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Mr. Dave Van Kesteren

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● (0905)

[*English*]

The Chair (Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC)): Good morning. Welcome to the meeting of the Subcommittee on Canadian Industrial Sectors of the Standing Committee on Industry, Science, and Technology.

We have a quorum. We are going to begin because I know that our guests have very much to tell us and are very excited to fill us in on something that's very important in studying the industrial sector and how the government can be effective in helping that sector at this particular time of stress and duress in our industries.

I welcome today, from Export Development Canada, Benoit Daignault, the senior vice-president of business development; and Madame Edmée Métivier, the executive vice-president of financing and consulting at the Business Development Bank of Canada. I believe we have the presentation by Madame Métivier, and we're just waiting on the one from Mr. Daignault.

So I would suggest that we begin with you, madame. You have about 10 minutes to give us a presentation, and then 10 minutes for you, sir, and then we will begin with of our line of questioning.

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

[*Translation*]

Good morning. Thank you for inviting me. It is a pleasure to be here to tell you about what the Business Development Bank of Canada, BDC, is doing to make credit more readily available to Canadian entrepreneurs. Our support is both direct and indirect, and I'll be pleased to describe it to you.

To begin with, though, a quick description of BDC. We have 1,800 people supporting entrepreneurs from 100 branches across Canada. We offer our support in three forms: financing, venture capital and consulting services. We support 28,000 entrepreneurs.

I'll limit my description to our traditional financing—term lending—which constitutes the bulk of our business and in which, because we act in ways that complement the role of private sector banks, we have a higher risk appetite than they do. This lending portfolio is over $11 billion. These clients generate about $160 billion in sales, including about $22 billion in export sales.

We have about 3% of Canada's term lending market, which makes us relatively small. While our branch network is modest compared to the roughly 6,000 branches of Canada's six big banks, our 600 account managers speak to thousands of entrepreneurs every month. This constant contact gives us a good sense for the pulse of the market.

[*English*]

Right now, we see two forces at work. The first is the recession. A great many entrepreneurs are hesitating to start new projects. They are delaying until they have a clearer sense of what the marketplace holds in store. As a result, BDC is seeing a lower than normal number of entrepreneurs who wish to start to finance projects.

The second force we see is tighter credit conditions. This is the result of three things: first, the departure from the marketplace of some foreign banks and many non-deposit-taking, non-regulated financial institutions, due to the sharp decline in the securitization market; second, a difficult bond market; and third, the difficulty financial institutions are having in lending in an uncertain economic environment.

What does this mean for Canadian entrepreneurs? If he or she has a long-standing business relationship with a Canadian bank or credit union, they are less at risk. However, they are at greater risk if they are operating in a sector strongly affected by the recession, such as manufacturing. And their risk rises if they have lost their financial partner and are trying to establish a new relationship with a new financial institution.

For us Canadian banks, the exit of our foreign non-deposit-taking and non-regulated peers means that we are straining to meet significant new demand. This is certainly the case at BDC. New and increased demand has caused our portfolio to grow much more than anticipated. Also, more mid-sized and larger firms are approaching us. Transactions over $5 million have increased 50% year over year.

Also, our branch employees are talking to their counterparts at other banks more than ever before. In the first 10 months of this fiscal year, there were 15,000 such points of contact, compared with almost 9,000 for all of last year. These conversations have produced more than 1,200 referrals to us.

In November 2008, the government announced a $350 million capital injection for BDC. We have received thus far $250 million, which we are putting to good use in the marketplace via our regular service offerings, that is, via our financing, venture capital, and consulting services. We expect the other $100 million in early April. We will use it for a new operating line of credit guarantee, developed after consultation with financial institutions.

The new federal budget contains two initiatives that seek to alleviate the hardship caused, first, by the exit of foreign banks and, second, by the collapse of the securitization market.

The first is the business credit availability program or BCAP, a collective effort of Canada's big banks, EDC, and us. Its goal is to ensure that at least $5 billion in loans and credit support is made available to creditworthy businesses whose access to financing would otherwise be restricted.

Through our participation in BCAP, we have five initiatives under way. First, for large corporate clients, we are participating in syndicates to replace departing lenders. Second, for mid-market-sized loans, financial institutions will share with us an increasing number of commercial deals on a *pari passu* basis. Third, for smaller deals, where *pari passu* could be inefficient or costly, we'll buy participation in commercial mortgages. Fourth, as I mentioned earlier, we are instituting an operating line of credit guarantee. Finally, we are exploring with some institutions a way to handle more quickly small loans that would get declined by those institutions' scoring systems.

Our collaboration with EDC and the banks is good. Constructive partnerships have developed.

The second thing that the new budget created was the Canadian secured credit facility to provide liquidity to the equipment, vehicle loan, and lease financing market. We will do so by helping to revive the securitization market through the purchase of term asset-backed securities. We are working on this with the finance department. We've completed public consultations and have drafted the action plan.

● (0910)

As with BCAP, we're striving to launch this credit facility as quickly as possible, but complex financial facilities such as this one, which may go up to $12 billion, are not created in a day, and we're very much aware of our responsibility to protect taxpayers' money.

If I may, I'd like to offer you some information on a sector of great importance to us: manufacturing. BDC has a long history of supporting it—65 years, as a matter of fact. About a quarter of our clients are manufacturers, more than half of whom are exporters. At present we have close to $4 billion in total loans outstanding. You will not be surprised to hear that we are doing more refinancing and more work in capital financing than we did last year. That's just a sign of the times. In this year alone, we've provided close to $700 million in additional financing to that sector. In terms of the auto sector, this year we have provided close to $200 million in additional financing, which brings our support for that sector close to $700 million in loans outstanding.

In Canada's high-tech sector, by which I mean the sector in which entrepreneurs bring to market, via successful companies, innovation spawned by Canada's R and D investments, things continue to be very difficult. Canada's venture capital industry has been in difficulty since before the credit crisis and the recession. It is causing great strain for young high-tech companies by severely limiting their access to financing.

We've described the industry's challenges in detail in a previous parliamentary appearance and would be pleased to share our statement with you if you believe it would be of interest.

Before closing, I'd like to speak to an issue I believe some of your constituents may be raising with you: BDC's willingness to support specific business projects, and possibly our reluctance to bail out failing business projects.

By virtue of the Business Development Bank of Canada Act, we are a commercial crown corporation with an obligation to do deals when there is reasonable chance of success. What this means is that while we give every business that approaches us a chance to present its case, we cannot help everyone who asks. Our commitment and our desire to help come with parameters. We must seek creditworthy clients and commercially viable projects.

In sum, BDC is working very hard to provide, directly and indirectly, support for Canadian businesses that need access to capital.

