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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.)): I call the meeting to order.

Welcome back, everybody. This is meeting number 29. How time flies. This is the Standing Committee on Industry, Science and Technology. Today we have a new clerk for the day.

We have two panels today. We have the Chemistry Industry Association of Canada for the first hour. In the second hour, we have BDC coming back.

Right now, from the Chemistry Industry Association of Canada, we have Bob Masterson, president and chief executive officer, and Pierre Gauthier, vice-president for public affairs.

Gentlemen, the floor is yours. You've got eight minutes, and I'm holding you to eight minutes. After you do that, we'll get into our questioning.

Mr. Bob Masterson (President and Chief Executive Officer, Chemistry Industry Association of Canada): Thank you, Mr. Chair.

It's an honour to appear before this committee today on behalf of Canada's chemistry industry.

Our industry is vitally important to Canada's manufacturing landscape. Chemistry is a $53-billion a year industry in Canada. That makes us the fourth largest manufacturer and the second largest manufacturing exporter. We directly employ more than 87,000 Canadians. These are well-paid and highly skilled jobs. We also support half a million jobs in other sectors. In fact, chemistry is an essential industry—you see a package of information with some examples in front of you—that provides the building blocks for more than 95% of all the consumer products in the economy today.

I want to use my brief time with you to respond directly to the objectives of your study. I'll demonstrate that chemistry is a strategic sector for Canada's economic development. I'll provide some recommendations on how to strengthen the sector through increased foreign direct investment to help grow the economy and create highly skilled manufacturing jobs for Canadians.

Let me just start by saying chemistry is a growth industry, period. As Canada is looking to expand beyond a slow, sluggish 2% annual growth rate, it need look no further than chemistry. Year after year, chemicals production has outpaced GDP growth in both North America and globally and that growth shows no signs of slowing down. In fact, analysts predict rapid growth with a near tripling of the 20 largest volume, platform chemicals over the next 30 years. This really shouldn't come as any surprise. We know that chemical demand is closely linked with population growth, societal demand, the needs and aspirations of a modern, growing middle class. As well, our industry is a key enabler for solutions to the world's most pressing problems of clean air; clean water; clean energy; and safe, nutritious, and abundant food.

Chemistry is also a highly innovative sector. Often it is forgotten; people think of it as yesterday's industry. It's a highly innovative sector. In fact, in the United States, there are more than a quarter of a million patents issued annually. About half of those do go into the computer and IT sector, but the next quarter of them go into innovative chemistry technologies. The balance, the remaining quarter, go to all other sectors combined. Chemistry is a highly innovative sector.

I'll finish just by saying chemistry is also a highly responsible industry. More than 30 years ago, this industry in Canada did face a crisis of public confidence. Our industry, with the assistance of our toughest critics, responded by developing Responsible Care, our commitment to sustainability. That initiative is a global success story, now practised in 62 countries worldwide.

The best example I can give you of the Responsible Care commitment to innovate for a safe and sustainable future is the pride we take in being at the forefront of breakthrough chemistries that will deliver new refrigerants that will help achieve the objectives of the Kigali accord. These new chemistries will have the single largest impact on global warming to date, with the environment minister estimating about a 0.5°Celsius decrease in global warming, all through the powers of innovative chemistries.

I can't say it enough and I can't say it more clearly: our chemistry industry is modern, highly innovative, solutions-oriented, responsible, and it's poised for growth.

Let's just talk about the growth potential for a moment.

The North American chemistry industry has changed dramatically in the past five years. The availability of low-cost, low-carbon feedstocks, specifically, natural gas, liquids, and shale gas, has put North American producers amongst the lowest cost chemical producers in the world. That, combined with the anticipated growth and demand, has led to significant capital investment. Today, we are tracking more than 275 chemistry projects with an impressive book value exceeding $225 billion under development in the United States alone. Sixty percent of that represents foreign direct investment into the U.S. In turn, those anchor investments have spurred an additional 600 investments in the downstream plastic sector alone.

Those investments make chemistry the fastest-growing manufacturing sector in the United States, and according to the National Association of Manufacturers, chemistry accounted for over 50% of all manufacturing investment in the United States during the past year. In short, chemistry has become the poster child for manufacturing reshoring in the United States.

Let's look at Canada for a minute. Canada has seen some investments from that recent wave, but we're lagging far behind our historical 10% comparative share.

Our industry should have seen $25 billion in new investments in Canada in the last five years. The reality is that we're seeing less than $3 billion, or just over 1% of the North American total, when we should be seeing 10%.

There's no doubt that the Canadian competitive landscape has improved significantly in recent years. We have very favourable corporate tax rates and enhanced depreciation treatments for new investment. We also know that Canada is making it to the short list when the global chemistry companies are considering where to make their next multi-billion-dollar foreign direct investment, but unfortunately, investment is not the Olympics; there's no silver medal. The competition is fierce. It's a winner-takes-all game, and we're not winning nearly enough.

It's our view that this pattern can and must change. We think our sector and the national economy face a bleak future unless the lifeblood of capital investment is restored.

I'll conclude my brief remarks by identifying what we believe are the three highest priority actions needed to land the next wave of investments for the chemistry sector in Canada.

First, the Government of Canada must work very closely—more closely—with the provinces.

In 2015 Ontario identified chemistry as an advanced manufacturing sector. This was important, because it made the chemistry sector eligible for investment assistance under the province's $2.7-billion jobs and prosperity fund. The province has also identified chemistry as a target sector for a regulatory modernization project under its Open for Business initiative, and that will be taking place in 2017.

If we turn to Alberta, the province this year launched a $500-million petrochemical diversification program to attract global investment to add value to Alberta's resources. With funding at that level, the province will likely be in a position to support just two, or perhaps three, large projects. That program, however, has attracted significant interest. They've received more than 16 proposals with a book value of more than $20 billion.

British Columbia is also exploring how to add value to the portion of the significant natural gas volumes it anticipates will leave the province through the proposed LNG terminals.

In Quebec, the government is well aware of the benefits that will accrue in new chemistry operations to support mining and other developments in the province's Plan Nord.

Canada's chemistry sector could easily get back to the 10% historical investment share if the federal government were to partner directly with those provinces that have already identified chemistry as a priority strategic sector for their own economies.

Second, Canada introduced a long-term, 10-year accelerated capital cost allowance in Budget 2015. That measure merely matches existing and permanent treatments in the U.S. It closes an important gap, but it doesn't offer Canada any overall advantage.

To level the playing field, we believe the ACCA needs to be made more permanent, and even more is needed to provide a strategic advantage and draw the attention of foreign investors. Here we're recommending specifically a 100% depreciation for value-added resource developments, over a five- to ten-year investment cycle. We believe this will send a very strong signal that our economy is serious about attracting foreign direct investment and moving beyond our lacklustre 2% growth.

Third and finally, we believe it's vital that Canada approve the development of supporting infrastructure so that the country's natural resources can reach markets. If we can't develop our natural resources, there's nothing to add value to, and the future of the chemistry industry will be bleak indeed.

I'd like to conclude by saying that the work of this committee, along with that of the Barton advisory panel, will provide the Government of Canada with very relevant and important advice. If that advice is followed, we believe that investment in the chemistry sector can advance from being poised to deployed.

I thank you again for the opportunity to share the chemistry industry's investment and growth message with this committee today.

Thank you.

