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Chair

Mr. Dan Ruimy

Standing Committee on Industry, Science and Technology

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● (1535)

[*English*]

The Chair (Mr. Dan Ruimy (Pitt Meadows—Maple Ridge, Lib.)): Good afternoon, everybody.

This is meeting number 28 of the Standing Committee on Industry, Science and Technology.

Today we're actually doing two groups. That's just the way it happened to work out. We also have half an hour at the end carved out for some business.

Right up front now, we have, from the BDC, Jérôme Nycz, Susan Rohac, and William Ciprick.

Before we get into that, you had a question, Mr. Nuttall.

Mr. Alexander Nuttall (Barrie—Springwater—Oro-Medonte, CPC): Thank you.

Through you to the analyst, yesterday, the Canadian Manufacturers and Exporters association, in conjunction with, I think, the Canadian Manufacturing Coalition released a report with 20-some recommendations to improve manufacturing in Canada.

Do you have a copy of that yet?

Mr. André Léonard (Analyst): No.

Mr. Alexander Nuttall: I'll get my office to forward that.

I actually thought that maybe it was—

Mr. Lloyd Longfield (Guelph, Lib.): It was just released today. They said they'd send it electronically.

The Chair: Can we get that as a submission?

Mr. Alexander Nuttall: I thought that maybe we should talk afterwards about whether we should invite them in to talk about their report.

The Chair: We have half an hour carved out towards the end.

Mr. Alexander Nuttall: Yes.

The Chair: Why don't we put that onto that agenda, if we're okay with it?

We're going to jump right into BDC. We're excited to have you here. You all look nice and refreshed.

Who will be the MC of this event?

Go ahead.

Mr. Jérôme Nycz (Executive Vice-President, BDC Capital, Business Development Bank of Canada (BDC)): Thank you, Mr. Chairman.

I want to begin by commending the committee on its study of Canada's manufacturing sector. There can be no disagreement that manufacturing is a strategic sector for economic development.

[*Translation*]

Manufacturing activities are the economic driver for many regions and communities in Canada. The national manufacturing footprint goes from large concentrations of businesses in large metropolitan regions to isolated communities where prosperity depends on a single manufacturer.

[*English*]

Canada's manufacturing future lies in shifting capital and labour up the value chain. I therefore want to strongly associate with the committee's focus on the importance of innovation in manufacturing. How well we perform will ultimately reflect how innovative we are as a country and how responsive we are to opportunities in the global consumer marketplace. Over and over we hear that talent is critical in this regard.

Businesses thrive under visionary, passionate leaders who recruit and invest in skilled personnel and with an executive team that has the capabilities and bench strength to fully exploit emerging market opportunities. The greater degrees to which we have C-level executives in Canada capable of scaling firms and being open to best practices, the greater success we'll achieve.

Some members of this committee have recently met with representatives from BDC in order to better know our services and our model. We want to thank you for your time and interest. We have one overall aspiration, which is to help make Canadian entrepreneurs among the most competitive in the world. BDC seeks to tailor business solutions according to the circumstances of particular companies, taking financial risks that other financial service providers do not. We provide advisory services aimed at boosting business innovation, productivity, and competitiveness.

We are a bank, and we make credit decisions within given parameters. The most important parameter is an expectation that the enterprises in which we invest will prove economically viable such that the monies lent will be repaid with a return reflecting the risks taken. This means that we are self-sustaining, not dependent upon the taxpayers of Canada. It also means that we can relend to entrepreneurs who need it.

BDC goes to great lengths to stretch the envelope through various financing instruments, often in partnership with other financial service providers. However, we are bound by the mandate that Parliament has given us and the capital framework maintained by the Government of Canada of the day. That mandate entails maintaining a laser focus on serving entrepreneurs throughout Canada. We carry out research on the challenges and opportunities they face; we listen to our 42,000 plus clients; and we seek to provide them with solutions responsive to their particular circumstances.

Let me give you some examples pertinent to manufacturers. Many face challenges in scaling up the companies while boosting productivity. They know that improvements are needed on the plant floor but aren't entirely sure how they benchmark with others and how investments may pay off. This week, as mentioned, as part of Small Business Week in Canada, BDC has launched a free online productivity diagnostic tool that will allow businesses to compare their rate of productivity with those of other firms. Similarly, BDC has sought to increase uptake of information and communications technologies, ICTs, by manufacturing companies. By taking our online technology assessments, companies receive a free personalized report identifying and prioritizing areas needing improvement.

Turning to financing, in the past 10 years BDC has made over 1,800 start-up loans to manufacturers, for a total of $270 million. Many of them have grown and obtained follow-on investment. In fact, BDC has more than 6,500 manufacturing clients, large and small. The portfolio stands today at close to $6 billion, having increased year after year from $4.5 billion in 2013. The number of manufacturing businesses we finance as a percentage of all manufacturing businesses in Canada has grown markedly, from 5.9% in 1999 to 12.9% today. In other words, BDC has more than doubled its share of manufacturing companies supported.

● (1540)

[*Translation*]

I would like to conclude my remarks with a few words on manufacturing using advanced technology.

An event organized by the Canadian Manufacturers and Exporters was held today in Ottawa, and various questions on this matter were raised. One of them was the following: how can Canada improve its performance in the innovation of products and processes, marketing of products and expanding businesses?

The solutions to these issues reside in part in investing in Canadian technology companies that want to sell their products to manufacturing companies, and in establishing relationships between the two groups.

National technology platforms, including business accelerators related to sources of research and development, play a crucial role in this regard.

[*English*]

BDC has partnerships with 13 business accelerators across the country. We directly finance graduate firms from those accelerators and we invest in related seed venture funds to support these graduates.

We invest in some of Canada's most exciting technology companies, many of which provide enabling technologies in support of advanced manufacturing. We currently have invested about $90 million in over 30 companies. These companies have raised, in aggregate, over half a billion dollars from other venture capitalists. To name a few, there's Kitchener-Waterloo's Clearpath Robotics, which describes itself as automating the world's dullest and dirtiest jobs. This robotics company just closed a round of $30 million. Switch Materials, out of B.C., has developed novel organic molecular switching technology for automotive and architectural glass industries. These are just two of many that we support.

How particular industries, manufacturing included, stand to be affected will only be known in the fullness of time. What we do know is that the competitiveness of Canadian manufacturers is a complex, multi-faceted issue. Industry, government, investors, and other parties need to collaborate so that Canada can be at the vanguard of tomorrow's industry. At BDC we are strongly committed to participating in this evolving coalition of interest.

Thank you for the time for these remarks.

The Chair: Thank you very much, Mr. Nycz. We're going to jump right into questions, because I know we have some good ones.

Mr. Longfield, you have five minutes.

Mr. Lloyd Longfield: Thanks, Mr. Chair.

Thank you to the team from BDC for being here. I met with Kirk Irving in Guelph last week and we discussed the work of BDC, particularly around manufacturing. He provided me with a slide deck, an overview of BDC for parliamentarians, that was put together in summer 2016. If you could submit that for our clerk, I think that would be very helpful for our study. It talks about manufacturing being 23% of your financing portfolio.

We discussed in particular the smaller manufacturers that are just in the early stages, the one-million-dollar to $1.5-million ones, and the ones that are looking for loans of up to $250,000—something that the banks are not interested in. The banks are regulated differently from BDC. You're a stand-alone organization. In our conversation, we discussed the opportunity for a matching program that the federal government might be able to look at. We're preparing for our budget right now. During the credit crisis, there was a similar program. Do you have any details about how matching used to work, and how we might look at that going forward to help the small start-ups?

● (1545)

Mr. Jérôme Nycz: It's a great question. The accelerator program is very much a process for young entrepreneurs to go through. They're followed for three to six months and sometimes even longer. When they graduate from that program, a convertible note program that BDC has developed allows us to invest in that company alongside angel investors. Often we're the first institutional investor to come in at that stage, and the leverage of our money is often two or three times the money we put in that company. The money is used to bridge them to an A round of financing. This is a bit of matching with angel investors, and we see this a lot. We see it in the venture capital industry as well. When a fund invests, we'll go in and invest in collaboration.