● (0915)

[*Translation*]

I trust you have found my presentation useful, thank you for your time and would be pleased to answer any questions you might have.

[*English*]

Thank you, Mr. Chairman.

The Chair: Thank you.

Now I will ask M. Daignault to give his presentation for Export Development Canada.

[*Translation*]

Mr. Benoit Daignault (Senior Vice-President, Business Development, Export Development Canada): Thank you Mr. Chairman, and thank you to the members of the committee for the opportunity to speak with you today. Your study is timely given the challenges currently being faced by Canadian companies across ail sectors.

I would like to divide my remarks into two parts. First, I would like to take a moment to briefly describe Export Development Canada and how we work with Canadian companies. Second, I will share how, from EDC's perspective, the current economic environment is affecting companies in a number of Canada's leading industrial sectors.

As a Crown corporation, EDC plays an important role in helping Canadian companies access credit and protect themselves against a variety of risks. What does EDC do? Briefly, we provide commercial financing and risk management solutions to Canadian companies and their partners.

This includes granting loans to foreign businesses wishing to buy products and services from Canadian companies; we grant working capital credits enabling businesses to meet their export contracts; we grant loans and insurance to assist businesses in investing abroad; we offer guarantees to the banks, which enables them to lend money more easily to their clients; we offer insurance protecting businesses from a broad range of risks, including risk of non-payment; we offer security services assisting business in guaranteeing performance of their contracts, as well as a program for capital investment in businesses in certain sectors.

We offer all these solutions directly or in partnership with Canadian and foreign financial institutions. And we always do it on commercial conditions, like BDC, without any annual funding from Parliament.

In 2008, EDC facilitated trade and investment for Canada worth more than $85 billion, supporting 8,000 Canadian businesses in virtually all sectors of our economy: $27 billion in the extractive sector, including mining, oil and gas; $18 billion in the infrastructure and environment sector; $16 billion in the resources sector; $10 billion in the transportation sector; $7 billion for information and communications technology; and $5 billion in the light manufacturing sector.

Now the challenges that Canadian companies faced last year have grown more pronounced as we move through 2009. Credit and risk mitigation is often difficult to affordably access. And demand for many Canadian goods and services has fallen in this recessionary environment.

[*English*]

That's the newspaper headline story, and one with which we are all familiar. What does it really mean for companies in Canada's major industrial sectors? Let me provide a bit of colour to this story by describing what EDC is seeing.

In the extractive sector, two factors are at play. The first is the sudden and dramatic fall in commodity prices. Lower prices mean lower earnings. It also means falling spending on capital expenditures as companies look to preserve their liquidity. As these companies spend less, their suppliers begin to feel the pressure as well. Of course, all this is amplified by tightening liquidity. At the same time as these companies are earning less, their ability to access capital is also limited. The resources sector, and particularly the forestry sector, is another area where companies are struggling. Lumber markets are depressed, as demand from the U.S. housing market has fallen considerably. Pulp markets are in decline and global consumption of newsprint is falling.

All this is resulting in scaled-back production, layoffs, and facilities being closed, often in remote communities. In addition to dealing with falling demand, companies are finding it difficult to access affordable receivables insurance. This presents two challenges: first, without insurance, they are being exposed to greater risks; and second, companies have typically used this insurance to obtain additional working capital from their banks. Without coverage, their ability to access this financing becomes even more limited. The aerospace sector is another sector where Canada, despite having a world-class industry, is seeing difficulty. Financing is difficult to obtain for the buyers of our aerospace products. Airlines are seeing demand fall and their credit position deteriorate, while private market financing for products such as business jets is tight. As a result, production in Canada is falling, affecting not just the producers but the suppliers as well.

The last sector I will highlight is the light manufacturing sector. This sector accounts for about 40% of the total Canadian exporter population, the majority of whom are small and medium-sized companies. The story in the sector is a familiar one. In recent years companies have had to deal with the rising and now fluctuating Canadian dollar, rising input costs, aging production facilities, and increased competition from lower-cost foreign sources. These persistent challenges are now being amplified by the credit crunch. First, these companies cannot always access sufficient credit to finance their operations. Second, their customers, 85% of whom are in the U.S., cannot access the credit needed to buy their products. Where possible, companies are trying to invest in new technologies to improve efficiency and lower their costs. They're also looking to invest abroad and at offshore operations, again to lower cost and more efficiently serve foreign markets. These are the right steps to take.

Where does Canada go from here? Let me outline what we see as four credible priorities for Canadian companies looking to compete in the global economy.

First, our companies need to think internationally. An exporting company is a more efficient and competitive company. Companies need to identify opportunities to market their goods and services to the world.

Second, we need to think beyond the U.S. market. While Canada has benefited from its proximity to the U.S., there is a wealth of opportunity and high-growth emerging markets we should be pursuing.

Third, companies must continue to invest in new technologies and processes. These investments can improve productivity and enhance a company's competitiveness.

Fourth, our companies need to participate in regional and global supply chains. In today's global economy, larger companies are building their own supply chains and smaller companies are competing to find their link or niche along existing chains. Canadian companies must follow suit.

Of course, tying all this together is the need to access credit and risk mitigation. This is EDC's role and it is one that has been expanded through budget 2009. The measures introduced in the budget provide us with greater flexibility to get credit in the hands of Canadian companies that are active in areas related to EDC's core competencies, and where EDC can add value in a manner complementary to the services provided by the private sector.

● (0920)

As we move through 2009 and confront these challenges, I would conclude with one observation: at EDC we find that as the world learns about Canada and what our companies can offer, opportunities follow. As a country we develop, produce, and export goods and services that are valued in countries around the world. The challenges our companies face today are steep, but they are no different from the challenges being faced by their competitors. By helping viable Canadian companies access credit and risk mitigation, we can position them not only to survive but to compete and succeed.

[*Translation*]

Thank you.

● (0925)

[*English*]

The Chair: Thank you, Monsieur Daignault.

We will begin with our round of questioning, which will take us to approximately 10:30. At that time we absolutely must do some committee business, and there is a motion that we have to address as well.

Our first round of questioning goes to the Liberal side. Mr. Garneau, you have seven minutes.

Mr. Marc Garneau (Westmount—Ville-Marie, Lib.): Thank you, Mr. Chair.

First of all, I would like to thank both of our witnesses this morning.

[*Translation*]

Ms. Métivier and Mr. Daignault, thank you for coming here this morning to talk about your two organizations.

First, I'm going to speak to Ms. Métivier. In your introduction, you mention the Business Credit Availability Program, and you say that your organization, the major Canadian banks and EDC have set as your goal to ensure that “at least $5 billion in loans and credit support is made available to creditworthy businesses whose access to financing would otherwise be restricted.”

Can you tell me where you stand in that regard?