● (1540)

The Chair: Thank you, Mr. Masterson. I am certainly looking forward to hearing some of the questions and answers today.

We're going to jump right into it with Mr. Longfield.

You have seven minutes.

Mr. Lloyd Longfield (Guelph, Lib.): Thanks, Mr. Chair.

Thanks, Mr. Masterson, for a great presentation. It was really good to boil it down to three priority areas.

I want to focus on one, and that is looking at partnering with the provinces. Could it tie in with your investments in the Sarnia-Lambton biohybrid chemistry cluster, which I believe has a fair amount of provincial involvement? Could you tell us more about that cluster, what it's doing, and how we could help?

Mr. Bob Masterson: Excellent. That's a very good point. All these large investments in the chemistry sector become, as I call them, “anchor investments”. I talked about 20 platform chemicals, whereas there are thousands in the economy. Being closely located to where those platform chemicals are produced is often a strategic advantage.

I see the government, especially the innovation committee, talking a lot about clusters. Well, it's there. You don't have to go any farther than Sarnia or Fort Saskatchewan in Alberta.

What do we mean by a cluster? We mean that the co-products or by-products of one industry become the feedstock of another industry to help it have economies of scale and be productive.

Yes, talking to your question about the bioindustrial hybrid approach, there is no question that there is an evolution taking place —not a revolution, but an evolution——in the business of chemistry. There is a drive towards bio-based chemistry. These projects secure commercial advantage and do best when they're located in situations such as Sarnia's, wherein you already have a well-functioning industrial culture. You have access to transportation infrastructure—ports, roads, buildings. It combines steam, heat, and power. All these things that make it competitive for an existing operation can help with the bioindustrial side as well.

Yes, Ontario has looked at that sector, not just the bio side but the whole concept of the bioindustrial hybrid cluster as a focus in which they think Ontario has a strategic advantage.

Mr. Lloyd Longfield: My riding of Guelph is quite interested in bioreplacement.

Mr. Bob Masterson: The feedstock is there.

Mr. Lloyd Longfield: Yes.

How old is that cluster, and what kind of a growth trajectory is it on?

Mr. Bob Masterson: It's a hybrid, and Sarnia has been in business for nearly a hundred years, but it's really since pre-World War II that it has been a very strong and globally important cluster of chemical operations. The industrial scale of bioinvestments has been realized in the last five years.

● (1545)

Mr. Lloyd Longfield: Okay.

Along with that, and looking at the research that's going on there around cogeneration and our government's focus on putting a price on pollution, how can this contribute to our agenda around climate change and putting a price on pollution?

Mr. Bob Masterson: There already is strong cogeneration activity taking place in Sarnia, and one of our messages to the Ontario government, as they develop their cap and trade, is to remember that it was incentivized as one means—and I don't mean financially, but through policy—as a key means to back the province out of coal-fired power.

One of the things we certainly say is that if you have combined heat and power already, then you'd better be careful that you don't disincentivize that, because you'll be sending the wrong signals.

The chemistry sector can live with carbon pricing—there is no question about that—but we are strong believers in the concept of ecological fiscal reform. If you want to price the things that you don't want—in this case, carbon emissions—then you need to decrease the cost somewhere else to allow companies to remain whole and be productive.

Mr. Lloyd Longfield: Right, to incentivize.

Mr. Bob Masterson: I think that's the biggest challenge for policy-makers to grasp. We're hearing a lot about additional costs, but we're not hearing about the things that can improve the competitive position.

I've just laid out in front of you a situation where rather than attracting 10% of North American investment, we're only attracting 1%, so I think there is a very clear message of what would happen if we add additional costs onto the industry without removing them somewhere else.

Mr. Lloyd Longfield: Right.

Mr. Bob Masterson: That position would become more untenable.

Mr. Lloyd Longfield: We have that on the record already around the accelerated capital cost allowance and the supporting infrastructure.

When it comes to jobs, a big area for us is trying to help youth unemployment and trying to direct youth toward careers where there are jobs. Could you speak to whether there are job shortages, and whether there are particular areas that we should be encouraging colleges and universities to focus on to achieve your agenda?

Mr. Bob Masterson: These are highly skilled jobs, and as a comparison, in the Canadian manufacturing sector the average wage is $54,000 a year and in chemicals writ large, it's $72,000. That's a 32% advantage. In industrial chemicals, and that's what we represent, the average salary is nearly $100,000, and that's a 77% markup on the Canadian manufacturing average. These are very high-skilled, high-paying jobs.

Certainly, engineers in all sciences—tech, engineering, and mathematics—are very important. We work with a number of the colleges, especially in the Sarnia area, and also at the University of Alberta and elsewhere. The skilled trades are important.

I would say that if you had asked that question three years ago, it would have been issue number one. In the current state of the economy, it's not as pressing, but it's recognized that when the economy gets back to a healthy level, above 2%, the skills shortage will be very real again.

All of the key trades that one could expect, especially plant operators.... I think it's important to remember, though, that these are not second-rate jobs.

Mr. Lloyd Longfield: You're totally right.

Mr. Bob Masterson: We don't take students who don't excel at university, parcel them into a skilled trade, and think they're going to succeed. In today's world these are very technical, demanding jobs that demand an incredibly high level of intelligence, and it takes a lot to train an operator to safely run a chemical plant or most other manufacturing institutions.

Mr. Lloyd Longfield: I have less than a minute to go.

I'm chairing the innovation and post-secondary education caucus, and you've talked a lot about innovation and the responsiveness of your industry. Does that also reach into developing programs at colleges and universities? Do you do any codevelopment? Do you do any kind of co-op placements—

Mr. Bob Masterson: Yes, absolutely, throughout the industry. I can think of some universities we're especially involved with, such as the University of Alberta, Sarnia's Lambton College, the University of Guelph, Western University, and the University of Toronto. These are all universities that are affiliated with our manufacturing operations.

It's a key point that the industry, which is a global industry, is involved in R and D, and involved in the colleges, because they have a manufacturing footprint here. If that manufacturing footprint disappears—

Mr. Lloyd Longfield: It goes with it.

Mr. Bob Masterson: It goes with it, absolutely.

Mr. Lloyd Longfield: Thank you very much.

The Chair: Thank you very much.

Mr. Dreeshen, you have seven minutes.

Mr. Earl Dreeshen (Red Deer—Mountain View, CPC): Thank you very much, Mr. Chair.

Thank you for being here today.

You had a good message when you talk about Responsible Care and trying to get the positive message out there. I think it's extremely important, because we've found in some industries that if you wait too long, then the message gets ahead of you. One of the critical parts is that you're looking at safe food, and you're looking at the requirements that you have and how chemistry deals with that. Of course, people should be recognizing that we have the safest and best food in the world. That's a critical aspect of it, and it's so important.

The other comment that I would like to make before I ask a couple of questions is that you talked about low carbon, natural gas, and shale gas, and the message that is there so that people have been able to move and expand. Of course, it certainly has gone wild in the United States. They've looked at it, and they recognize that they don't need our petroleum products, because they've had the freedom and the flexibility to be able to do what they need to do in order to develop the resources they have.

I think that's one of the issues that we have to grab hold of to recognize that we are now a bit behind. You were talking about how we can get investments to come up to Canada, but we've tied our hands in so many different ways. Of course, the U.S. is just licking their chops to be able to move forward on that.