That's the type of matching we do with angel investors at the very early stage. In terms of technology and start-ups, two weeks ago we launched a technology start-up loan that goes up to $500,000. The presentation you had was prior to the launch of that program. We spent some time in Kitchener-Waterloo, and we know that Communitech was vocal in expressing the needs of entrepreneurs, and we were quite responsive to the voice of reason, and we launched that product. We're hoping to scale that across Canada, as the first money those entrepreneurs can receive in taking that first step. A combination of the VC and those technology loans will go a long way, and in terms of manufacturing—

Mr. Lloyd Longfield: I don't have the information on that. Could we have that? With Innovation Guelph, we were working on matching through federal development agencies, but this sounds as though it's something that could help us with our manufacturing study.

Mr. Jérôme Nycz: Perfect.

Mr. Lloyd Longfield: I interrupted you. Did you have more to say on that?

Mr. Jérôme Nycz: No. Just in terms of start-ups, we have a start-up loan of up to $150,000 as well that has been used particularly in the manufacturing sector. We've had quite a few—1,800 transactions in manufacturing start-ups in the last 10 years.

Mr. Lloyd Longfield: I have one other question. Usually I have a timer in front of me.

The Chair: You have a minute and a half.

Mr. Lloyd Longfield: Great. Thank you.

Regarding your partnership with Futurpreneur, we had Futurpreneur here and they made a wonderful presentation on what they're doing with start-ups. Could you describe for us how long that program is? Is it growing? Is it stable?

Mr. Jérôme Nycz: Yes. The last legislative changes to BDC were to enable us to work with such entities as Futurpreneur, and we're able to co-investment with them. The relationship is working really well. It's for smaller loans. It's a bit of a matching, where they put in money and we provide some money. It's doing really well. I have the numbers on Futurpreneur and I'll be able to get them to you.

Mr. Lloyd Longfield: Terrific.

Mr. Jérôme Nycz: The relationship is working really well, and the risk profile is very positive. Our experience is very positive and we're happy. It enables us to reach a community that goes beyond our footprint.

Mr. Lloyd Longfield: For the information of fellow MPs, not just those who are in the room but other MPs as well, I received a riding profile that showed BDC's work. It showed 18 manufacturers in Guelph getting assistance through BDC in 2014; 16 in 2015; and 18 in 2016 to date, so it looks as though there is some very good growth in Guelph for manufacturing. The client base went from 63 to 72 to 87, and it will hopefully be over 100 this year, so it looks as though BDC is doing a good job in terms of reaching entrepreneurs who are involved with manufacturing.

The Chair: Well, I'd love for them to answer that question, but you ate up the time.

Mr. Majid Jowhari (Richmond Hill, Lib.): Do you want me to share my stats with you?

Mr. Lloyd Longfield: These are great stats. Sorry.

The Chair: Thank you very much.

Gentlemen, we're actually going to move to the next question. I'm sure we'll come back to it.

Mr. Nuttall, you have five minutes.

Mr. Alexander Nuttall: Thank you, Mr. Chair.

I have a few questions for you on manufacturing. As things have begun to slow, what are you seeing in your book overall? Obviously you would monitor it overall, but you'd also have some sort of sector-by-sector monitoring. What's happening in the manufacturing industry as a whole in terms of those who are clients of yours?

● (1550)

Mr. Jérôme Nycz: The probability of default in manufacturing is a bit higher, particularly by the ones that are in high growth. It's a sector that has opportunity because of the export potential but it does have some stress in terms of portfolio. So there's more risk in that portfolio than we see in the rest of the portfolios.

Mr. Alexander Nuttall: I hit the road this summer and did quite a number of round tables. One of them had me near Mr. Longfield's area in Kitchener-Waterloo, and it was very interesting because the information we were given there showed that times were actually busier in terms of the dollar value of orders, yet they were nervous about hiring because of the reduction in the value of the Canadian dollar against the American currency. Is that what you're seeing throughout?

Mr. Jérôme Nycz: We're seeing orders going up, and I think the export stats are showing that orders are going up. There are significant changes in the currency and the impact. In venture capital, we see evaluation being driven up or down based on the value.

There's a reticence to hire for tomorrow. What we're seeing more is hiring for today and maybe not building the team required for continued growth. Being able to increase the bench strength in manufacturing and for businesses in general is very challenging.

Often a company won't hire a CFO to bring them to another level. Particularly if they're looking at consolidation in their market, their comptroller might not have the skill set to do tuck-in acquisition. We're pushing them to think outside the box and to try to hire, but we see reticence in hiring before they get an order.

Mr. Alexander Nuttall: Yes.

Mr. William Ciprick (Senior Vice President, High-Impact Firms, Business Development Bank of Canada (BDC)): There's another part I'd like to add to what we're seeing, and I can cite a specific recent example from Saint John, New Brunswick, with one of our clients there. They're already in international markets, and they're taking advantage of a devalued peso and a good exchange with the dollar.

They lucked into being in those markets, but they don't know what they're doing. I represent the non-financial adviser side. We're trying to work with them to come up with a plan.

In the case of this particular company, somebody found them on the Internet and started placing orders. What started with one container has turned into 50, and now they're hitting the point of critical mass and saying, “what do we do? Can we keep up?” They really had no plan. Part of our focus through our international group is helping them redevelop that plan.

Mr. Alexander Nuttall: That's very interesting.

What is BDC's approach to, let's say, the oil industry which had about a half-billion-dollar injection into Alberta to try to stabilize things? We've seen significant job losses in manufacturing this year, with over 40,000 net losses. In the oil and gas industry in Alberta, I think it's only about 80,000 this year. At what point does the BDC say, “We need to double down and underpin this industry that's obviously going through some pain?”

The Chair: You have just under a minute.

Mr. Jérôme Nycz: We have committed in excess of $500 million to help the industry. Of course, we're not in the big exploration companies. Our portfolio is a combination of a lot of service companies servicing oil and gas and some of the smaller manufacturing plants.

In growth and transition we've been able to provide some working capital in order for them to be able to weather the storm. We've sat down with a lot of financial institutions in helping these companies, and we've tried to relax some of the financial conditions by being able to provide additional funding for them to stay within their financial ratios.

Mr. Alexander Nuttall: Can I get a yes-or-no answer to this? I'm right out of time. Would that expand to Ontario in the future based on what we're seeing in manufacturing?

Mr. Jérôme Nycz: If we see strong weaknesses, in the same way we always respond when there's a crisis, we'll step in. We did that in the financial crisis in 2010. We stepped in significantly and increased our authorization by 53% across Canada at a time of crisis. For sure, we would step in.

● (1555)

Mr. Alexander Nuttall: Thank you.

Ms. Susan Rohac (Vice-President, Growth and Transition Capital, Ontario and Atlantic, Business Development Bank of Canada (BDC)): If I can quickly add to that, over the last three years we've averaged just over a billion dollars of lending to the manufacturing sector. Over our six-month year to date, we're already at $928 million. If that trend continues, we will be significantly higher this year. That's not necessarily because we had a special project targeted in manufacturing, but rather because the ask is there and chartered banks are possibly pulling out. We're getting more requests, and we're doing more financing naturally.

Mr. Alexander Nuttall: I've seen that. Definitely they're pulling back.

Ms. Susan Rohac: Yes.

The Chair: Excellent. Thank you.

Mr. Masse, you have five minutes.

Mr. Brian Masse (Windsor West, NDP): Thank you, Mr. Chair.

It's an interesting quandary in a sense that a lot of people argue that it's government or government-affiliated agencies, and we should just get out of the way because the private sector will do it better.

Here we have the Business Development Bank having to fill a gap that the private sector won't touch, or is reluctant to, or reluctant to with the interest rates.

Maybe you can explain the difference—and I think people need to understand this—between yourselves, the credit unions, and the banks with general lending. Distinguishing that element is very important as there is a greater degree of public interest in public accountability and public investment by the BDC versus that by the private sector or a little bit by the not-for-profit sector. The credit unions are not really not-for-profit, but they're a different mixture all together.

Mr. Jérôme Nycz: I'll start, and I'll ask Ms. Susan Rohac to complement my answer.

The reality is that the only thing we do is support entrepreneurs. We don't take deposits. We don't do lines of credit. We help through term lending, venture capital investments, and advice.