Mrs. Edmée Métivier: Absolutely, Mr. Garneau. I won't speak for EDC but rather for BDC. There are some factors in this that have caught us a little off guard, that is to say that we had to position ourselves in order to have the ability to act. The BCAP program includes five components, as I mentioned a little earlier.

I'm going to proceed from largest to smallest. The withdrawal of financial institutions other than the major Canadian banks has left roughly a 30% void in the market, that is to say 30% of the market has disappeared in a few months. It happened very quickly. As a result of the liquidity crisis, these lenders, who were in the Canadian market, became incapable overnight of raising funding to relend to Canadian businesses. Canadian financial institutions took back part of that market, but obviously were unable to fill the 30% void completely. I'll give you an example.

A major Canadian bank that previously relied on a consortium of a number of banks granted a comprehensive $200 million loan to a slightly bigger business. It is now having difficulty finding partners because there are few of them in the market right now. EDC and BDC have, to all intents and purposes, played a more important role with respect to major bank consortiums. BDC has had to implement that as well. We conducted our first transaction in March, and the equivalent of $300 million is currently being reviewed. We are making good progress in this sector.

There's also the work that's being done together with the financial institutions to be able to share the risk. That's one of the fundamental principles of the BDAP. The idea isn't to make it so BDC or EDC becomes the bankers' banker. The idea is to share the risk. In February and March, we noted an increase in our joint transactions. For example, a $10 million transaction went through my office yesterday. It involved a GM car dealer, and thus was a fairly risky transaction. We took part of it, on a term basis, and the bank took another. That's what we call *pari passu* transactions, that is to say transactions for which the risk is shared. That's the second element.

As regards the third element, we are going to implement a credit margin guarantee program this week. Some SMEs, particularly in vulnerable sectors, such as the manufacturing sector, are having trouble increasing their credit margin. They currently need this increase right now to meet all kinds of challenges they are facing, such as paying their suppliers. It is taking longer to collect on accounts receivable. This guarantee program will help financial institutions maintain their credit margins at pre-crisis levels or higher, if necessary. Today we began going round to the financial institutions to present our guarantee program. Once again, this is a matter of sharing. We don't completely guarantee the line of credit, but merely a portion of it. This will generate a little liquidity in the market. On June 15, we will be able to report to the government on progress on this matter.

As regards the fourth initiative, I would say that, for the smallest transactions, those representing less than $7.5 million or $10 million, it is hard to share the risk with financial institutions because it takes too much time. We are exploring a mechanism that would enable us to purchase, as a block, a portion equivalent to 50%. For example, we can take 50% of 10 transactions, which puts cash back into the financial system and enables the bank to use that cash to grant other loans. That's a more indirect measure, but it's also effective.

● (0930)

Last but not least—this takes longer to explore—is the way in which BDC is able to interact with the financial institutions concerning, for example, loans that are declined by their scoring systems. Is there a portion of these loans that BDC can take? We obviously won't take the financial institutions' losses, but we could perhaps help some of those clients. This idea is currently being explored, and I will have to talk to you about it a little later perhaps because we haven't yet found the key to doing this.

That said, in January, February and March, BDC granted $750 million in financing to Canadian SMEs across Canada. We are finishing our year today, March 31, and we have put $3 billion in funding into the Canadian market. Even in our normal operations, we are still supporting the sectors, particularly the manufacturing sector. I would say that we pay more attention to it because there is less of an inclination to lend to the manufacturing sector. That's always been a top sector for BDC.

I hope that answers your question.

Mr. Marc Garneau: Yes, thank you. I have another question, perhaps a little subjective.

[*English*]

The Chair: Be very quick.

Mr. Marc Garneau: Okay.

[*Translation*]

It's a very subjective question. Are you forced to stretch your margin of safety these days, given the current situation?

Mrs. Edmée Métivier: Absolutely, and we do it regularly. The transaction I'm telling you about, the $10 million transaction that crossed my desk yesterday, is outside our safety zone. However, we think that the management team in place at that business will enable the company to succeed.

[*English*]

The Chair: Thank you, Madam Métivier.

Monsieur Bouchard, for seven minutes.

[*Translation*]

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): Thank you, Mr. Chairman.

Good morning, and thank you both for being here today.

I don't know who my question is for, perhaps for Ms. Métivier. When you talk about the manufacturing sector, are you talking about wood, the softwood lumber sector, the paper sector? Whether that's the case or not, you will tell me regardless. When a forest business, a business operating in the softwood lumber or paper industry, turns to you, can it get a loan or a loan guarantee so that it can perhaps go to another bank? Is that possible with you?

Mrs. Edmée Métivier: Mr. Bouchard, for us, the manufacturing sector includes all sectors, including, of course, wood and the forest sector. So a manufacturer is ultimately someone who makes a product that he can sell, something tangible. It's not a service; it's more of a product that you can touch. That may be in the plastics sector, in the forest sector, the automotive sector, the metals sector.

The answer to your question is yes. We don't discriminate by sector at BDC. If the entrepreneur's project makes sense, if the survival of the business makes sense, we'll examine it and act on it. We are engaged in the fisheries sector, a sector that has not been privileged over the years. We are involved in the forest sector as well, and we know there are issues there. Obviously everything depends on the financial situation of the business, but also on the ability of the management team in place. That's very important for us at BDC. We consider whether the management team has a business recovery plan, to enable the business to get through the difficult period, and whether the business is able, among other things—as my colleague from EDC mentioned earlier—to examine the future and consider whether it isn't able to succeed elsewhere than in its local market, in Quebec or Canada, whether there aren't other markets that it should consider. Ultimately, we really look for entrepreneurs who have sound plans. These are the people we support and assist in getting through the tough times.

When a business is in difficulty, does not have a recovery plan and is unable to reinvest in its business, we won't necessarily take the place of a lender. However, if it has a good recovery plan, if we believe in it, if we trust the management team and it makes sense economically, yes, we'll support it.

● (0935)

Mr. Robert Bouchard: When you agree to grant a loan to a business, in the forest sector or softwood lumber sector, for example, can the interest rate be higher than it would be if the business were operating in another sector? Does that vary or is it equal for everyone, whether the loan is riskier or less risky? What is your policy on that point?

Mrs. Edmée Métivier: BDC's rate policy varies with the risk that each case represents. Each transaction is reviewed based on risk. A number of criteria are used to determine the risk that a business presents: the sector, management team, financial situation, project effectiveness, etc. Rates are based on those risks. In general, BDC's rates are a little higher than those of the financial institutions.

Mr. Robert Bouchard: What's the range? Between 7% and 15%?

Mrs. Edmée Métivier: It can vary. More often than not, it's a floating rate. Most of our entrepreneurs prefer to have a floating rate because it's more advantageous for them. It ranges from prime to prime plus 5% or 6%.