Can you start by finding some ways, or telling us about a few ways, that we might be able to change that trend, so that we can see investments coming into Canada that will be positive for your industry?

● (1550)

Mr. Bob Masterson: Let me make a couple of comments to your first point about food.

One of the key solutions provided by the chemistry industry is in the area of food preservation. More than half of all the food grown never makes it to the table. It ends up disposed of somewhere along the way, either through pests or through waste because it's no longer fresh. Those solutions to get food to the table are very important in today's world.

Mr. Earl Dreeshen: Before you go any further with that, Bob, there's still that messaging, because when you talk about that, there's this negative concept about what you are putting into food so that it's going to last two or three times longer.

Maybe you could address that side of it. I agree with you, but you have to look at the—

Mr. Bob Masterson: We spend a lot of time—

Mr. Earl Dreeshen: —perception as well.

Mr. Bob Masterson: —working with the committee on environment and sustainable development as they've looked at Canada's chemical management plan and CEPA, the Canadian Environmental Protection Act.

It's no secret that Canada's approach to chemicals management is second to none in the world. The folks in this room may not know it, but the United States has gone through its first modernization of its chemicals management in over 40 years. What they've done looks and feels a lot like Canada's chemical management program. They've collaborated extensively with people here in Canada to make that happen. We don't have anything that we should feel is second rate in our approach to how we regulate and manage chemicals.

Mr. Earl Dreeshen: That's great. I just wanted to hear it from you.

Now we go on to the other side of the United States and their issues there, which have to do with our technologies and the differences we have as far as investment is concerned.

Mr. Bob Masterson: Let me give just a basic quick overview for people who don't know the chemistry industry well. You might wonder in the back of your mind why we have a chemistry industry in Alberta. People say it's the oil. No, it's not the oil; it's the natural gas liquid.

There are two pathways to make traditional industrial chemicals. One is to take crude oil, turn it into naphtha, and then turn that into plastics-related chemicals. The other is to take ethane out of natural gas and go straight into chemicals for plastics in all the plastics chain. We call ethane a natural gas liquid. It comes along with the natural gas developments.

What's the benefit of that? It uses half as much energy, and therefore results in half as many emissions, to make plastics and all related petrochemicals out of ethane rather than naphtha. That's not to say that naphtha's wrong—there are a lot of very important chemistries that are based on naphtha—but the plastics chain can be well supplied from ethane.

Why does Alberta have a strong industry? It is because, for years, it was the only place in North America that had access to ethane. It was cost-effective to produce plastic-related chemicals in Alberta and ship them over the mountains or ship them back across Canada.

What has happened in the U.S.? Why is there a revolution? Well, they now have access to the same ethane we've had for a long time. In fact, in Sarnia you have seen the installations there convert their operations, which are historically naphtha-based, to the ethane feedstock. That has made them very competitive vis-à-vis their U.S. counterparts, but we should be able to attract more of that investment here.

Another way to ask the question is, “Well, what does the U.S. have that we don't have?” We have access to feedstock; they have access to feedstock. We're a little worried about the long term if we don't develop energy, but for now, feedstock is available. We have access to market; they have access to market, both the North American market and the Asian and offshore markets.

The third thing the U.S. has that we don't have, especially at the state level, is a competitive investment environment. On many occasions it has seemed that Canada hasn't been interested. If you look no further than Pennsylvania, which doesn't have the long, storied history of chemical development Canada does, Shell Chemical has proposed a project there that will amount to well over $10 billion U.S. That was seven years of work. The State of Pennsylvania was not going to take no for an answer. It was a question of how to make this happen for the 40 years of benefits, tens of thousands of workers in construction, and 800 to 1,000 good jobs after that. The question was, “How do we make this happen for Pennsylvania?” That deal was concluded this year.

There's a message here for Canada: there's a very competitive global environment for investment. If we want it, we're going to have to go for it, and we're going to have to work very hard to get it.

● (1555)

Mr. Earl Dreeshen: As a last point in the 45 seconds I have left, I wonder if you could give us an idea of what we could be doing to improve our patent system here in Canada. I doubt if 45 seconds will do it, but I'll lay it on the table.

Mr. Bob Masterson: I couldn't do it justice. I can have someone come back to you with some suggestions on that.

Mr. Earl Dreeshen: If you have a report that's handy and you want to send it to the chair, that would be a good idea.

Mr. Bob Masterson: I don't have a report on patents per se. I could spend maybe 30 seconds to say that we felt the changes made to the SR and ED tax credit program were disadvantageous to Canadian manufacturers, including those in our industry, many of whom are existing manufacturers.

What they do is at the R and D and the deployment stages, they're taking research that may have been done elsewhere, but it's the final step to get it to production scale that they could do here in Canada. It has become more challenging to access that, and therefore we're probably going to see less of that type of work done in Canada.

Mr. Earl Dreeshen: Thank you.

The Chair: Thank you very much.

Mr. Masse, you have seven minutes.

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

Thank you for being here today. I just want to make clear that the chemical association was the previous—

Mr. Bob Masterson: You mean the CCPA.

Mr. Brian Masse: Yes, the CCPA.

Your website is very good for a lot of information. There's a connection between some of the things we do ordinarily and the industry. You talked about how if we want to move we should go for it, in terms of getting more of that investment here. You mentioned tax, but what specific advice would you give?

Mr. Bob Masterson: I mentioned two specific things.

We know that Canadian governments will not do what is often done in the States, which is to give a tax holiday.

What are the other tools that can help? Certainly tax treatments such as deferred tax and accelerated capital cost depreciation treatments are ways to do that.

Mr. Brian Masse: Yes.

Mr. Bob Masterson: Second, the federal government in particular has a lot of programs and funding at its disposal. Even when we talk to folks in the ISED department, it is difficult to keep track of it all.

The work of this committee, in our understanding, is to try to provide some strategic focus for Canada's investments in this area. We say it's long overdue, but more particularly, don't reinvent the wheel. If Ontario, Alberta, British Columbia, and Quebec, which are a large part of the Canadian economy, have already identified chemistry as a priority, that ought to be a priority for the federal government as well.

Think about the $500 million in Alberta this year alone that's going to attract two to three new investments. If the federal government partnered with Alberta on that, now you're talking about four to six investments, and all the additional revenues and jobs that go along with that. We strongly encourage the federal government to align its activities with those of the provinces.

Mr. Brian Masse: Over the last decade, I have had deck after deck of lobby groups coming, not just from the chemistry association but others as well, talking about lowering corporate taxes. That was supposed to be the big promise for investment, but what you're saying to me today is that we're getting 1% of investment in R and D.

What was wrong with that argument? Why didn't that take place? We have lower corporate tax cuts than the United States; in fact, both presidential candidates are talking about raising them. However, we've seen states, Pennsylvania and many others—and I come from close to Sarnia where we do a lot of this industrial work—undercut us because NAFTA and free trade don't account for what state and provincial governments can do.

What took place in that? Can you at least explain and give me an insight? Your two specific requests are actually very helpful.

Mr. Bob Masterson: I think there are two things that have changed, and they're both very important to note.

The first is that if you went back a decade ago, Canada was not on anybody's short list for investments in the chemistry industry. As much as we might have wanted it and gave the right signals, it wasn't on anybody's short list. Now when these global companies are looking for places to make their next $8-billion investment or $10-billion investment, Canada is actually on that list. They're coming to talk to Alberta, to Ottawa, to Ontario. It's discussed. It's one of the two or three that they look at.