We look at projects and look at how those projects are structured, and then we're able to price according to risk. With the pricing structure, if you compare Canada and the U.S., in the U.S. you have a broad pricing structure and the availability of capital according to different stages of risk. In Canada it's pretty shallow. It's within a couple of percentage points of prime.

We price for risk, and we'll take into consideration other aspects. We'll also provide more leverage, and so we'll finance a greater part of the asset. In equipment, particularly, we'll finance up to 125% of the value of the equipment to incentivize the entrepreneur to invest in machinery, equipment, and ICT so that they are able to have an incentive to bring that into their company and increase their productivity.

We really look project by project, and we try to structure the financing according to the needs of the clients. It's very highly customized financing for the client.

Susan, you may want to complement that.

Ms. Susan Rohac: Yes. It's a good question. We hire a lot of employees who have worked previously at chartered banks, and they say that the culture difference when they come to BDC is incredible. People in the field really don't know or don't care about what the bottom-line profit is on any particular file. What we're looking for is how we can help a client achieve their goals.

I'm going to call it the “five Cs of credit”. We use the same lending criteria as a chartered bank, the five Cs of credit being character, capacity, collateral, capital, and conditions, but instead of saying no if one of those five Cs isn't achieved, we price to the risk or we modify the terms and conditions to allow us to try to get to a yes.

No one in the field—and this is a key comment—wants to say no to an entrepreneur. We really try hard to get to a yes, and if we can't do it now, we usually give them the one or two things that have to change or be modified so that we can get to a yes.

Mr. Brian Masse: For the general public out there, how would you rank your business case in terms of maybe the last several years with regard to investment and return? Has that paid off in terms of your overall ledger?

Mr. Jérôme Nycz: As I mentioned in my opening remarks, by statute you have to invest in or lend to a company with a high probability of success. In terms of return or success, you can benchmark against return on equity, which right now in the lending portfolio is about 7%. We're covering the cost of capital; we provide a retained earning; and we use that retained earning to do two things: send a dividend cheque to the government and reinvest in our ability to relend to the company. We have been able to sustain the growth of our portfolio by reinvesting in our ability to lend.

Mr. Brian Masse: Yes, and you've paid a dividend back to the annual coffers of....

Mr. Jérôme Nycz: That's correct.

Mr. Brian Masse: I guess the overall conditions and the model have been working, but you seemed to alter your small-business plan a little, which I'll get into a bit later.

Just to complete this element here, it's interesting, because you've occupied a space that the private sector has apparently abandoned, probably because it doesn't get enough profit. That's my suspicion. Again, that is an interesting situation, as there are those who argue that the private sector can do it better and always does it better.

I do want to segue a bit towards the small business. I have to say that you're presenting more of a small-business case, at least to the public right now, but your commercials are already out on TV. What's the difference?

● (1600)

The Chair: Mr. Masse, you're out of time.

Mr. Brian Masse: That's okay. We'll have plenty of time to discuss this later.

The Chair: Sorry.

Mr. Brian Masse: Thank you.

The Chair: All right. We're going to move to you, Mr. Sheehan. You have five minutes.

Mr. Terry Sheehan (Sault Ste. Marie, Lib.): Thank you very much.

Picking up from my colleague, I'm going to ask a question on the riding profile, particularly for his riding. Under finance, growth, and transition capital, you note that of the top three loans, number one is land and buildings, and the third is equipment. Land and buildings are at about 64.3% and equipment is at 11.1%.

Why isn't there more emphasis on equipment? I ask that because it's important for manufacturing. We've heard again and again about investments and equipment. I'm from Sault Ste. Marie, where we have a steel industry. The steel industry, including Essar itself, Tenaris, and the small and medium-sized enterprises associated with them are always looking for equipment. We call that advanced manufacturing. Could you please explain why?

Ms. Susan Rohac: I'll answer that.

That's in dollar numbers, is it?

Mr. Terry Sheehan: It's on a percentage basis.

A voice: They're in dollars.

Ms. Susan Rohac: But that's in dollars, and not number of deals.

Mr. Terry Sheehan: That's correct. It's dollars.

Ms. Susan Rohac: The simple answer is that a building costs a lot more than a piece of equipment does, so when you look at the actual number of deals as opposed to a dollar amount, we're actually doing more in equipment and in working capital for manufacturers than we are for buildings.

The second point is that this particular sheet is just for that riding. It might not represent the entire country.

Mr. Terry Sheehan: That was my question. I want to clarify that.

Ms. Susan Rohac: If any of you would like to have your riding statistics, we can get you those for your individual riding.

I have the numbers here. If we look at the year to date, 40% of our deals to manufacturers have been for working capital purposes, 25% have been for equipment, and 11% have been for realty. That's in numbers of deals, but if you look at dollars, absolutely, the buildings cost significantly more, so it just skews the stats a little bit. That doesn't add up to 100%. The other 24% is for ICT, refinancing, or change-of-ownership types of programs that wouldn't fit into one of those buckets.

Mr. Terry Sheehan: I'll pick up on that. How can the government support investments by the steel sector and help the industry take advantage of the opportunities brought forth by new technological developments?

Mr. Jérôme Nycz: I'll ask Bill to speak to this. We looked at the ICT, and we tried very hard in the past four or five years to increase awareness of ICT. We had a three-pronged program: raising awareness, consideration, and adoption. It was a combination of the work that we're able to finance along with the advisory services. I'll ask Bill to add a bit on the advisory services. How do you increase awareness? How do you get the entrepreneur to come to the conclusion that they have an issue? What are the solutions going forward?

Bill.

Mr. William Ciprick: I'll give you a couple of broad statistics. I know you're asking specifically about steel. In the past three years, from a non-financial advisory standpoint specific to manufacturing —and remember that we operate as an advisory service—it's an investment that the bank makes for each mandate that we do. We've done almost 2,000 different mandates with focuses being on operational efficiency, sales and marketing, and, probably most popular, strategy and management support. Whereas the entrepreneur companies are growing, they often aren't very clear regarding the path they need to follow in order to obtain the goals they want. As I said, there have been almost 2,000 mandates in that regard, and from the bank's standpoint, we've made an investment of almost $40 million.

I'll be honest. We don't necessarily look specifically by sector. We manage across pretty much every one you can imagine. I'm sure if I were to dig into the stats, we'd see many mandates, because we do cover coast to coast, and we do cover all sectors. We get asked, and it's usually the same request. We're sector-agnostic in that regard.

● (1605)

Mr. Jérôme Nycz: As I said in my opening remarks, we have a diagnostic tool now and we're launching it this week, BDC Small Business Week. That will enable entrepreneurs to ask, “How am I productive compared to my peers?” We worked with Statistics Canada and it took us three years to develop this tool. Once you're aware of how you compare to your peers, then you can contemplate making a decision—and this is where the advisory services can come in and do a bit of strategy work and say, “You need to invest in digital technology versus analog machinery”, and so forth. Awareness is number one, and then you sit down with the advisory services and look at a plan forward. Often that plan comes with investment going forward.

So, we increase their awareness and make sure that the company has the resources to be able to take the step forward.

The Chair: Thank you very much.

We're going to move to Mr. Lobb. You have five minutes.

Mr. Ben Lobb (Huron—Bruce, CPC): I apologize for not being here for the beginning of your comments. You mentioned your existing business is growing, or your business of lending is growing this year. Have these businesses been in existence for many years, and are now coming to you for the first time, or are these businesses that have been in existence for quite a while and they have a relationship and they're growing the relationship?

Ms. Susan Rohac: I would say it's a bit of both. Are you talking about start-up manufacturers, then, or companies that we haven't dealt with?

Mr. Ben Lobb: They are both existing, so, they've been in business for many years. One block would have had no relationship with you in the past, and the other would have had some sort of a relationship with you.

Ms. Susan Rohac: I would say that our book is growing in both cases. If you look at the10-year trend for our start-up manufacturing, we are increasing what we are doing for that cohort of start-up manufacturing; but if you look at existing manufacturers that have sales and revenues, we are also increasing our book there. If the question is about repeat business, we absolutely do repeat follow-on with companies that continue to grow or need additional financing.