Mr. Robert Bouchard: I don't understand.

Mrs. Edmée Métivier: The prime rate plus 5% or 6%. Today the prime rate is about 4%. Four plus six equals 10; so the maximum rate is 10%.

Mr. Robert Bouchard: That means that those who get a higher rate are riskier.

Mrs. Edmée Métivier: That's correct.

Mr. Robert Bouchard: All right. As they're all more vulnerable, they have higher rates. If you incur losses as a result of bad loans, does the government compensate you?

Mrs. Edmée Métivier: No. The bank is required to be financially profitable. BDC has been profitable since its mandate was amended. Over the years, it has returned dividends of $150 million to the Canadian government. When it incurs losses, it has to absorb them. The Canadian government chooses to invest in BDC from time to time to enable it to expand its operations. However, under the legislation governing it, BDC must be financially viable, which means that it cannot incur costs to Canadian taxpayers.

Thank you.

Mr. Robert Bouchard: Mr. Daignault, your organization's focus is mainly on businesses that export.

Mr. Benoit Daignault: Yes.

Mr. Robert Bouchard: Do you have a component in Canada and Quebec to increase demand? Does that concern you?

● (0940)

Mr. Benoit Daignault: We have been active in Canada for years. Our corporation was founded 65 years ago. However, there have always been certain limits in Canada because our mandate is to support foreign trade. That means that we'll support a Canadian business, we will assist it to the extent that it has an export contract, to the extent it is involved in international trade.

As a result of the last budget, EDC has the option of temporarily supporting not only international trade, but also what is defined as domestic trade within Canada, to help fill the void—that Ms. Métivier described a little earlier—left by the financial institutions. We are able to provide temporary support for businesses in Canada doing business in Canada. EDC will support small and medium-size businesses through guarantee programs in partnership with the banks, to the extent that a financial institution believes in the business. The commercial point of view is important for BDC and EDC as well. We operate in accordance with business principles. In the opposite case, that is to say if the relationship between the risk and return were not at market levels, we might be a concern for the World Trade Organization because we would be providing a kind of subsidy to business. That's not part of EDC's mandate, or of BDC's mandate either. We will try to help the banks finance their clients internally.

You talked about forestry a little earlier. We can also provide assistance through our short-term insurance program. When a local business is active in the region, it is often part of a supply chain. That chain is often controlled or managed by major corporations. EDC will provide insurance or enable a business that sells to that major corporation to have protection through insurance so that that company can manage its risks. If I am an entrepreneur in the regions and I want to sell to a major paper maker, I can get insurance from EDC that will enable me to sleep at night because it will ensure that I'll be paid by that business.

As the risks increase within a given supply chain, demand for that kind of instrument increases as well. We've seen that in a number of sectors, including the automotive sector.

[*English*]

The Chair: Thank you.

Mr. Lake.

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thanks for being here today.

I want to start with a bit of global context, if I could. There have been many commentaries from outside of Canada. We've read comments in *Newsweek*, *The Economist*, the London *Telegraph*, and *The New York Times* on Canada's relative strength compared to other countries.

The New York Times recently talked about the American banking system, saying, “There is no time to waste. Reconfiguring the American banking structure to look more like the Canadian model would help restore much-needed confidence in a beleaguered financial system. Why not emulate the best in the world, which happens to be right next door?” The World Economic Forum ranked our banking system as the most secure in the world. *The Economist* said, “...in a sinking world, Canada is something of a cork. It's well-regulated banks are solid. ... The big worry is the fear that an American recession will drag Canada down with it.” There are several more quotes that I won't read, but that are very, very similar to that.

In terms of that global context, what's the difference here in Canada?

Mrs. Edmée Métivier: Maybe I can try it, and Benoit can add to it.

When it comes to the difficulty that we're seeing at the moment, we were caught by the fact that our next-door neighbour was the largest trading partner of a lot of our clients. I would say that of the exporters that we have in our portfolio, which is close to 7,000 companies out of 28,000, 80% of them were exporting to the States. All of a sudden, their pipeline of sales dried up.

Some of them had already explored alternatives to that, and therefore they were lucky; or I should say they had the foresight—because a lot of these entrepreneurs are very good at what they do—to start looking at other markets: Asian markets, European markets. So those that had already established networks elsewhere than just with the States are actually doing well. I look at my portfolio and I see that the sales volume has gone down, but they've been able to compensate for a lot of it.

Over the last 10 years it was easy to do business with the States. They were there and the market was growing, and there was a lot of money flowing between the two countries. It's not that way today. What we have to do—Benoit was right—is continue to help our entrepreneurs in Canada to look at alternatives to the U.S. market. So we do. Even at BDC we have a globalization program. For our manufacturing companies, we're systematically touching base with our clients to talk about alternatives, actually, to the U.S. market. We work with them, with our consulting arm, as well as with DFAIT and EDC to try to help them with their plan to steer to other markets.

Having said this, the global economy itself is affected. I was in Asia last week. It's not only North America. In Asia, too, the volume of transaction has gone down. China, as a manufacturing country, is not as active as it was six months ago. You can sense that in Vietnam; you can sense that in Korea. Europe is also affected. You can see that there's a standard that's going down at the moment. We're going to have to face that. What we have to do, from our perspective, is support the companies and the entrepreneurs who have the foresight and the wherewithal to actually steer their company in the right direction. There's no single answer for all of them. Each one is different, depending on what they're doing, on their type of business, basically.

I think that's the difference between the States.... It's not a question that our banks were sloppy; they're not. I believe the Canadian banks are well managed and well regulated by the Canadian government. They have their appetite for risk, which may be different from what we would wish; nevertheless, they're well managed. So they're trying to compensate, but I have to say that some of the behaviour of the departing players in the financial industry also created the problem that we're facing. There was credit granting that was outside the conventional norms of financing. I've been in this business for 30 years, and this is my third recession. So there was, in my view, behaviour that was not acceptable and it created part of the problem that we're facing today.

Benoit, perhaps you want to add to my comments.

● (0945)

Mr. Benoit Daignault: Sure. *Merci, Edmée.*

Well, I have a few reactions.

First, I would say that being global is better. We hear a lot of negative stories and we see a lot of negative stories in the papers today, but every day we see great stories at EDC around companies going to Brazil, going to Asia and the like, and having a lot of success. We should not forget about that, because I strongly believe that diversification, from a country and geographical perspective, is a great way to build Canada's wealth and competitiveness.