However, it isn't number one, and that's the other part of that question. What has changed is that the competition has become more and more intense. As we've moved the goalposts, others have moved as well, and we haven't necessarily been keeping up.

That's not just a critique of the federal government. I think it's across the board in how we approach economic and manufacturing development. There doesn't seem to be a lot of synergies between efforts at the provincial level and at the federal level. Certainly between places like Sarnia or Guelph and the provincial governments I believe there are, but at times there's a disconnect between Ottawa and the provinces.

● (1600)

Mr. Brian Masse: Yes, and that's a lot of what this study is about for me. It's finding the things that Canadian taxpayers are going to subsidize in one form or another. Reducing corporate tax is a loss of a revenue stream and requires borrowing, because we are in deficit and in debt. It's the same with incentive programs, whether it be with the auto industry close to Sarnia, where I am....

The capital cost reduction allowance, again, is continued borrowing. Is that going to be returned to the constituents with results?

Mr. Bob Masterson: Well, you have to make smart and strategic investments, and, again, we think we're one of those. Why would that be?

First of all, if you're making, say, a $2-billion investment in a chemical facility, you're looking at investment that's going to be around for 35 to 40 years; it's not five years plus. Our analysis suggests that even at 100% accelerated capital costs allowance, 100% depreciation treatment, the federal government's forgone revenues from taxation would be returned over an eight-year period. The break-even point for the federal government is eight years. You now have the rest of this period.

Mr. Brian Masse: There's a clear argument for that, and the general corporate tax cut reduction doesn't guarantee.... In fact, in the sense that we actually have mostly branch plants now, most of those profits are returned. Ironically, in the oil and gas industry—that's a debate for another day—we were actually returning Canadian taxpayers' money to Washington, because they could tax on worldwide profits.

This is why this committee originally came to see CCA as an actual objective. I believe, though, in a longer duration for it, and instead of the two-year renewal, looking at a five-year, and then maybe a potential of five more from there, a 10-year renewal. Some even argued for having it permanent. It would create more of a subsidy.

It's harder to move a piece of equipment to China that the taxpayers have helped fund through a reduction of taxes to the company, versus that of a general corporate return that actually doesn't end up in Canada because the investment—as you noted for your industry, it's 1% of investment for R and D—doesn't take place here.

Mr. Bob Masterson: Yes, and it's important to remember that we are funding development in the gulf and in China and Asia and the United States right now.

Those companies that made it through the last two great recessions are lean and mean and belong here. They make profits every year. Those profits are not being reinvested in Canada because the shareholders can decide where they wish to invest. Canada has been very attractive to investors historically, but they're making a bet that it won't be as attractive in the future. That's the work of this committee and the provinces—to make the case that Canada can be the place for their next investment so that we can return those profits from Canadian operations to new investments here in Canada.

The Chair: Thank you very much.

We're going to Mr. Arya.

You have seven minutes.

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

Thank you, guys.

Mr. Masterson, I agree with most of the things you say. Personally, I have knowledge of what is happening in the Gulf Cooperation Council countries, the oil-rich Arab countries, where every single day a new manufacturing plant is coming up, adding value to the oil and the natural gas.

When I say “adding value”, many people here think of refineries alone, but the downstream segment is so vast it's unimaginable. One of the books I bought, which I haven't read yet and is still in my personal library, is *A History of the International Chemical Industry*. I had a personal interest in that quite some time back, but not anymore, I guess.

You talked about the federal government partnering with the provinces. You mentioned Alberta's $400-million fund. How can the federal government partner with Ontario? I know you mentioned that the chemical industry in Ontario has been recognized as an advanced manufacturing sector. What are the specific ways in which the federal government can partner with Ontario?

● (1605)

Mr. Bob Masterson: For the strategic sectors it has identified, Ontario is working on strategies to enable growth in those sectors, chemistry being one of them. Again, one thing that is looked at is the total footprint of regulatory activity. They've indicated that they don't wish to change policies, but are there administrative processes that could be made more efficient or replaced with something that works better? We are doing that work with them as well.

I can't describe what it would look like. I won't say that we have an economy-wide issue and it is the work of this group to try to identify the sectors; the provinces have largely done that. Why not work with them, take advantage of the good work they've done in the last half-decade at least, and figure out the correct role for the federal government to complement that?

Mr. Chandra Arya: Mr. Masterson, for the companies that decide to invest here in Ontario rather than Alberta, are there any additional problems in terms of, say, environmental clearance, etc.?

Mr. Bob Masterson: I wouldn't say problems with environmental clearance, but there is no question that Canada, and Ontario in particular, is a very complex and difficult place to do business. In fact, one of the recommendations from the Barton report is to create a sort of concierge service to help walk very large investments through this morass of complex and overlapping regulatory and approval processes.

If you were to go to Louisiana or Texas, that's exactly the way it takes place: here is the guy or the gal who is going to help get your application through. If there are problems, it's not going to go through, but they are going to tell you today what your problem is, and then they'll get it to the next stage.

We have situations where people will wait.... I can tell this group —it's public knowledge—that to achieve an environmental approval in Ontario today, the wait time is 700 days. We're talking routine environmental approvals, not major applications for new projects. If I put in a new piece of equipment that reduces my environmental footprint, or if I would like to do that, I will wait, on average, over 700 days for approval.

That gives you a sense of the complexity of doing business.

Mr. Chandra Arya: Yes.

Mr. Chair, I would like to share my time with Mr. Baylis.

Mr. Frank Baylis (Pierrefonds—Dollard, Lib.): Thank you, Chandra.

That's leading to the questions I was looking at. In one of the presentations you gave to us, you touched on regulatory overlap and compliance costs and the opportunities to eliminate duplication. Can you expand on that, please?

Mr. Bob Masterson: I'm not sure I said that exactly.

Mr. Frank Baylis: It was in one of the presentations that were sent to us.

Mr. Bob Masterson: The area that concerns us the most with overlap—I wouldn't say “overlap”, but integration—would be how the proposed carbon pricing is going to work between the provinces and the federal government.

We've spent years working with the federal government on an approach that we thought was going to work. We've spent years working with the provinces. Ontario is going down a cap-and-trade route, as is Quebec. B.C. has a carbon price. Alberta has an approach that's a hybrid, with a carbon tax plus regulatory requirements and performance standards. There is a concern that just as we are coming to grips with how those are going to work and how we can make our own contributions within those systems, there is something else on top. How the federal efforts will work with the provinces is a key point of concern for us at this time.

When it comes to other issues, we've worked very closely with the federal government as well as all stakeholders and the provinces on the federal clean air agenda—also over the last 8 to 10 years—and, by and large, that has been successful. It has been successful because people have come to the table and identified what the correct role for the different parties is.

Mr. Frank Baylis: Your document also touches on the Canadian Environmental Protection Act, and he just mentioned some issues there. What could be done to accelerate, without taking away the content—

Mr. Bob Masterson: We're very comfortable with where both the Canadian Environmental Protection Act and the chemicals management plan is, and our testimony to the environment and sustainable development committee was clear. The main message is that it's working, so leave it as it is and look for opportunities for some continual improvement, if you will. It's not a case of throwing out the whole piece of major legislative reform.