Mr. Jérôme Nycz: One of the strategic vectors of BDC is to make our services available. We've opened a number of service centres. We have also developed a new way to do business with us. You can now go online and apply for a $50,000 loan. The ceiling is at $50,000. The hope is to move that up. So people can actually go online and access the financing that they need as a very small business. The average loan size is about $300,000. Of course, clients who have been with us for a long time have recurring needs, so we do have repeat business, but we're really trying to make our services available via a number of channels.

Mr. Ben Lobb: Do you partner your loans, or couple them together with credit unions? I know FCC does this with credit unions. Do you do that with credit unions, and do you also work with the big banks to put money from both sides together to help manufacturing businesses along?

Mr. Jérôme Nycz: In GTC, growth and transition capital, 90% of the transactions we do will be with another financial institution because we'll take the junior tranche. When there's a project, the financial institution or BDC will take the senior tranche, and we will take the junior tranche.

In terms of the rest of the lending, often when there is a project, there will be an operating line of credit involved. We'll work in collaboration with the bank to make sure that the company bringing on additional debt won't be in violation of the ratios. We work with other partners including Futurpreneur Canada and SRDC and we will co-lend with them to the entrepreneur.

Mr. Ben Lobb: Is the growth of your business in any particular sector? Is it in auto? Where are you seeing the growth? I guess the growth is coming from the banks, maybe not participating at the same level. For loans, is it in the small auto sector?

Mr. Jérôme Nycz: As I mentioned, we're seeing manufacturing as a growing sector for BDC. Twelve per cent is in manufacturing.

Mr. Ben Lobb: Is there any specific industry inside manufacturing?

Mr. Jérôme Nycz: We have the numbers for the auto sector. We've been quite active with tool and die, particularly for a recession. Metal is a big sector. We do it as a supplier to the auto sector or as a supplier to the aerospace sector.

● (1610)

Mr. Ben Lobb: I have one last quick question. If you didn't have to pay the dividend—I understand you pay the dividend to the Conservative government, the Liberal government, or what have you—what would you use that money towards? Is there anything else you could use the dividend for to really kick-start the economy?

Mr. Jérôme Nycz: It's a question of capital base. We have an economic capital formula through which we try to lend and then we calculate the risk. I think the lending books are increasing. Venture capital is also an area where there are big investments. We have areas like women in tech that we see as an underserved market that we would like to get more involved in. We would like to continue to support some of the graduates from accelerators, so there is a combination of venture capital. We're already investing heavily and increasing the advisory services to be able to support the reach to smaller loans.

The Chair: Thank you very much.

We're going to go to Mr. Arya.

You have five minutes.

Mr. Chandra Arya (Nepean, Lib.): Thank you, Mr. Chair.

Mr. Nycz, you mentioned 1,800 start-ups with $270 million for a period of 10 years. Is that correct?

Mr. Jérôme Nycz: That's correct.

Mr. Chandra Arya: That's an average of about $150,000 per start-up. In 10 years, it means just about $27 million per year.

Mr. Jérôme Nycz: That's for manufacturing.

Mr. Chandra Arya: Ms. Rohac, you mentioned last year that you lent $1 billion to manufacturing.

Ms. Susan Rohac: That's correct.

Mr. Chandra Arya: Out of the loans of $1 billion, BDC informed the committee that $24 million went to start-ups last year.

Mr. Jérôme Nycz: That's for manufacturing start-ups.

Mr. Chandra Arya: That is just 2.4% of the total lending.

Mr. Jérôme Nycz: A start-up is defined as something having been in business for less than two years.

Mr. Chandra Arya: Basically within start-ups, we can still drill down to what is actually a start-up.

Mr. Jérôme Nycz: This is the lending side. As I mentioned earlier, we also do it via equity investment.

Mr. Chandra Arya: We'll come to that. On the lending side, basically you're saying that 2.4% of your lending went to manufacturing start-ups last year.

Mr. Jérôme Nycz: That's correct.

Ms. Susan Rohac: That's correct. Again, but that's in dollar amounts, possibly not in numbers, because for smaller start-ups, we limit the amount to a smaller amount—

Mr. Chandra Arya: Let's take the numbers. Out of 1,800 start-ups you financed in the last 10 years, that is an average of 180 per year. Right now you have 6,500 manufacturing clients, right? When you look at that, the number is still quite small.

As we know, for us to have one big manufacturing company, we need to have hundreds and hundreds of small manufacturing companies. We have talked to other regional economic development agencies from FedDev here to Western Economic Diversification there to the Atlantic one. Almost all of them point towards you as the source of funding for manufacturing start-ups.

However, here you are. Your funding is very small. How can we promote advanced manufacturing if you're not willing to take risk alongside the entrepreneur?

Mr. Jérôme Nycz: I think we take the risks. When you have a manufacturing start-up, if it's advanced manufacturing, we're often.... We have the example of Diablo. We've been backing the company for 13 years.

Mr. Chandra Arya: Individual cases are fine, Mr. Nycz, especially...even the average size of the loan. For a manufacturing start-up, the cost of equipment is quite substantial. It's $150,000 on average, or $200,000 on average. Where does it lead? I don't know how many manufacturing companies can buy equipment with that amount.

Mr. Jérôme Nycz: I'll come back to the point we made before. That's the first loan: $150,000. Once it comes to repeat business, it goes into the $6-billion portfolio. As I said before, it's $150,000, and then we launch $500,000 to provide more resources to start.

Mr. Chandra Arya: Ms. Rohac, you mentioned that 40% of the lending you do goes to working capital.

Ms. Susan Rohac: That's correct.

Mr. Chandra Arya: Basically, that was, I thought, the major portfolio for a chartered bank with the working capital loans.

Ms. Susan Rohac: No. I think what we're referring to when we say "working capital" is very different from a line of credit. We do not provide lines of credit.

Mr. Chandra Arya: What do you mean by working capital?

Ms. Susan Rohac: When we say working capital, we mean additional working capital that can be used for intangible needs. That's very critical for start-ups.

For example, when a company—

● (1615)

Mr. Chandra Arya: This is for 40% of all loans you gave last year.

Ms. Susan Rohac: Yes.

Mr. Chandra Arya: For a manufacturing company, as you know, other than the capital investment in running the business, the bulk will go to raw materials. Usually the second-biggest amount is for salaries. What are the other things you finance, besides raw materials?

Ms. Susan Rohac: A chartered bank's line of credit is usually limited to 50% of the raw materials and 75% of the accounts receivable. Our working capital will go to supplement that. As well, it will go to help with some of the start-up costs of hiring people, of marketing development, and of leasehold improvements—

Mr. Chandra Arya: Under the venture capital action plan, in the other committee you guys mentioned that 126 companies have received $418 million.

Out of $418 million, how much was our portion of the $350 million or $400 million we gave you? Even in your last strategy plan, you said that, as of March 31, you funded 62 companies with $95 million. These are all top numbers that tend to be very attractive, but when we drill down, how much of the $400 million that the government gave you is part of that?

Mr. Jérôme Nycz: Right now there is $560 million that was committed.

Mr. Chandra Arya: Okay.

Mr. Jérôme Nycz: We're at one-third of that. The program is $1.3 billion, of which $900 million is from the private sector, and the balance is from government, including the provincial government.

When we talk about a fund of funds, there is investing in a funder's commitment to the fund, and then that fund makes a commitment to the underlying portfolio.

Mr. Chandra Arya: What you are referring to, if I'm not wrong, is that from $350 million, you realistically do $1.3 billion. Out of that $1.3 billion, you invested about $550 million into 17 Canadian funds.

Mr. Jérôme Nycz: Yes.

Mr. Chandra Arya: Those funds invested in 126 Canadian companies—

Mr. Jérôme Nycz: That's good.

The Chair: Mr. Arya.

Mr. Chandra Arya: Sorry.

The Chair: Are there any final comments to that?

Mr. Jérôme Nycz: I think we agree that we pay one-third of the VCAP going into the investment in the underlying portfolio. I think that's the model of the VCAP.

Mr. Chandra Arya: Around 10% of government funds have gone. Anyway, we can defer the matter there.

The Chair: On that note, we're going to have to cut it short, because we have our second panel here.

I want to thank our guests for coming in today.

Mr. Frank Baylis (Pierrefonds—Dollard, Lib.): I really have to ask a couple of questions.

Mr. Earl Dreeshen (Red Deer—Mountain View, CPC): We've made a commitment.

