

Mr. Halde, if you could, on the subordinate financing, I'm quite interested in how that's working, of course, as a combination of a loan with some kind of stock option equity issue. I'd like to know whether or not that's working. Has it increased or decreased, regional versus industry?

Mr. Hayes, you mentioned syndication and said you were concerned about it. Could you elaborate on your concerns?

Mr. Rémillard, I want to talk about the procurement that you mentioned. The Sikorsky deal, of course, was the big helicopter deal that we did, $3.5 billion. There was a $50 million investment pool. Was that successful? Should we be encouraging government?

Most importantly I'd like to encourage the government that this is a very serious issue. Access to capital is going to continue to be a very serious issue. We talked about a perfect storm and this is it.

Mr. Campbell first, please.

Mr. Terry Campbell: Very briefly, I would characterize the Canada Small Business Financing Act as a work in progress. Minister Ablonczy has made some changes that I think are very welcome; the thing that stands out most is increasing the size of the loan. We certainly welcomed it, we had asked for that, and we're quite pleased by that.

Where I say it's a work in progress is I think our bankers still find there is a lot of administrative burden that makes it difficult to use. It acts as a bit of a disincentive to have the most effective use. So I think there's some good work so far, but there is more work to be done.

Ms. Siobhan Coady: Thank you.

Mr. Halde.

Mr. Jean-René Halde: The subordinate financing—just to explain exactly what it is—is a type of lending whereby the business owner should really be putting equity in the business, but instead of that, he's getting a loan. The risk of the loan is really an equity risk because you're so far down behind all the banks and so on that it is equity.

That has been doing very well. We do in excess of $100 million of that type of lending per year. It's been profitable every year, but it needs a very special team to do this type of lending because you're really buying into the business plan and the management capabilities, not on the balance sheet.

Thank you.

Mr. Thomas Hayes: In terms of more syndicate partners, I think I would refer back to the five-point plan that Richard outlined that has been blessed and put forward by the CVCA. I think if government were to follow some or all of those recommendations it would result in a greater number of players in terms of providing VC to the industry here in Canada, and we'd partner with those.

Mr. Richard Rémillard: I guess I've got a two-part answer to your question. On the big issue of procurement, it has not passed unnoticed that governments collectively invest huge amounts of money in information and communications technologies. The question is if that purchasing power is being used most effectively.

With respect to Sikorsky, that was one of two deals in the past 10 years, and the way it was explained to me was that Sikorsky had such huge offset obligations that they didn't mind spending a couple of million bucks and putting it into a little venture capital fund. But the key thing to retain from that is there has been one other deal in 10 years. Why not more?

● (1730)

[*Translation*]

The Chair: Thanks everyone. Thank you as well to our witnesses.

[*English*]

Thank you very much.

This meeting is adjourned.

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