Just to go back to Madame Métivier's point on the practices, from the lending side that we have seen over the last couple of years, it was on both sides. It was not only the risk assessment, but it was also the pricing assessment. Money was cheap, and as a result, companies were able to get money that did not reflect their actual risk. As a result now, the companies are suffering on two sides: not only is the liquidity not there, but on top of that, the remaining liquidity is very expensive. Now it's probably going the other way: instead of being not expensive enough, credit is too expensive right now.

And there are some issues in terms of pricing risk currently. On certain deals, we see the private sector pricing anywhere from 400 to 800 basis points over benchmark. So it's very difficult just to understand pricing in the current market.

The last point I would like to make is regarding Canadian banks. EDC recognizes the financial services in Canada as a sector of expertise, and actually, we support Canadian banks in their international ventures. There are many Canadian banks, now more and more, that are looking outside Canada to expand their market, and we're supporting them from that perspective.

● (0950)

The Chair: Mr. Allen.

Mr. Malcolm Allen (Welland, NDP): Thank you, Mr. Chair.

Thank you to the witnesses for being here this morning.

Perhaps I'll make a statement on the banks, because I hear what Mr. Daignault says about Canadian banks going abroad.

It's absolutely correct, as Mr. Lake pointed out, that Canadian banks may be on a sounder footing than those of their international competitors, so thank goodness we didn't allow them to merge 10 years ago. Somebody had some foresight, it seems to me, when they opposed those mergers when someone decided to bring them up. I'm glad we were able to make folks understand that.

But I love revisionist history. It's always marvellous stuff. I actually studied history and political science in university, so revisionist history is always a great thing.

But when you talk about supporting banks as they go abroad, it seems to me that a few of them, not all of them, also got themselves exposed to some risk that perhaps they wouldn't have exposed themselves to had they been using the same sort of risk management techniques in this country when they ventured abroad and had stuff on their balance sheet.

And I call it “stuff” because, really, that's what it is these days. I don't think it has any intrinsic value, and it probably didn't have any intrinsic value at the time. So I'll call it stuff, for want of a better term, because there's a whole pile of it, whether it be ABCP or whether it be other derivatives or any other kind of mechanism. It's a bunch of stuff, and the market has difficulty in measuring what exactly it is worth. That has washed itself back into what I would call the real economy, where folks actually make things and supply services to us in this country and to those abroad, and has caused our folks who are involved in real economy—which eventually means workers, and those who work for a living—to feel the adverse effects of that stuff causing them to be unemployed and businesses to actually close and go into bankruptcy, receivership, and just disappear.

Based on all of that, as I looked through your presentation, Ms. Métivier, you say here that about 3% of the Canadian term lending market is the approximate piece of the market that BDC has. It would seem to me that at any given moment in time, 3% may have indeed been a decent piece to play in when the economy was sort of moving along. But at this moment in time it seems to me that's lacking. And I don't think that's a fault of the BDC, and I want to make that clear: I don't believe that's the case. But it seems to me—and I'd like your comment around it—that if indeed we can't get the regular lending institutions to actually come back into the market in a meaningful way that will help our exporters, manufacturers, and service industries, do you see a greater role for the BDC to play in the economy that is greater than 3%?

Mrs. Edmée Métivier: The answer is definitely yes. Mr. Allen, I really appreciate your question.

BDC, by its act, was asked to be complementary. Complementary means that you're doing what other financial institutions are perhaps not willing to do, and complementarity also evolves with the context. Our complementary role today is to take a greater part of the marketplace, and that's happening as we speak.

On average, every year the portfolio of BDC would grow by about $500 million to $600 million. This year it will grow by twice that size, and I expect that it's going to continue for the next two or three years. We started, actually, playing a greater role in September of last year, getting closer to mid-sized companies that were coming to us and saying, “We don't have anybody to finance us anymore, because it has stopped.” We're getting involved in larger transactions. We're getting involved in smaller transactions. Our market share is growing.

The 3% that I mentioned is data from 2007. I believe that when we measure it next time, it will be bigger than that. So you're quite right, our complementarity is going to require from us that we take a bigger share of the term facilities, and we will.

● (0955)

Mr. Malcolm Allen: When you talk about taking that larger share, I compliment the BDC for doing that. It seems to me that if we're going to unglue this system and get credit flowing back to business, which is really its lifeblood, to make sure it can actually continue to function and hopefully get back on its feet, then markets will eventually return. And we need to be prepared to take advantage of those particular markets when they do reappear.

If we don't have that lifeblood in the system, if, as Mr. Daignault said, the pendulum has really swung the other way, which I think it is a correct assessment, from the perspective of where you basically walked through the bank door 18 months ago and they would have fallen over themselves to give you money, they now seem to be gone on vacation somewhere, where they don't want to lend money to anyone. Regardless of how great an asset base you may have, it seems they don't have any preferred customers anymore.

I noticed that you said in here that a preferred customer is someone who has a long-term relationship. Some of the calls I get at my constituency office are from small and medium-sized businesses, which are saying, “I've been at the same financial institution for 25 years and I'm being squeezed out.” These aren't businesses that have international exposure, and they are not auto related. They're being squeezed out simply because the credit market is tightening. They become the aftershock, if you will, of that particular tightening.

When I look at your statistics on page 3, where you talk about 15,000 such contacts compared to 9,000 last year, I see where the increase is coming. Perhaps you could let me know whether the uptake is the same now as it was a year ago. In other words, you're at less than 10%. You're seeing 15,000 contacts, but your conversations have produced more than 1,200 referrals, which is running at about 8%. Was it indeed that same percentage when you had 9,000 contacts? Is that uptake about the same, or is it greater?

Mrs. Edmée Métivier: The difficulty we sometimes have is in actually making sure banks don't give us their problem. So the uptake is a little bigger than it was a year ago. Having said this, we sometimes just have to say to the financial institution that we cannot help in this particular case.

Most of the time when they contact us, it's not only for financing, it's also for consulting, because we do have a consulting arm. We did $26 million in consulting last year. We're going to end the year with $26 million in revenue. I use revenue because it's the easiest way to measure, but it represents about 2,700 contracts that we did for small businesses.

The average size of a consulting project is $10,000. What we do when we go into a business is help the entrepreneur figure out what the next step is for his or her business. We've seen an uptake on strategic planning, we've seen an uptake on human resources planning, and we've seen an uptake on efficiency planning, in which a company says, “I've got to reduce my costs; how do I do that?” So BDC will step in.

When we get a call from a financial institution, they don't have the consulting arm, so it could be for consulting or it could be for financing. Sometimes actually it can result in both. Most of the time what we try to do is actually look at the company and see if we can help them without additional financing. So we will use the consulting arm to do that.