Mr. Frank Baylis: Dan, can—

The Chair: No. We're done.

I want to thank you for coming.

We're going to suspend for a minute while we get the next group in.

Thank you.

● (1615)

(Pause)

● (1620)

The Chair: We're back.

We have only a short period of time for this in order to meet our criteria to have our half-hour later on.

Today we have from the Canadian Meat Council, Troy Warren, president and chair of the board of directors; and Ron Davidson, director, international trade. From the United Steelworkers, we have Ken Neumann, national director for Canada; and Shaker Jamal, research representative, national office; and via the magic world of video conferencing, we have Michel St-Amand, president of Confection 4e Dimension Ltée.

Because of time frames, if you can keep it to a very quick five minutes, we can have some time for questions.

We're going to start off with the Canadian Meat Council.

Mr. Troy Warren (President and Chair of the Board of Directors, Canadian Meat Council): Thank you very much for the opportunity to speak today with respect to strengthening the manufacturing sector.

The Canadian Meat Council has represented Canada's federally inspected meat packers and processors since 1919. The council has 50 members who are packers and processors and 90 members who provide goods and services.

Food processing is a foundation stone of the Canadian manufacturing sector, providing more jobs than any other sector and employing more people than the auto and aerospace sectors combined. In turn, the meat industry is the largest component of the food-processing sector. The meat industry registers annual sales of $24 billion and exports of $5.7 billion, and it provides over 65,000 Canadian jobs.

Meat establishments vary from less than a hundred to over 2,000 workers. A meat-packing facility is typically one of the largest employers and taxpayers in the community—and sometimes the largest.

The meat industry is an indispensable link in the value chain that also includes feed grain farmers, cow-calf producers, feedlot operators, and goods and services providers. In the absence of meat packers and processors, farmers would not have a market for their livestock; tens of thousands of Canadian jobs would not exist; and consumers would be even more dependent upon imported foods.

The meat industry is a Canadian success story characterized by a dynamic, high-technology, and globally competitive business. Unfortunately, the very substantive employment and economic contributions of our food and meat-processing industries are not well recognized. If this country is to benefit from its natural, technological, and human-capital advantages, it is most important that this committee not only acknowledge food processing as Canada's number one manufacturing sector and the meat industry as the number one component of food manufacturing, but that it see that the sector is treated as such by policy-makers.

During my presentation today, I would like to focus on how important supportive government policy programs, regulatory frameworks, and decisions are to the maintenance of a globally competitive and growing meat industry that has the capability to provide even more value-added innovation, exports, investments, and middle-class jobs.

Global competitiveness is an absolute necessity for the sustainability of the Canadian livestock and meat sector. First, the sector is export-dependent. More than half of the income from the beef sector and two-thirds of producer income in pork are dependent on exports. Second, the Canadian market is already quota- and tariff-free for pork imports and, increasingly, for beef and veal imports. Third, for most consumers, the most important consideration with regard to meat at retail is price. Should Canadian meat production prices fail to remain competitive, not only would this country lose its 120 export markets but domestic sales would also be at risk.

A competitive challenge confronting Canada's manufacturing industry, including food and meat processing, is process innovation to drive down costs and improve productivity. Although process technology innovations, such as advanced robotics, digital process controls, AI, and machine vision systems, exist at the prototype stage in other countries, few are manufactured or supported in Canada.

The meat industry values the government's policies and programs, such as internationally competitive taxation, the accelerated capital cost allowance, an outcome-based regulatory environment, and strong support for international trade. These decisions have a positive impact on the retention and creation of meat production and processing jobs in this country.

The meat industry believes that, consistent with an innovation agenda, the government should provide grants for in-plant demonstration pilots, where manufacturers, engineers, integrators, and academic partners collaborate to prove out and cost proposed innovations.

The meat industry is the most heavily inspected segment of the food-processing sector. Meat-packing plants are prohibited from operating in the absence of the Canadian Food Inspection Agency. In the U.S., our number one competitor, food safety is a public good and the government provides funding for regular-time salaries of meat inspectors. In Canada, companies must contribute to the regular-time salaries of meat inspectors.

To provide another example, the American government funds incoming missions of foreign regulatory officials who audit the U.S. meat inspection system. Conversely, the Canadian government invoices the industry for 50% of the expenditures incurred by foreign officials who audit this country's food safety system. Moreover, our government allows free-rider companies that are not CMC members to benefit from incoming missions, as those expenditures are paid by the CMC members. This is not right.

It is anticipated that in the near future the Canadian Food Inspection Agency will publish the new “Safe Food for Canadians” regulations.

● (1625)

Current indications are that these regulations will likely be accompanied by a new fee regime that will further disadvantage food processors in Canada. The meat industry believes that the Canadian government should not impose these fees, which place the industry in this country at a competitive disadvantage or require some companies to fund costs that benefit competitor companies.

Health Canada is responsible for activities such as the approval of processing aids, food additives, food packing materials, and nutritional claims, as well as for harmonization of Canada-U.S. food safety-related technology approvals. Canadian competitiveness is impaired when the regulators do not keep pace with food safety, consumer convenience, and cost-reduction technologies in other countries.

The European Union permits the use of at least 83 veterinary drugs by veal producers that are prohibited by Health Canada. These include category 1 and 2 drugs of high importance to human medicine. This discrepancy not only results in more stringent regulations and higher costs for Canadian veal production, it disregards the fact that antimicrobial-resistant microbes, which could evolve in Europe, would be transmitted internationally, including to Canadians. In the EU, mandatory temperature requirements for carcass cooling, cutting, and boning are significantly more lenient than those imposed by CFIA on Canadian establishments. The CFIA allows EU meat products to enter Canada, despite their less onerous and less safe production conditions. In addition to the food-safety implications, the substantive divergence between Canadian and EU standards penalizes Canadian companies in terms of yields, operating costs, and employee welfare.

Canada and the U.S. have an equivalent meat inspection system. Nevertheless, shipments of U.S. meat to Canada may proceed directly from the border point of entry to CFIA inspection facilities. Conversely, every shipment of Canadian meat into the U.S. must incur the unwarranted time and expense associated with a post-border entry stop at a privately owned American inspection facility before proceeding to a USDA facility.

The meat industry believes that the government food-safety requirements should not disadvantage producers, industry workers, and consumers in the domestic marketplace vis-à-vis imported products.

A fundamental requirement of Canadian competitiveness and business sustainability is the assurance of access to export markets that will pay the most for every pound of meat we produce. The negotiation of foreign market access requirements is an exclusive mandate of the government and may not be undertaken by industry.

At the same time that technical market access barriers have become more complex and new international trade agreements are being negotiated, government resources allocated to overcome foreign market access constraints have been reduced. Each unresolved foreign market access barrier results in forfeited opportunity for greater Canadian production, value-added exports, jobs, and investments in economic growth.

The meat industry believes that the resources available to the market access secretariat and the Canadian Food Inspection Agency should be increased to levels that would permit these organizations to fulfill their indispensable export support mandates.

Most Canadians do not yearn to become a meat cutter or a butcher, and fewer still are willing to relocate to a rural town. Companies cannot be competitive in the absence of skilled workers. Moreover, each worker on the production line in a meat plant creates four other jobs in the economy. By preventing access to sufficient workers for jobs that most Canadians will not do, government policies are preventing the creation of many more jobs that Canadians want.

The meat industry has a strong record of engaging successfully in a type of pathway to permanency program that your colleagues in the Standing Committee for Human Resources, Skills and Social Development and the Status of Persons with Disabilities supported in the report of September 19. While the recommendations were not complete, their adoption would represent a major step forward in the right direction.

The meat industry believes that when there's a serious and chronic shortfall of Canadian workers, companies should be permitted to access foreign workers who would be strong candidates for the pathway to permanency and productive Canadian citizenship.

● (1630)

The Chair: I'm afraid I'm going to have to—

Mr. Troy Warren: Cut me off.

The Chair: —cut you off, because you're going to keep going.

Mr. Troy Warren: I'm on my conclusions.

The Chair: Do them if you can in 10 seconds.

Mr. Troy Warren: I'll just thank you.

The Chair: Sorry, I want to make sure we get everybody in there.

Mr. Troy Warren: Thank you for the opportunity to speak today.

The Chair: Thank you very much.