We have reviewed the detailed recommendations from the ministers of environment and health, and I can say that we concur and support the vast majority of those. There are a few very minor instances of a lack of clarity on what they're suggesting, and we're in touch with their officials to look at that.

● (1610)

Mr. Frank Baylis: That's including the chemical management plan as well as CEPA?

Mr. Bob Masterson: Yes.

Mr. Frank Baylis: So both things are going in the right direction.

Mr. Bob Masterson: We believe so, from our perspective, and we've said so to committee.

Mr. Frank Baylis: Are they being modernized in the way that's necessary?

Mr. Bob Masterson: We believe so, but the committees will have their say sometime soon.

Mr. Frank Baylis: Will they address that point you brought up about this 700 days?

Mr. Bob Masterson: No, that's specific to Ontario. We were talking about the—

Mr. Frank Baylis: That's in Ontario.

Mr. Bob Masterson: That's Ontario, not the federal government.

Mr. Frank Baylis: Are there opportunities, then, coming back to that idea for elimination of duplication and an ability for the provinces to work in tandem?

Mr. Bob Masterson: On working in tandem, again I can't identify in our sector anything other than the risks and the climate change issue. We don't identify a lot of areas of overlap and duplication, and where they exist on occasion, it's been when provinces have decided to undertake activities that were already being well delivered by the federal government, so that hasn't been a major concern.

Let me just say again that if you were a large company and you were thinking of—and there is a company thinking of doing it—making a $3.5 billion investment in Sarnia, the Government of Canada also has a very strong role to play. If we really want to land that investment, those two parties have to work very closely together to talk about what we expect from them and how we are going to make that happen. It can't be a process that becomes far too lengthy.

The Chair: Thank you. I've got to cut you off here. We've got to move on.

Mr. Lobb, you have four minutes.

Mr. Ben Lobb (Huron—Bruce, CPC): Thanks very much.

You touched on a good point, and it's a point some of us have been making in this committee on this study about certainty for investors. Whether to retrofit an existing plant or do greenfield development, it has become very complicated for companies today to look at where to make an investment.

B.C. has carbon tax and different things. Ontario has a different regime. Quebec has a different regime, and just as you mentioned, there's also something coming from Ottawa as well. People looking to make an investment want to make sure they're doing as clean as possible a project and as clean as possible development.

You probably can't share comments or feedback exactly, but what are some of the themes that you're hearing about the complexities of doing business in Canada now versus investing in the U.S. or Mexico or wherever?

Mr. Bob Masterson: Our main competition is the U.S. for investment, and there's no question that Canada is a more complex place to invest in. Yes, there is uncertainly on energy development. Again, if you were going to build a new chemical facility to last 40 years, you'd better make sure you've got feedstock there for 40 years, and again, if we can't approve infrastructure that will move energy resources to market, we're not going to have the resource to add value to. That's a potential concern in people's minds.

Certainly there was increasing certainty around the outlook for Ontario, Quebec, and Alberta. Now there's uncertainty for the next period while we figure out how the federal signals interact on carbon pricing with those of the provinces.

I don't think it's undoable, but again, it's going to take more coordination, and a clear message has to be sent to folks in the community.

Mr. Ben Lobb: Can I go back to—

Mr. Bob Masterson: I would just say again what I said earlier. If the choice is to add a cost for something we don't want, we have to be willing to practise the other side of ecological fiscal reform. Price the things we don't want and reduce the prices on the things we do want so that we can have less of the thing we don't want and more of the thing we do want.

Mr. Ben Lobb: Yes, and I know from my years in manufacturing that you quoted your job and the OEM expected you to deliver on the price that you quoted, with actual price reductions built into it. I can remember back in 2007, when the price of fuel spiked and we were getting hit with fuel surcharges every single time. You just ate those. They came out of your profit, on top of the cost reductions.

I can see issues coming down the pipeline. You have these added costs of fuel. Of course, in your sector you're talking about feedstock—methanol, propane, etc. Some of it is by rail, but for the last mile it's always by truck. It's going to be more expensive for the manufacturer.

One other thing I did is that I brought a couple of electricity bills from a couple of places that I own. Electricity has to be a concern for Ontario manufacturers. Here I have a bill. I used $10 worth of electricity, but my delivery charge was $99. I've reduced.... I didn't use very much on this property, but yet I have this huge electricity bill.

What are some of your manufacturers saying about the cost of electricity in Ontario? Maybe you can't say....

● (1615)

Mr. Bob Masterson: No, it's far too high, and the most—

The Chair: You have about 30 seconds.

Mr. Bob Masterson: The most discouraging piece is that we export excess power into neighbouring U.S. jurisdictions, and they use that to lure manufacturing out of Ontario into those jurisdictions.

Mr. Ben Lobb: I noticed a document—

Mr. Bob Masterson: It's very discouraging.

Mr. Ben Lobb: —on your website that your member companies have reduced absolute GHG emissions by 69% from 1992 levels. You are trying to do—

Mr. Bob Masterson: We have done it.

Mr. Ben Lobb: You have. You're trying to do the right things.

Thank you.

The Chair: Excellent.

We're going to move to Monsieur Sheehan. You have four minutes.

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

Thank you to our presenters. I appreciated your presentations.

I was reviewing your website earlier. I noticed you had 50 members and partners, and some of them were in the major cities like Calgary, Montreal, Toronto, but you also have some membership in what I'll call small urban areas, rural areas—

Mr. Bob Masterson: Absolutely.

Mr. Terry Sheehan: —like Prince George, Port Colborne, etc.

My question is, what strategies can Canada employ to help the industry in rural Canada grow what it has and perhaps look at new opportunities?

Mr. Bob Masterson: To be honest, I haven't thought of rural Canada separately from the broader set of recommendations that we have for the industry. We think that what we've recommended will make sense anywhere.

Take Prince George, for example; why do we have three facilities there? They largely serve the wood products and forest products industry. I'm sure most people in this room would say wood products and forest products are also a strategic sector. If that sector is healthy and we can make the chemistry sector healthy, that will be very good for the community in Prince George.

In southern Ontario, many of our companies are there to serve markets both in Canada and the U.S. Certainly electricity prices, which were mentioned, have made life quite difficult for those smaller players in those regions. It's tougher for them to hang on.

I think the message in northern Quebec and in Alberta is around making the primary sectors healthy, and we'll be there also to serve those industries.

Mr. Terry Sheehan: Interesting.

Just following up on that, on alternative energy, I was reading through some of your information. It was very interesting. There's a lot of alternative energy in rural Canada.

What's the chemical association's involvement in alternative energy in its manufacturing?

Mr. Bob Masterson: First of all, if you have a co-product that you can use to generate your own electricity or meet your own energy requirements, that's great.

In the chlorine/chlor-alkali chemistry business, a by-product is hydrogen, and for many years that was vented to the atmosphere. It causes no environmental harm and it's a very abundant element in the earth's atmosphere, but with the push on for energy efficiency and other related activities, that hydrogen is all captured now and consumed on the sites to give them their own heat and power.

Otherwise, people are very active in combined heat and power. They are very efficient plants, compared to delivering electricity off the grid or combusting their own fuels in an old-fashioned type of boiler.

In terms of other alternative fuels, that would be more the Renewable Fuels Association and what they do in ethanol plants. We get a lot of questions about the ethanol industry and the biodiesel community, but we don't represent them. They're not in our areas of chemistry, let's say.