Of the 15,000 contacts, it's not always a referral; it's sometimes a financial institution calling us to discuss whether or not there are certain things we could do to help them. We don't touch operating facility. That is and has been the realm of financial institutions forever. What we're going to do this year, though, which we've introduced, is the operating line guarantee that I was suggesting earlier. That will start this week. That's new because there was no need for us to do operating facility in the past. They were there, and there were so many players that they were actually tripping over one another. Now there are fewer players, so we're probably going to have to shore up that activity with them.

● (1000)

The Chair: Thank you.

Our next round is five minutes. Mr. Garneau.

Mr. Marc Garneau: Thank you.

Mr. Daignault, I'll go to a specific example. Bombardier is trying to sell its CSeries. If there was a large demand for EDC's services in helping secure some of those sales, my question is, do you limit yourself in particular sectors to how much you are prepared to expose EDC money, or do you look at each situation on a case-by-case basis?

Mr. Benoit Daignault: We have a sector approach, and aerospace is obviously one sector where we're very active, as you know. Instead of answering for the CSeries, I might want to draw a parallel with the regional jet story, because it's a very good illustration of what will hopefully happen with the CSeries.

EDC has been very active in the regional jet market, financing customers—buyers of Bombardier's products—as opposed to financing Bombardier themselves. So our portfolio is essentially a portfolio of airlines and companies that are buying Bombardier's product. It is public information that the exposure is in billions of dollars. Just this year we did more than $2 billion of financing for Bombardier's products.

The reason I want to talk about the regional jets is that we did reach some limits in the past regarding the exposure we had on the asset base and on the sector base because we have a single obligor limit, we have sector limits, and we have asset limits.

We have been able to use, in certain cases, the Canada Account, which enables us to essentially use the Government of Canada's balance sheet as opposed to our own balance sheet to add capacity. And we also structured some asset-based insurance, which enabled us to actually increase our own capacity from a balance sheet perspective.

So as we look at the strategy for the CSeries, we will likely use the same tools. I would say that on top of that, the difference with the CSeries is that there is going to be some production outside of Canada and we will likely leverage the local ECAs to actually come up with a more comprehensive package, build more capacity, and to be able to respond more quickly to the future buyers of the CSeries.

Mr. Marc Garneau: Madam Métivier, you mentioned that the situation for small R and D companies is difficult, specifically with respect to venture capital. At a previous committee, I heard you mention that you would be ready to share the views you offered, and I'd like to ask you to provide them to us.

How would you differentiate BDC from private companies that provide venture capital to firms? Are you basically the same, or are you different?

Mrs. Edmée Métivier: We are different, because BDC has always taken a long-term view on all of our investments. We currently have about 150 technology companies. I'm talking about high-tech companies—in biotechnology, information technology, nanotechnology. These are companies that represent the future of Canada. They're at risk, all 150 of them, because there is no venture capital available in Canada. We are going to try to support the best ones. They're not all equal. We're going to continue to invest and try to help the best quarter of them, the best 30% or 40%, through this rough time. At the moment, there's no money available in the marketplace. The longest investment that we've had in this portfolio is well over ten years. We've been a shareholder of that company for over 10 years. Actually, I think it's closer to 12. We take position and wait for the right opportunity for them to become wholly private or public companies. Most of them become public eventually.

There are a lot of successful companies that the BDC has built over the years. If you go back into the history of BDC, Rogers Communications got its first loan with BDC. Ballard and Tundra were created by BDC. I can name many of these companies. Today, what breaks my heart is that if we let go of all the technology companies into which venture capital has been invested, once this recession is over you will have to start the process of innovation again in Canada, and you will have lost an entire decade.

● (1005)

Mr. Marc Garneau: Thank you.

The Chair: Mr. Lake.

Mr. Mike Lake: Madam Métivier, the Canadian secured credit facility is a complicated program. When I'm trying to explain it to my constituents who aren't finance majors, it's difficult to understand. You state that you'll help to “revive the securitization market through the purchase of term asset-backed securities”. Most people, rightfully, wouldn't understand what that means. Could you explain the secured credit facility in a way that an average non-finance major could understand?

Mrs. Edmée Métivier: You're right, it's getting less complicated, actually, as we work on it. Even for us at the very beginning, we said, what is this? Now we're getting it.

I'm going to go back to your comments, Mr. Allen, about stuff on a balance sheet. As a matter of fact, I like that: stuff on a balance sheet.

I'll use a simple example. If Edmée Métivier purchased a car two years ago and decided to use a lease, she didn't actually purchase the car; she leased it, and that contract would have been financed by whatever company she bought it from—let's say Nissan, GM, or the like. They would have provided the financing. To fund that financing, they would eventually have a pool of leases. They would put 100 Edmée Métiviers in a pool, so they would have 100 leases for the same amount and with the same characteristics and profile. They would have bundled that and sold that on the market, and Benoit Daignault, who's an investor and has more money than I do, would have purchased a portion of that asset. So that asset was actually guaranteed by the lease that I had originally taken, and Benoit would have funded an investment. He would have said, “I have $5,000, $10,000, or $25,000 and I want a return on this.” That's how the market would have done it.

To get between him and me, there was a series of transactions being done. GM, for instance, would have funded it by going on the capital market and getting short-term financing to be able to fund this until they got to 100. When they had 100, they then would have sold the bundle through a conduit on the marketplace. Some would have gone directly to the marketplace. Others would actually have gone through a financial institution. If it wasn't GM but a smaller company that we don't know much about, they would probably have gone through a financial institution. The financial institution would have waited to have a bundle and would then have gone to the marketplace and sold it.

Once I've sold it on the marketplace, I can continue doing leases. I can go to somebody else and do other leases, because I've pushed that out of my balance sheet and up comes liquidity, which allows me to continue the cycle. Come September, this cycle doesn't work anymore, because GM goes to the marketplace and suddenly is not able to raise even the short-term financing it needs to support the lease that Edmée wants. It starts there. All commercial paper is stopped. The market is not working very well.

In addition to that, for all the bundles of Edmée Métiviers they had, they couldn't sell them on the market, because Benoit said, “You know what? I don't like you anymore. I don't want to invest my money into this because it's too high a risk, and even if you offer me 20% I won't take it, because I have no appetite for that risk anymore.” So you can see that this stuff actually got stuck on the balance sheet, which means that we don't have cash to be able to support the leasing anymore.

So what BDC has been asked to do is to purchase those asset-backed securities that are right now sitting on some of the balance sheets of the financial institutions and the other players. What Finance has said is that it will be not only the financial institutions but anyone, actually, who fits their criteria, and Finance criteria include the fact that if you're not regulated you will have to become regulated. I believe that is the right thing to do, because part of our problem today was created by those unregulated companies that behave in a fashion that is different from that of the regulated companies.