We're going to move to the United Steelworkers, and Mr. Ken Neumann.

Mr. Ken Neumann (National Director for Canada, United Steelworkers): Thank you.

Good afternoon, everyone. My name is Ken Neumann. I'm the national director for the United Steelworkers union here in Canada. With me is Shaker Jamal, a member of our national office research team. Our union's foundation was laid in the great industrial and manufacturing surge of the mid-20th century, and first in the steel industry, which employed tens of thousands of Canadians and literally built great cities like Hamilton, Ontario.

Over time, our membership grew to include resource extraction, forestry, and value-added manufacturing of everything from tires to auto parts, furniture, appliances, forest products, and more. Our experience over the last several decades shows that government policy and inaction in the manufacturing sector have deeply eroded the middle class in this country.

It has been replaced by insecurity, inequality, and uncertainty, which we believe must be reversed for the sake of future generations. Our written submission touches on several relevant areas and key sectors, such as steel, auto, forestry, trade, and the need for sustainable industrial policy all aimed at truly benefiting Canadians with job creation and growth in manufacturing.

Let me begin with the steel industry. Supporting the steel manufacturing sector is clearly in the country's economic interest. The sector produces $14 billion worth of goods annually, with half of the industry's annual output exported to foreign markets across the world. While the number of Canadians employed in the steel industry is a far cry from what it was in the past, 22,000 Canadians are still employed directly in this industry. The Canadian steel industry is high tech and diversified, and it efficiently produces high-quality products.

As we sit here, today, two of Canada's major integrated steel makers, U.S. Steel Canada and Essar Steel, have been in bankruptcy protection for over a year. Two communities, Hamilton and Sault Ste. Marie, Ontario, hang in the balance as these two major employers seek to restructure. We've been working tirelessly for two years to try to save the jobs provided by these employers as well as the pensions and benefits that support hundreds and thousands of families in Ontario.

We've been working hard with investors, the steel industry, and the lenders. We have received significant support from an engaged Ontario provincial government, but despite our repeated requests for help, the federal government has not been anywhere in this effort. We have received no offers of assistance from the federal government for investment, for retraining, or for labour adjustment. These are all areas in which, historically, the federal government has provided assistance.

This failure of the government to assist in saving the steel industry is part of a broader problem. For decades now, we have had a real industrial strategy problem in Canada. Other countries have industrial strategies. Germany has a successful modern manufacturing strategy, but Canada has utterly failed to support its manufacturing sector, and the crisis in the steel industry is just an example of that failure.

It is unfortunate that in the 2015 federal budget, which called for billions of dollars for infrastructure spending, there was no commitment to the purchase of Canadian-made steel. The lack of government support must be reversed.

I will move now to the auto parts sector. More than 100,000 Canadians are directly employed in vehicle and parts manufacturing, and many are USW members. This accounts for 7% of all manufacturing jobs in Canada. The automotive sector anchors the manufacturing sector, but over the last decade it has seen the loss of 53,000 jobs. Meanwhile, auto parts operations based in Canada typically enjoy a labour cost advantage compared to their U.S.-based counterparts. The industry has a highly skilled labour force, as well as a strong R and D network, with one of the lowest cost structures among advanced economies.

Leveraging the sector's competitive advantage to reverse its troubling decline requires direct government policy. This includes ensuring Export Development Canada's top priority in both attracting and supporting Canadian-based factories by making investment incentives competitive and efficient with sensible tax features.

The United Steelworkers is also a leader in the Canadian forest industry sector, with 17,500 members working in forestry and mills and other production facilities. The last decade, which has included the Canada-U.S. Softwood Lumber Agreement that has now expired, has been difficult for Canadian workers. Low lumber prices, a relatively high dollar, slumping U.S. demand, growing competition from South America and Asia, and lack of capital investment in manufacturing have all led to a decrease in output and to job losses.

China and India are importing increasing amounts of Canadian raw logs. There has been a 300% increase to China alone in the last five years.

● (1635)

By allowing companies to export such large volumes of raw logs, with no value-added work incorporated into them at the domestic mills, governments are failing workers in those communities. The federal government has a key policy role in promoting growth in the sector. An export tax on raw logs would incorporate the difference between export price and domestic price, and the revenue from the tax could be used to help promote the value-added sector.

By taking the lead, the federal government can reverse the declines and ensure that the sector reclaims its status as a sustainable, renewable, value-added industry, providing meaningful, lasting jobs.

The steelworkers also believe that the trade and manufacturing policies should be approached as one comprehensive economic challenge. Free trade agreements alone have not satisfied the imperative to build an economy that serves Canadians' need for a stable, sustainable future. Persistent trade imbalances and declines in manufacturing speak to the lack of a coherent industrial policy. Unfettered trade and minimal government intervention have meant that Canadian exports are biased in favour of our comparative advantage in raw materials and resources.

While the steelworkers represent more workers in the mining sector than any other union in Canada does, we believe that a trade policy that relies predominantly on resource extraction neglects job-creating, value-added, and productivity-enhancing manufacturing. Recent mega-trade agreements such as the TPP and CETA only further entrench a trade regime that takes away the ability to develop sectoral strategies that encourage manufacturing growth. Details in our written submission substantiate that fact. The steelworkers strongly urge the Government of Canada to reject the TPP and CETA and focus efforts for the future on industrial policies that are not constrained by trade deals that are neither free nor trade. This is not protectionism; this is pragmatism. Foreign investment goes hand in hand with trade when it comes to globalization and the need to grow our economy for the sake of Canadian citizens.

Performance requirements for foreign investors must be built in to ensure that Canadians are not disadvantaged by investment deals. There is no greater evidence of the negative impact of secret investment deals with no performance requirements than the takeover of Stelco by U.S. Steel. The unconditional agreement made by the previous federal government with U.S. Steel has all but destroyed the confidence of the people in Hamilton. The uncertainty and insecurity are obvious. One major reason for the crisis in the steel industry is the flooding of the steel market by imported steel. Global overcapacity in steel production has risen to 700 million tonnes, and China by itself maintains over 400 million tonnes of surplus capacity, over 30 times the Canadian steel market.

We are concerned by the government's initiative toward liberalized trade with China. We believe that China is not a market economy and that freer trade with China poses a great risk to Canadian manufacturing. We also believe that the government must amend trade laws to make our trade remedies more effective, and to make the process more transparent by allowing unions to fully participate in trade complaints against countries dumping steel in Canada. Many other jurisdictions such as the U.S., EU, Australia, and New Zealand afford workers that right.

It is fundamental in a globalized economy that workers be able to defend their jobs and communities from unfairly dumped goods. Industry can only benefit. Future trade agreements must allow local procurement, training requirements, and other offsets to stimulate local manufacturing and preserve Canada's right to negotiate community benefit agreements.

I know my time is up, and I'll stop there.

Thank you.

● (1640)

The Chair: Thank you very much.

We're going to move to Michel St-Amand.

[*Translation*]

You have five minutes.

Mr. Michel St-Amand (President, Confection 4e Dimension ltée): Good afternoon. I will be brief.

The Chair: That's good.

Mr. Michel St-Amand: I will try to respond fairly directly to the various issues raised by your committee at its meeting on March 10, 2016, in order to help to draft a report. So I will discuss these issues concisely, to the best of my knowledge.

First of all, the committee wants to know the manufacturing sector's position, its role and its importance for the Canadian economy. I would like to point out that, every time an employer invests one dollar in the manufacturing sector, it pays taxes to the government. During the year, very little work is seasonal or part-time. So I think that every dollar invested in the manufacturing sector brings a good rate of return to the Canadian government. Then, this is reflected in the commercial sector and the entire economy of the regions where there are manufacturing facilities.

The second aspect concerns the causes of job losses in the manufacturing sector. I will talk mainly about my sector.

However, I realize that I forgot to introduce myself. I'm sorry, and I will do that briefly. My name is Michel St-Amand, and I own Confection 4^e^ Dimension, an SME that manufactures clothing. It is located in northwestern New Brunswick. I have been in business for 30 years. I would like to thank the committee for giving me the privilege of appearing before you.

Let me come back to the causes of job losses. I will speak about my own sector, the clothing sector. The answer is simple. From 1995 to 2005, quotas and tariff barriers were eliminated. So we lost about 80% of people employed in garment processing in Canada.