Mr. Terry Sheehan: I was in Japan as the chair of that particular committee, and they are really looking at hydrogen. The government has become involved, stating that they are going to have *x* number of hydrogen vehicles by a certain year, and *y* number by another. They are really pushing that.

You mentioned the hydrogen facilities. One of the things they pointed out in our discussions, and we discussed back with them, is that we don't quite have the infrastructure to do that. We have it in certain areas.

Mr. Bob Masterson: Well, we don't. Not only that, but our industry consumes a lot of hydrogen. Those who produce hydrogen can give it to somebody else who is going to use it as feedstock, and that's great. There are other facilities—hydrogen peroxide facilities, for instance—that use a large quantity of hydrogen, and it has to be purpose-made. It takes a lot of energy, a lot of natural gas through a steam-methane reformer, to produce hydrogen. It's not a free lunch. It might look good when it's coming out of the tailpipe, but with current technologies, there is a lot of energy that goes in there.

Why do I bring that up? That's an example of the concerns if we don't get carbon pricing done properly. I might operate a steam-methane reformer as part of my process to make my chemical, and I put that inside my plant. I am trade-exposed, and I'm trying to manage my costs. Suddenly, if my energy bill goes up significantly to make that hydrogen, which is a clean fuel, how do I compete in the global market?

● (1620)

The Chair: Thank you.

We're going to move back to Mr. Lobb.

You have four minutes.

Mr. Ben Lobb: Thanks very much.

We are all concerned about the environment, but when we are the only ones putting a price on the emissions, and the United States—who, as you mentioned, is our major competition in investment—isn't, I can see how we are making this a really easy choice for executives. It is extremely unfortunate that we can't look at a different way.

I noticed that you had comments in your paperwork about wind turbines, as well as solar panel cells. That's great. With a lot of these, as well as cellphone components and many others, there is the waste component. I wonder whether you can tell us what you are doing to make sure they don't end up in the landfill. How can they be reused, so one good idea doesn't become a bad idea, like the mercury lights we have now?

Mr. Bob Masterson: To go back to the point you made first, I just want to say very clearly that carbon pricing is but one cost of production. There is absolutely nothing wrong with the approach Canada is taking, but we have to remember that it's one more cost at a time when competitors aren't putting that cost in. If we wish to do that—if we think there is a strong policy imperative to do it—that's great, but what are we going to take away somewhere else so that we can get more of what we want, which is more investment and more jobs in Canada?

Regarding downstream recycling, I think the best examples for me to talk about are on the plastics side. We have an event here on Parliament Hill tomorrow morning on the health of our oceans, and certainly a major concern is with plastic debris that ends up in the oceans. We've done a number of things as an industry. In fact, this year the federal government caught up with the work of the U.S. states, but as an industry we've been phasing out plastic microbeads from our products and consumer products for some time. We were in support of what the federal government did; we thought it was the right thing to do. As an industry in North America, we are putting millions of dollars into research and development and changing citizens' behaviour so that we can keep plastic debris from ultimately finding its way into our waterways and into the oceans.

Mr. Earl Dreeshen: Do I have a minute or so?

The Chair: You have a minute and a half.

Mr. Earl Dreeshen: Thank you.

I thank Mr. Lobb for giving me a quick moment to bring up one of the other points you mentioned.

You went through three points: working with the provinces, ACCA, and supporting industry to get to global markets. Our chemical industry allows us to do a lot of value-added work in order to move our products offshore. I'm wondering whether you can comment on any barriers that you see at the present time, or things that we can do differently to make it a little easier to move those products.

Mr. Bob Masterson: I'm not sure it's for this committee, but certainly we made very healthy interventions into Mr. Emerson's report last year on the Canada Transportation Act, and we even met, as recently as last week, with Minister Garneau.

We have a simple message: when shippers have access to more than one rail carrier, they pay significantly less per mile shipped than when they are captive to a single railway. As we are looking to strengthen the competitive position of Canada's manufacturers, there are implications for competition in the transportation area as well.

Canada is a huge country, and in almost all the sectors—not just grain or forest products—what we produce is moving by rail.

Pierre, is it 75% of what we ship?

Mr. Pierre Gauthier (Vice-President, Public Affairs, Chemistry Industry Association of Canada): Yes.

Mr. Bob Masterson: Roughly 75% of what we ship—I can get the exact number—goes by rail. Again, those who have access to competitive rail service do much better than those who do not.

The Chair: Thank you.

We're going to go to Mr. Baylis.

You have four minutes.

● (1625)

Mr. Frank Baylis: I'm going to expand on some recommendations you made, from a fiscal perspective. I think these are recommendations that you made in the pre-budget consultations.

You have talked already about the accelerated capital cost allowance. In my understanding, it is temporary, but you would like to see it become permanent. Then you mentioned two other points. Could you elaborate on them? Specifically, you mentioned an investment tax credit. You were talking about upgrading resources into manufactured products. Could you elaborate on that?

Mr. Bob Masterson: Yes. We're suggesting a straight 100% writeoff as a temporary measure over the life of a business investment of perhaps five to 10 years. In our best estimate, which we can provide to you and which will be in our submission, if you took a typical $2 billion investment, yes, the federal government would forgo revenues, but one thing to remember is that those revenues would never appear if the investment hadn't been made in the first place. There's no cost if the investment doesn't come.

Mr. Frank Baylis: You'd like to be able to write it off over what period of time?

Mr. Bob Masterson: This is a straight 100% depreciation right up front. For a $2 billion investment, you're looking at about half, $1 billion of that, the year it comes in.

Mr. Frank Baylis: But you'd like to see 100% in the year of—

Mr. Bob Masterson: In the year it comes in. For a $2 billion investment, we're suggesting, based on our previous analysis, that about half of that, or $1 billion, would be eligible for that treatment.

If we look at what the incremental taxable profits would be once an operation starts up, in year four or year five...we're suggesting a break-even point for that would be about eight years.

For the 100% immediate forgone revenue, after six years the federal government will have forgone about $60 million in revenue. That's if the investment takes place. If there's no investment, there's no forgone revenue.

Mr. Frank Baylis: This is something that you see as a fiscal tool, as you mentioned, to try to bring back that 10% we're not seeing.

Mr. Bob Masterson: It is a fiscal tool. I think that's the important thing here. As a country and in our other jurisdictions, Canada has taken certain tools off the table that no one else has taken off the table. We're not saying to put in place tools that you don't want to use. We're realists here—

Mr. Frank Baylis: Were those tools on the table and taken away? Is that what happened?

Mr. Bob Masterson: I think it's been a long time since Canada has provided direct tax relief or tax holidays to manufacturers at the provincial or municipal level. It's not in our makeup to do that, and I'm not saying we should. I'm just saying that's what the competitors do. We have to pay attention to that and make sure that whatever we come up with is going to be competitive from an investment standpoint.

Mr. Frank Baylis: Do we have an example? If we focus on that $200 billion coming into North America and you're saying our share should be $20 billion, plus or minus, but we're getting $3 billion, there's a huge opportunity there. Do you have a comparative table you could provide to the clerk that would show that in the last five years.... Was that $200 billion in the last five years?

Mr. Bob Masterson: Yes.