● (1010)

So in a nutshell, Mr. Lake, the $12 billion program is there to try to unclog the balance sheet and kick-start the vehicle market, so that if Edmée wants to go and get a lease today, she can have access to that lease. There are three ways to purchase a car: you pay cash, you lease it, or you borrow the money and pay the full amount right from the beginning. Over the last 15 years, our consumers have become accustomed to the lease. However, if you want to lease today, you won't be able to purchase the car through a lease unless you have the best credit rating. You will be forced either to borrow the money or to pay cash.

Does that explain a little bit?

Mr. Mike Lake: That's what I was looking for.

The Chair: That was an excellent explanation. I think that's the best I've ever heard.

Please go ahead, Monsieur Bouchard.

[*Translation*]

Mr. Robert Bouchard: Thank you, Mr. Chairman.

Ms. Métivier, when Mr. Chevrette came to meet with us about two weeks ago, he was seeking loan guarantees that the government could not grant him because that might be in breach of the softwood lumber agreement.

Does BDC grant loan guarantees to businesses in the lumber and paper industry? If so, do you take the softwood lumber agreement or international agreements into account?

Mrs. Edmée Métivier: In the past, Mr. Bouchard, we haven't offered any loan guarantees. There are other loan guarantee programs, but BDC did not provide loan guarantees. We're starting to offer them for operating loans as of now. I'm going to go back to the office to check the answer to that excellent question, but I don't believe that's in breach of the softwood lumber agreement.

In response to your question, that business would be eligible. We don't draw any distinction based on sectors. In our view, the important thing is the business, the quality of its management and the project, if a project is involved. In the case of operating loans, the guarantee will be given to a financial institution. If a business wants a guarantee on its operating loan, it goes through its financial institution, and BDC then intervenes.

I'll be able to let Mr. Daignault talk about EDC's guarantee program later. There are other guarantee programs in Quebec and at Industry Canada.

With regard to softwood lumber, I'm going to cite an example of a transaction that we've just conducted this week. It involves a business that manufactures wooden windows. We've just granted $7.5 million in financing to support the switch or transition of a business that has just gotten into trouble. This is one example, but we do these every day. In fact, every situation has to be examined, just like the entrepreneur who stands behind his plan, what he is contemplating and how he implements his plans. That's important for us.

Our guarantee program is mainly for operating loans. It will be available starting tomorrow, April 1, but there are other guarantee programs for loans. In Quebec, the Government of Quebec has put a number forward, as you are no doubt aware. Industry Canada also has guarantee programs.

● (1015)

Mr. Robert Bouchard: You said that a business that was more vulnerable got a higher rate.

Mrs. Edmée Métivier: I would not say it exactly like that. In fact, it's the risk.

Mr. Robert Bouchard: If the risk is higher, the rate is higher, but if the risk is lower, the rate is lower.

How do you establish that? How do you calculate it? It's no doubt complex, but could you explain it to us simply?

For example, what do you do if a business exceeds its profitability or some rate of return by a few percentage points? I'd like to have some clarification on that question.

Mrs. Edmée Métivier: With pleasure. I'll try to make it as simple as possible.

Granting financing is an art, not a science. There's a difference between the two. It isn't done in a mechanical way. Somewhere, a human being makes a decision, particularly at BDC. Like any other financial institution, we use electronic instruments such as scoring, but it's not the technological instrument that makes the decision. The decision is made by a human being who reviews the individual's financial situation, sees where the individual stands and determines whether the management team in place is experienced or lacking experience. You have to evaluate the entrepreneurs who are behind all that.

So we assess the rates based on major criteria. We have tools that enable us to establish orders of magnitude for rate-setting. Our 600 employees in the field need parameters. Our tools enable us to form an approximate idea of rates, but ultimately it's a human being who determines the final rate, in this case the people who make the decisions concerning risk.

BDC has a special loans group for businesses in trouble. We will make every effort to save a business that turns to that special loans group, including lowering the interest rate. You have to be careful when you say that the most vulnerable pay more. First of all, we set a price based on the risk. If a business needs a helping hand, we'll review its situation and support it as far as possible, provided we still have hope that the business is well managed and can turn itself around. In fact, it's more a matter of trust than hope. We have to continue to have trust in the entrepreneur, who we consider to be the right person to manage that business.

Normally, with regard to rates, we asses the risk based on the management of the business, its financial situation, its leverage, the industry in which it operates, its strategic action plan and so on. There are six or seven components that influence the rate-setting, such as an entrepreneur's ability to reinvest in his business. You have to check to see whether he has taken all the money out or if he has kept a little to reinvest with us. A banker will invest in a business in partnership with the shareholders. We don't own that business, but we are a partner. The entrepreneur must be able to make an investment in his business. Otherwise he has no interest in the survival of his business.

These are all the factors we consider. It's not an exact science, but rather an art. You have to develop the talent of an experienced banker. Even after 30 years, you still make mistakes.

● (1020)

[*English*]

The Chair: Thank you.

Mr. Lake.

Mr. Mike Lake: I want to move to BCAP and talk a little bit about it.

In describing it, you say that its goal is to ensure that at least $5 billion in loans and credit support are made available to creditworthy businesses whose access to financing would otherwise be restricted. I'm interested in the term “creditworthy”. It would be safe to say that virtually every company in Canada is more of a risk today than it would have been a year ago, based on the circumstances, isn't that right? Could you define “creditworthy” and say how the definition may have changed over the past year?

Mrs. Edmée Métivier: That's a very tough question. How do you define “creditworthy” when banking is an art much more than a science?

There are elements in creditworthiness. Prior to the beginning of the recession 12 months ago, a company could have been profitable and it could have had a leverage that was reasonable. It could all of a sudden face not being profitable and still be creditworthy. It is the judgment of the banker, and that includes my judgment. When I look at a company's creditworthiness, I look at the ability of this company to withstand the next two years as a recession. Even if they lose money, profitability is only one criterion; it's not the only criterion. It's also the leverage of the company.

Now, if the company was losing money before the recession, please understand that that makes it very hard for the company to be creditworthy. If they weren't capable of being profitable when the environment was absolutely positive, what makes us think they will be profitable over the next two years and beyond?

So creditworthiness is looking at a combination of factors. Leverage means how much debt they have on their balance sheet. If they are fully loaded, 100% of their assets.... It's like your mortgage. If you have 100% of the value of your home in a mortgage, you have absolutely no room to get a loan against your house if you lose your job. Your leverage is too high. However, if your mortgage is 50% of the value of your home and you lose your job, you can probably go to your bank and say you want to raise your mortgage to 60% or 70%. You're able to get a bit of working capital out of that.

It's the same principle for a balance sheet of a company. If a company's leverage is so high that you cannot give them the additional working capital they need and they weren't profitable before the recession, chances are they're not going to survive this. Their creditworthiness could be challenged.