As for the collaboration between academia and the manufacturing sector, I myself tried to establish contacts with a few universities. We saw that each one has a different structure and there is no common standard from one university to the next. In addition, we did not receive the same kind of response from some universities, and it is difficult to create contacts. However, the infrastructure is more suitable in others, and it seems that the response is much more positive to relationships with the manufacturing sector. But there is no consistency.

I will speak briefly about the improvements that might be made. I suggest that there be more co-operative systems or internships in business in the universities. If the federal government could offer incentives for business internships, it would encourage a better connection between the two sectors, and the progression of technical employees to better integration into the manufacturing system in Canada.

As for the types of funding available for innovation, I must praise the federal government. My company, and many others in the manufacturing sector, use various programs. I'm thinking in particular of a federal agency, the National Research Council, the NRC, which offers good programs, including IRAP, the Industrial Research Assistance Program. Its officers are doing excellent work in the regions and are very knowledgeable. From what I have seen, these employees demonstrate great professionalism. Another tax credit that small businesses use a lot is the SR&ED, the Scientific Research and Experimental Development Program. It's a great program that is well structured and properly applied.

There is another agency called NSERC, the Natural Sciences and Engineering Research Council. I use it for student projects, and it is another great agency that helps in innovation. I also work in the innovation sector.

The committee also asked for proposals to help the manufacturing sector, especially in innovation. As I said, there needs to be a better connection between universities and businesses to support students during their studies and when they finish them. The NRC had a good initiative called the Youth Employment Strategy—which is no longer receiving any funding—and that supported businesses in offering technical, engineering and other jobs. But it isn't available anymore. I would be delighted if it could ever continue. There are probably other programs, but I'm not aware of them. The one I just described is good, but it lacks funding.

Another aspect concerns the fact that there are no federal programs to help with the purchase of advanced technical assets. There are no capital assistance programs to help manufacturing companies that want to buy a robot or advanced technical equipment.

● (1645)

As for innovation in the manufacturing sector, we often forget about the technical sector, whether in cegeps in Quebec or community colleges in New Brunswick. Their members are important links to properly develop innovative projects.

I'm done. Thank you very much.

I hope I kept to the five-minute time limit.

The Chair: Five minutes and 24 seconds!

It was perfect. Thank you very much.

Mr. Michel St-Amand: Thank you.

[*English*]

The Chair: We are going to jump right into questioning. We have five minutes.

Mr. Sheehan, you're on the list for five minutes.

Mr. Terry Sheehan: Thank you very much.

Thanks to all our presenters as well.

My first question will be for Ken.

Thank you for your work on behalf of the workers across Canada and in Sault Ste. Marie as well.

I am the representative for Sault Ste. Marie. Two weeks after I was elected, Essar Steel went into creditor protection, and we've been working quite hard with all the stakeholders to make that company stronger for the long haul.

You were talking about dumped steel from China and other countries. About seven months ago, the Liberal government introduced in the budget, on page 128, a section called “Response to Unfair Trade”, in which they introduced a couple of recommendations on modernizing trade remedies, something that has been called for by USW and the Canadian Steel Producers Association for decades.

That has been undertaken now. In your opinion, how will that improve the situation? Also, there are consultations currently under way on more recommendations to strengthen the response to unfair trade? Which of those recommendations do you feel would continue to help us combat dumped steel?

Mr. Ken Neumann: Thank you very much for the question. I understand the importance of the Sault, knowing that if it weren't for the steel industry, the town would really be suffering.

When it gets to the question of the modernization of the trade remedies, we've made a submission along with the Canadian Steel Producers Association. We have a very good, close working relationship, and we see eye to eye on this.

We think it's important that workers have an involvement. We see time and time again that we have lost jobs. We have plants that have been idled because we have pipe coming from India or steel being dumped from China. We've had a trade case with respect to rebar that they are bringing to the shores of British Columbia. We went hand in hand with the CSPA. The time has come for the government to allow our workers that particular right.

The fact is that it rests on the global basis. I know there were some meetings recently on the Prime Minister's tour overseas. There were some discussions.

You have to reduce the capacity in China. They have 400 million tonnes of excess capacity. In the U.S., they have a much stronger trade remedy process, because they have the ability to file complaints, which we talk about. We want to be on equal footing. When they get turned back from the U.S., you know sure as hell that they are coming back in through the back door and somehow trying to get that into Canada.

It only makes sense to me that the government have a very clear policy with regard to dumping. The fact is that it's unfair dumping. We've seen it time and time again. I was born and raised in Saskatchewan, and I worked in the steel mills as one of my first jobs. I understand the importance of those particular jobs. These are good, decent-paying jobs. The steel industry is no longer a smokestack industry. It's viable. It provides high-skilled positions, and people can raise their families on them.

We have to work hard, and hopefully, with the recommendations coming, soon they will be able to stop this flood that's coming from China and elsewhere, until such time as we have a government that's prepared to stand up.

We understand you have to have trade, and it has to be fair trade. That's what we are really focusing on, and we are going to work as hard as we possibly can, because right now it doesn't look very.... We have the people in the Sault, and we also have the people in Hamilton. This has been a long process, and it has not been a pretty process.

● (1650)

Mr. Terry Sheehan: Thank you.

Just supplementary to that, the three amigos were here—Obama, the Mexican President, and the Prime Minister. They signed a trilateral agreement on working together to combat dumped steel from whichever country—China, India, etc.

How important is it—because you represent workers on all sides —for people to work together to combat that?

Mr. Ken Neumann: I think it's very important. We do have NAFTA. The fact is you have the three amigos, as you referred to them, working together. It's important.

I can tell you our union is very active in the U.S., not just in steel. We are active in tire, rubber, and all those other sorts of things, because we get inundated from countries such as China and elsewhere. The fact is that, when you have some tire factories that are shut down because you have 50 million tires coming from China, that's not the kind of society we want to build.

I think it's crucially important that the leaders of Mexico, Canada, and the United States live up to the agreement to make sure that our workers are protected and that we enhance the ability. I've always thought that we're not going to have a successful economy if we don't have a strong steel industry and a strong manufacturing sector.

Mr. Terry Sheehan: In your written submission, I was reading—

The Chair: That's it; you're done.

We're going to move to Mr. Dreeshen.

You have five minutes.

Mr. Earl Dreeshen: Thank you very much, Mr. Chair.

I'll just refer to the written submission. They're great to see. I certainly am pleased to see all the detail that is them, and it's something that we'll be looking at. I'm interested in some statements on the carbon leakage, and so on, as we're looking at steel coming in from other parts of the world, but I'll perhaps leave that to some of my colleagues.

I wanted to speak to Troy about the Canadian Meat Council and some of the issues that are involved there. The use of our animal-based natural resources is critical. That's extremely important.

You mentioned—and I think this had to do with the hog industry —that there are 83 drugs used in Europe that are not allowed in Canada. Yet we hear from various food suppliers about terrible things, such as hormone-free and no antibiotics.

When you take a look at 75 grams of beef and realize the difference between the amount of estrogen in the treated one versus the untreated one is two...yet in the bun there are about 30,000 nanograms there, it's the kind of thing we get caught up with, and, of course, the meat industry is going to take the brunt of that, and has been taking the brunt of that. So trying to get some real information out, I think, is critical.

I guess some of the other issues that we see, as you have alluded to, have to do with crossing the border from the U.S. into Canada, and then from Canada into the U.S., and the differences that exist there.

I wonder if perhaps you could comment somewhat on the safety side of it, how perhaps sometimes people get going in the wrong direction, and whether you could also look at some of the trade issues that exist.

Mr. Troy Warren: Okay. In my day job, I actually work for Maple Leaf Foods. On antibiotic resistance and the movement from a labelling claim standpoint, I think consumers are pushing us very aggressively to probably the right outcomes, which means that we have to responsibly use antibiotics, and I'd say, by and large, the industry does so today. The regulations that we work under within this country are some of the best. They're probably the best in the world.

Our call-out is more from a trade standpoint. This country sets our standards, and if we're going to allow imports into this country, they should still meet our standards or be produced under the same standards that we are forced to adhere to. That's the challenge. With the agreement we're pursuing with the EU, a great number of inequities exist in terms of the standards we're held to operate under —in plant, on farm, and so forth—that will actually limit our trade going into their countries, but we have been very fully accepting of all of their standards and their practices that don't meet ours, and of that meat coming into our country.