Mr. Frank Baylis: These are the ones we've lost, and by the way, this is a direct—

Mr. Bob Masterson: We don't know which ones we've lost. We know which ones we haven't won.

Mr. Frank Baylis: Yes, well, it would show which ones we haven't won and what happened in those specific jurisdictions. Are you privy to that?

Mr. Bob Masterson: In broad terms, there will be project-specific arrangements made that are not always public detail. We are involved in a study right now with the the Canadian Energy Research Institute and Natural Resources Canada that will benchmark Alberta, Ontario, and Canada's investment regime versus that of key U.S. jurisdictions.

I'll give you an example—

Mr. Frank Baylis: When is that going to be ready?

Mr. Bob Masterson: I think the draft is ready now and will be released this week in Alberta.

Mr. Frank Baylis: Could that be provided to the clerk?

Mr. Bob Masterson: Yes, as could other information we have that would be similar.

Mr. Frank Baylis: You also asked us to reduce the tax rate from 15% to 13%. Could you elaborate on that?

Mr. Bob Masterson: Again, we're trying to make recommendations about what we could do that might move the needle from where we are now, where we're not getting nearly enough investment, to what we could do differently.

One suggestion is to make ourselves.... We have to send a signal that we're open for business and that we want this investment. That's another recommendation.

Mr. Frank Baylis: These are all to do with—

The Chair: Thank you. Sorry, your time is up.

The last question goes to Mr. Masse, for two minutes.

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

Thanks for your testimony here today.

It's a little frustrating when I listen to a lot of the debate about having the proper trade agreements. At the end of the day, I don't think I've ever had anybody come to my office from business who didn't ask for a subsidy or a cut from something. This is the challenge that we face.

A small business person would argue that they would like the same deal to open up another restaurant or another business. In the auto industry, it's the same thing; if you're not in the game, then you'll never win. The big issue that has been pushed is the advantage for Canada being not as attractive because the United States most particularly—

● (1630)

Mr. Bob Masterson: And municipal governments—

Mr. Brian Masse: Yes, and municipalities do that, which is outside of our trade agreements and so forth.

What about the environmental standards, say, for example, between us and the United States? What are the differences there?

Mr. Bob Masterson: Funnily enough, if you listen to our critics who have also appeared before the Standing Committee on Environment and Sustainable Development, their message is that Canada's laws aren't nearly tough enough and that the Americans outperform us even in places like Louisiana and Texas. They think we're environmental laggards. We don't happen to believe that to be true at all, and we think we have the evidence that says otherwise.

Other than this, I don't hear anybody else saying Canada is lagging in environmental protection, and I don't hear people saying that Texas or Louisiana or Pennsylvania are lagging in their environmental protection in order to attract these investments.

That's a key message. Someone mentioned we've reduced emissions by 69%. How did we do that historically? We made really big investments in new plants. That's how we're going to crack the next nut and go even further on that climate change journey: by making the big investments in new plants to get better jobs and a better environment.

If we sit with what we have, we're living on borrowed time, folks. They all have a lifetime. There are 15 years or 20 years left. There won't be major investments to help them get where we want to go in terms of environment. When we can attract that big new investment, we're all better off.

The Chair: Thank you very much for quite an enlightening hour.

With that, we are done with the first round. I think we are looking for our other witnesses somewhere in the hall.

Thank you, again, to our guests today.

We will take a break and come back with our next panel of witnesses.

Thank you.

● (1630)

(Pause)

● (1635)

The Chair: Welcome back, everybody.

We have the BDC back. Actually, they have two questions that were asked of them from last week that they want to address.

You have four minutes to do it, and then we'll get into our line of questioning.

Ms. Susan Rohac (Vice-President, Growth and Transition Capital, Ontario and Atlantic, BDC Capital, Business Development Bank of Canada (BDC)): Thank you, Mr. Chairman and committee members. It is good to be back for a second round of questions.

Before we begin, there were two questions last week that we wanted to answer a little more completely.

The Chair: I'm sorry to cut you off. We have a technical issue.

Would you like to sing us a song while you're waiting?

Ms. Susan Rohac: We would be guaranteed not to be called back if I did that.

The Chair: Do you know that Wednesday's meeting is in Centre Block? It's been changed. I just got an email. The room is 237-C.

● (1635)

(Pause)

● (1640)

The Chair: Okay, I think we are good to go. It's on now.

I can go, therefore you can go. Go ahead.

Ms. Susan Rohac: Thank you. *Merci*, Mr. Chair and committee members. We're pleased to be back here today to answer your questions.

Before we begin, there are two questions that were posed last week that we didn't answer fully. I'd like to take this opportunity to quickly answer those. Mr. Nuttall and Mr. Lobb asked a question about what particular sectors within manufacturing are seeing growth. We went back and looked at our numbers.

In terms of dollars authorized and numbers authorized, we break our systems down into 17 subsectors. Since 2010 the trend has been up in all 17 subsectors of manufacturing, except for a few. Those few are wood products, printing, paper, and machinery manufacturing. Those are down, while the subsector of construction products is flat. The sectors where we've seen the most growth in numbers of deals authorized and dollar amounts authorized are the automotive industry, fabricated metal, food, medical equipment, and tech equipment.

There is a second question that we want to address. Mr. Arya asked a question about our activities to finance start-ups in the manufacturing sector. He seemed a little underwhelmed with our response, so we did a little more research and digging and, according to Statistics Canada quarterly estimates of business entries and exits, in 2015 there were 3,645 manufacturing start-ups in Canada. Of those we financed 220. That's 6% of the total. While that result may sound low, keep in mind that our overall market share of BDC to start-ups nationally is 3%, so in fact we're doubling our national average for manufacturing start-ups.

It was also noted that the average size of our deal was only $150,000, which to the committee appeared small. There are two points I wanted to make to that.

First of all, BDC does partner with other financial institutions, including chartered banks, that have access to the Canadian small business financing program that guarantees up to a million dollars for businesses with under $10 million in sales. We partner on many programs with them. The use of that SBF program can only be for tangible assets, mostly equipment, while the $150,000 that we provide is working capital for soft costs or start-up costs. It's a very complementary offering that we offer with the SBF that's delivered through the chartered banks.

The second point I want to make is that while the $150,000 first round may seem small, we do grow with our clients, and we offer multiple rounds of financing, often larger, as clients continue to grow. For example, in the growth and transition capital group, our repeat business is over 40%. We have a lot of growth companies in that portfolio, and as they continue to grow, we continue to lend to them and support the manufacturing base.

I hope that additional information is clear and helps finalize those two questions that we didn't answer fully last week.

Thank you.

● (1645)

The Chair: Thank you very much.

We've passed that to our analyst, who looks very excited to see it.

We're going to jump to Mr. Baylis.

You have seven minutes.

Mr. Frank Baylis: Thank you.

What I'd like to do is focus in on one of your business lines that is now called BDC Advantage, which was your consulting business. I know it has changed over the years significantly in two ways. Would you, first of all, describe how it is now structured?

Ms. Karen Kastner (Vice-President, Partnerships and Government Relations, Business Development Bank of Canada (BDC)): Thank you.

We call it BDC Advisory, and it is structured around three main areas.

The first one is more of a traditional consulting business, one where we do one-off mandates. Basically, the themes are companies that want to increase their revenue, want to improve their efficiency, or want to improve their management capabilities. We'll do mandates around those. They're tailored toward smaller businesses. The average mandate size is about $10,000 to $15,000, so they're quite small relative to other consulting firms.