Mr. Mike Lake: One of the things we heard from Industry Canada the last time we met was a kind of differentiation between companies that were facing cyclical challenges versus companies that were facing structural challenges. I think that's what you're talking about.

Mrs. Edmée Métivier: Yes, that's what I'm talking about. With the example I gave of a company that was profitable before the recession losing money in the next two years, that's just time. It's not a structural problem of the company. It's a company that is well managed, that has proven it can be successful, and that is facing tough times. To me, that's creditworthy.

Mr. Mike Lake: Moving into the next paragraph, you talk about five initiatives for BCAP. In the first one, you talk about large corporate clients participating in syndicates to replace departing lenders. Can you explain the syndicates? It almost sounds similar to what you were talking about the with secured credit facility.

Mrs. Edmée Métivier: No, it's different, actually.

Let's take a company, a larger company in this case, because these would be Canadian businesses. Usually it's a company that would have an operating or term facility of about $100 million and over. The financial institution that's leading this syndicate will usually arrange the financing for the $100 million that's required, but decides, for a number of reasons, that they want to share the risk with somebody else. That's called a syndication. They will go to EDC, to Royal Bank, to any other financial institution, and they'll say, “Would you like to take $20 million and you'll be one component of this $100 million?” Five banks may come together and say they are each going to take $20 million, as in this particular case, and each will be a lender to this business.

With the CSCF, we're not going to see the ultimate customer, so we'll never see Edmée Métivier, who is the leaseholder. It's a bundle of assets. As a syndicate, I'm participating in real-time financing to a company. I know who this company is, and I can assess the risk of that company.

● (1025)

Mr. Mike Lake: Okay, so the difference is—

The Chair: I'm sorry, Mr. Lake, we're out of time.

Go ahead, Mr. Allen.

Mr. Malcolm Allen: Thank you, Mr. Chair.

We may have developed a new financial term: “stuff”. We have a new term that MBAs may have to learn.

I have a request of the chair. Mr. Garneau had asked Madame Métivier to supply us with the report. If she could supply it to the chair, the chair could then distribute it to all of us. I think we'd all be interested in seeing that. We'd greatly appreciate that.

Thank you very much.

Mrs. Edmée Métivier: It would be my pleasure.

Mr. Malcolm Allen: I'll go back to the unregulated group you talked about earlier that was a player in the marketplace while things were going exceedingly well and that has now retreated out of the market. You talked about the sense that the big banks and the BDC and the credit unions are playing in a regulated market and understand the Bank Act and the credit union act. And these unregulated groups deserted at a time when we really need liquidity.

No doubt when things get better they'll be looking to come back. Do you see a place for regulations that speak to the types of things we do in the regulated market when they decide to come back and play in the market? I'm talking about things like giving credit and extending credit and doing those sorts of things that help the marketplace as far as business is concerned so that the financial system works. Should we be allowing them back in to the market, or should we be telling them that these are the rules they're going to play by if they come back?

Mrs. Edmée Métivier: I think that's a very good question. I can only answer on a personal basis, because I think this is the realm of the finance department of BDC. I believe that some form of regulation will be needed if we want to avoid this catastrophe in the future.

You're quite right, they will come back. Typically those players will come back to the marketplace when they see that they can make a buck, and typically they will try to exit before the storm starts. I'm not sure they exited this time before the storm started. That was interesting to watch.

You're absolutely right. Whether it's the same players or new players, they will come back. We have a wise government, and I suspect that this is under serious consideration. Maybe they don't need the same kind of legislation as our top financial institutions in Canada, but certainly they need some form of legislation. I'm not knowledgeable enough to suggest something.

Mr. Malcolm Allen: I appreciate that answer. I wasn't necessarily looking to you for chapter and verse on what regulations we need. It was the sense that if they're going to come and play in the market, we need them to understand that there's a certain series of rules to play by.

This isn't the first time we've seen them come and go.

Mrs. Edmée Métivier: No.

Mr. Malcolm Allen: There's a certain element that comes and goes. As you quite appropriately said, there's a buck to be made, and they decided to make it. And you're right, I think they got their fingers singed a little bit on the way out this time. They weren't able to retreat before they actually took the loot and ran. They actually got burned.

I'm not suggesting that this makes anyone happy, of course. What we're trying to do is ensure that the liquidity of the market comes back into play and that we can actually help businesses get going, and consumers as well.

You talked about secured financing and you talked about how to bundle. You used the lease example. The other part of that, from Mr. Lake, is that the asset that secured that particular lease, which was the vehicle, actually depreciated in value in the first place, and it started an unravelling of all kinds of things at the same time. General Motors and a couple other folks got out of leasing vehicles because to buy the car back at the end was about 30% less than what they actually had written into the contract in the first place. A $13,000 buyback was worth about $9,000 to the auto sector when they bought it back. That's about what they could sell it for. So there was a great depreciation in all that.

I appreciate the example, because it was eminently easy to follow, because some of this stuff is not. And it seems to me that the easier and more transparent we make this system, so that we can actually follow the penny as it moves, the better off we all are. The risk becomes less in the sense that as long as you can follow it, it doesn't continue to be marked up as it goes. For each piece that moves, it seems to me—and correct me if I'm wrong—someone needs to take a piece of the penny to actually make themselves stay in business. Otherwise, they're simply benevolent organizations, and I don't think they're in the business of being charitable. So if that's the case, it seems to me that fewer steps in the process rather than more would be an advantage to businesses.

I'm not negating the fact that the financial system is a complex instrument. It is international in scope, and that makes it difficult.

Do you see any way to eliminate the number of times these instruments change hands?

● (1030)

Mrs. Edmée Métivier: I believe, yes—

The Chair: Perhaps I could just interrupt. Mr. Allen, that was a great commentary, and actually, that wrapped up your time.

I just want to say to the members that we have reached the time when we really need to do some committee business, but I get the sense that we could go on for a long time hearing this testimony. We haven't had too much on the other side yet, but I certainly know that you have much to contribute as well, and I think we've only just scratched the surface.

However, members, we really must decide what we're going to do beyond this scope. There's a two-week break coming, and our clerk needs to have that time to call the next witnesses. It's ten-thirty, and unless somebody really has a burning question, I really have to insist, as chair, that we move forward. Does anybody have that burning question that's still on their lips at this particular time?

Then I'm going to respectfully thank you both for coming and thank you for your excellent testimony. There were a number of things that I didn't quite understand—and I'm in the car business—and you really explained something that I probably didn't quite understand as well. I think it casts a lot of light on what we're studying. We appreciate your taking the time out and sharing your expert information with us, and I know that committee members are well served by having you here again this morning.

We'll take a quick break, and then after that we will resume in camera.

[*Proceedings continue in camera*]

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