From that standpoint, what we want is just one standard. If this is the standard we need to operate under, and these are the costs we're going to have to incur or not incur, depending on the products we're all labelled to use, then the meat coming into this country should have the same requirements.

Sorry, what was your second question?

● (1655)

Mr. Earl Dreeshen: It was about the safety on border....

Mr. Troy Warren: That's really the border one. The U.S. has the same challenge. The U.S. inspects, as I say, every single load of meat that goes from this country into the U.S. Our trade, actually, is pretty balanced. The amount of meat that we ship there and the amount of meat that comes into Canada are about equal.

The difference, though, is that, randomly, because they have a testing system, they will test our product to see if it's the right species. They'll check our pork, from one of the pork plants I operate, going into the U.S., to make sure that it's pork. Is that really necessary? It's been produced under a Canadian CFIA federal inspection facility, and we have equivalency between the USDA and Canada, yet they'll run a test that takes nine days to return. If it's fresh meat, our fresh meat has a very short shelf-life. That meat has to be returned to Canada and sold off at a discount, typically, because no one wants meat that's now going for some testing and we don't know what the outcome's going to be.

If we return it to our facility, then CFIA actually wants us to put it on hold. Why would you want to put this meat on hold when you've certified it and given us export certificates that actually say it is pork and that meet all of our standards? Just because it's been tested by another country, you're concerned about what the outcome would be.

Those are the challenges of crossing borders. While our borders seem very open, they aren't as open going into the U.S. as we make them coming into Canada.

The Chair: Thank you very much.

We're going to move to Mr. Masse.

You have five minutes.

Mr. Brian Masse: Thank you, Mr. Chair.

I'm going to give my time to Mr. Duvall, but I just want to add one little quick statement. That's a good opportunity to segue with regard to the border, and there's more to it. In fact, the United States in terms of protecting its steel industry—consider this—has the Buy America Act, the Buy American Act, the Jones Act, and the ability to stop dumping or at least challenge it. As well, they have addressed issues, and politically, there's currency and other manipulation that have affected the steel industry in Canada as well. But we've done nothing on this side, whereas the United States has clearly championed the industry, leaving Canada basically as an island unto itself with regard to the workers and the quality of product, which are the last things we have control over.

I'll turn it over to Mr. Duvall, but I want to thank the steel workers for their hard work and also their maintenance of an industry in Canada.

Mr. Scott Duvall (Hamilton Mountain, NDP): Thank you.

I appreciate you gentlemen coming forward with your concerns. Your presentation was very interesting.

Mr. Neumann, you've made some statements especially about the steel industry, which I represent in Hamilton Mountain, and my colleague Mr. Sheehan represents up in the Soo. With regard to the problems we're having with the steel industry, whether we're talking about the dumping of steel or trade barriers, has the government been of any assistance to date in either of our two municipalities to Essar or U.S. Steel? Has it been of any assistance to date to bring back those jobs and get those companies back on their feet? If it has, what has it done, and what is it that you need from the government today to help solve the steel crisis?

Mr. Ken Neumann: Thank you for the question. As I said in my submission, we've had a very engaged provincial government, and Ontario is working very closely with us with respect to what's happening up in the Soo and also within Hamilton.

We had the opportunity and the pleasure to meet with the Hon. Navdeep Bains back in April, and he was very conciliatory and very open and recognized the importance of a very strong steel industry. We had a follow-up meeting with some of his staff on June 14 here in Ottawa and talked about some of the issues. We talked about dumping and some of the regulatory issues that are at hand. I sent off another letter at the end of last month, requesting another meeting, because we're now getting to that stage where we have some potential buyers in play and we are hoping to be in a position to get these two facilities out of CCAA, which they've been into for a long period of time.

That being said, we've not had any assistance from the federal government at this time, but as I say, we've had a couple of meetings. We've now requested the third, and I'm hopeful that we will have that meeting very soon. We want it to be engaged in the process. This is a crucial industry of some $14 billion with 22,000 direct jobs, and if you do the add-in factor of another five to one, this is very significant. I think the federal government acknowledged that. We need it to be engaged in the process, because there are some issues there. There are some tax issues, and there are also some environmental issues, with which I'm sure it can be of assistance in some form or fashion.

The other one we'd like it to consider is capex. The fact is some major investment is needed, and I don't want to go through what happened when the former government allowed U.S. Steel to come into this country. To me, that was not a net benefit for Canada whatsoever. It went off to the side and signed this secret deal with no involvement from the community, no involvement from the workers, and for that reason we're in this particular difficulty.

There is a serious need in one of the most modern facilities in North America, which was built in the mid-1970s, the integrated mill at Nanticoke. The blast furnaces there need some realigns, and those realigns don't come very cheap. We think that it's a capex situation in which the government could very much be of assistance.

The third thing we have to get back to is some assistance in training and adjustment. We need skills for the modern industry. It's high tech. The steel industry is high tech, and we now recognize that baby boomers are retiring and all those sorts of things, so we need some assistance on that.

I go back to the days in the steel industry when we had CSTEC, which was a sectoral council, and the good it did. It wasn't just CSTEC; we had a whole bunch of other sectoral councils.

Those are the three areas that we think the government needs to be engaged in, and again, we look forward. I'm very hopeful that in the very near future we're going to have another opportunity to meet with Minister Bains to talk about these issues that are crucial, because we've been working day and night recently in regard to having some potential buyers, and this is not an easy task. This is not an easy task, considering what has transpired in the steel industry.

In last year and a half—and you know the circumstances very well—20,000 of those retirees had their health care benefits cut out. These are people who have toiled. These are people who have helped build this great country of ours, and there they are in the greatest need, knowing full well that when they went into those industries they were looked after with respect to their benefits. So it's a serious crisis, and we have to move forth with it.

● (1700)

The Chair: You've run out of time. Thank you very much.

Mr. Scott Duvall: Thanks, Mr. Chairman.

The Chair: The last question goes to Mr. Longfield. You have three minutes, and then we're done.

Mr. Lloyd Longfield: Thank you, Mr. Chair.

Thank you to Mr. St-Amand for joining us by video from Edmundston. I apologize, I'm asking my questions in English. I'm taking lessons, but it's a hard job.

You've been in the business for 30 years?

[*Translation*]

Mr. Michel St-Amand: That's right.

[*English*]

Mr. Lloyd Longfield: Congratulations. It's Small Business Week this week, and you're a great example of a business that survived through some pretty tough years.

You mentioned investing in equipment and having some incentives. What's the opportunity for us to bring the garment industry back to Canada? It's left North America.

I'm originally from Winnipeg, which had a very strong garment industry. Montreal had a strong garment industry. It's great to hear that you're still operating in New Brunswick, but what's the potential?

[*Translation*]

Mr. Michel St-Amand: I'll do my best to give you a brief and satisfactory answer.

I think that everything goes through innovation. We are often barometers. We had already started losing jobs in 1995. Now, we are beginning to see the possibility of competing with Asia. We are seeing a rise in employment in the clothing industry in Mexico, and we hope that in the next few years this wave will reach the United States and Canada, to finally generate some jobs in our sector.

Innovation is key for us. I have three robots in my small SME. I do research and development. Trying to make clothing using robots is almost unique, I think. As small business owners, we are in our own little world. We lack structure and time to inform ourselves properly.

I spoke earlier about three ways to help us. I think that relationships with the universities will be important for us. It's important to remember the technical sectors. Everything goes through innovation and capital assistance, which is used to procure advanced equipment. I speak mainly for my own business. I am awash in innovation, despite the sector I'm in. Generally speaking, I think our industry is moving in that direction. That's the key.

I hope I have answered you satisfactorily.

● (1705)

[*English*]

Mr. Lloyd Longfield: That's very useful.

And a sherpa system might help to give us a guide to possibly get you to innovation.

[*Translation*]

The Chair: Thank you very much.

[*English*]

That's about all the time we have left. I want to thank our guests for the very lively discussion.

We're going to suspend for two minutes, and then we're going to return in camera to do some committee business.

Thank you.

[*Proceedings continue in camera*]