The second part, which is fairly new for us, is what we call the high-impact firm initiative. This is an offering that is a very, very high-touch offering. It's intended to provide this high-type service to companies that we feel really have the potential to move the needle from a GDP standpoint, so they are bigger companies with $15 million in revenue and over. We assign an executive adviser to that company to help them craft a growth plan. What we envisage with that offering is a two-year to three-year relationship. We just launched that in the last year or so, so we're still building that up.

Then the third kind of pillar of the advisory offering is called BDC Academy. That is one in which we're providing learning to entrepreneurs. It will range from online learning to much more intensive classroom learning.

Those are the pillars.

● (1650)

Mr. Frank Baylis: I know you use external consultants and you have internal people. Do you have the ratio? How many are internal and how many are external?

Ms. Karen Kastner: I believe we now have about 400 external consultants on our roster across Canada, but I don't have the ratio.

Mr. Frank Baylis: How many internal people?

Ms. Karen Kastner: We'd have to get you that number.

Mr. Frank Baylis: Obviously, you break out your—

Ms. Karen Kastner: It would be fewer than 100.

Mr. Frank Baylis: So it's 400 external, 100 internal.

You break out your income statements. At least on the latest one, it is called BDC Advantage; I don't know about BDC Advisory, but it's called BDC Advantage. Over the last five years, it's gone from a loss of $11 million, to a loss of $12 million, then losses of $17 million, $24 million, $31 million.

A lot of the services that are provided are traditional consulting services. Now, in other jurisdictions, after the Enron scandal, accounting firms decided there was a conflict of interest in having someone auditing and also selling you services. It would seem to me that the same conflict of interest exists between someone offering you banking services and then at the same time trying to sell you consulting services. I'm not sure what services BDC is providing that aren't available from those 400 external consultants, who could sell themselves directly instead of having BDC as an intermediary.

I guess I'm asking whether BDC should be in this business. What would be the strong argument to say it's doing something unique for Canadian companies that is not presently available in the marketplace?

Ms. Karen Kastner: Well, what we found is that the very small companies don't necessarily have access to these kinds of consulting offerings. It's part of the reason, in fact, that you see the losses, or what we call the “investment” into this business. We don't fully cost-recover all the—

Mr. Frank Baylis: When you're selling these things, basically....

Actually, we have someone who submitted something. We have a letter from one of your consultants, who said what's happening is that he's forced to diminish his ask so that the BDC can take its cut and sell it off. He doesn't need the BDC as an intermediary and sees it as a competitor that's taking a slice of the action. He's more than willing to offer his services directly.

I'm not sure how you're adding something if that person exists already.

Ms. Karen Kastner: We'd have to go into the actual offering.

We have invested quite a bit, for instance, in our operational efficiency business. It's very relevant to manufacturing. We go into a company, and we'll give them advice on how to improve the operation. We're getting very, very positive feedback on it.

I don't know the exact circumstances or the particular consultant you're speaking of, but—

Mr. Frank Baylis: If I look at.... Say you have 100 internal consultants and you've lost $31 million. You're losing $300,000, on average, per employee. If we were delivering something that the market needs and it can't get it anywhere else, it would make sense. If you're just acting as a reseller for someone else's services, I'm struggling to see what the value is there.

Ms. Karen Kastner: It really isn't just a reselling of someone else's services. We have invested in the offering—

Mr. Frank Baylis: Could we be provided with a breakdown of what specifically the BDC is doing through this program that's not available otherwise, that's not just someone else's...?

First of all, I'd like to know this. You made $16 million or $17 million in the last year in sales. What percentage of that was actually delivered by the 100 full-time employees, as opposed to the 400 external consultants? What percentage of your actual sales was not available...had to come from the BDC? Then I'd like some rethinking to understand what specifically you offer that nobody else could have offered. It was only BDC that had to be there, and you were losing money doing it.

The Chair: Is that something you could maybe put together and submit? That was a lot of things you were just asked for there.

Ms. Karen Kastner: Absolutely.

The Chair: We're going to move on.

[*Translation*]

Mr. Godin, you have the floor and you have seven minutes.

Mr. Joël Godin (Portneuf—Jacques-Cartier, CPC): Thank you, Mr. Chair. By the way, may I congratulate you on the quality of your French.

I thank the witnesses for kindly lending themselves to this exercise. I think the Business Development Bank of Canada, the BDC, is a very good vehicle for economic development, and Canada is lucky to have an organization such as yours.

We did a tour this summer that allowed us to meet some intelligent young people. Our society allowed them to develop extraordinary expertise, and these young people have products to put on the market.

I want to talk about start-ups, new enterprises. I would like to know what the BDC can do for them, since I think it has a responsibility there. As an example, let's do a simulation.

Suppose there is a student at Concordia University who has an extraordinary product that other countries are fighting over. They want to invite him over, invest in his product, develop it and turn it into a very prosperous enterprise that will sell such products to Canada. Do you know what prevents people here from going abroad? Their family ties.

As a society, we are fragile. If the people I am talking about do not have children or spouses in Canada and go abroad, we are going to lose business opportunities. And yet it was Quebec and Canadian society that made that development possible.

All through the school cycle, research and development allowed these young people to develop an interest and an expertise. Now other countries come and get them. What does the Business Development Bank of Canada do in such situations? On your website, your slogan mentions that you are the only bank dedicated solely to entrepreneurs. However, are you thinking about those who will become entrepreneurs and have prosperous businesses?

● (1655)

[*English*]

Mr. Neal Hill (Vice-President , Market Development, BDC Capital, Business Development Bank of Canada (BDC)): Yes, that's actually a very powerful question that we deal with all the time.

There is clearly an understanding by many who observe the entrepreneurial marketplace in Canada that we lose many of our promising young entrepreneurs to other jurisdictions. That really is the fundamental justification for our entire venture capital effort.

Sometimes we're criticized because the venture capital activities are so large that they might be unbalancing the market, but we invest an enormous amount of money in trying to reach out to those would-be entrepreneurs—students, for example, coming out of university—and make available to them many different ways for them to realize their ideas and then have them financed. We are connected with most of the major incubators and accelerators around the country, with many in universities. We provide financial support, as well as advisory support, to students who come through those organizations.

With regard to our venture capital activities, we attempt to balance both our direct and indirect activities so that there is a ready supply of capital at each stage that an entrepreneur might go through to realize his or her idea.

It's a very difficult, broad-based problem. It's one that we try to address in many different ways and I think we are addressing in many different ways, but we can, and will always, want to do more.

[*Translation*]

Mr. Joël Godin: You are in fact taking a step into that universe, but there are other models in different countries. I am putting the question to you very openly, but I am not sure that the BDC will be able to solve this problem all by itself. However, it is its duty to be a partner.

There are different business models in other countries. We all know that start-ups can generate losses and that the risks are very high. However, you just need a few successful businesses to offset those losses. Will that happen at the beginning or the end of the cycle, however? What ratio has the BDC set for losses? What risks do you take, and what losses can you absorb? How far are you willing to go to support start-ups that have extraordinary products and will in some cases be successful in marketing those products, and in other cases not?

● (1700)

[*English*]

Mr. Neal Hill: On the venture capital side, I would say our loss ratio is quite comparable to that of private sector investors doing the same stage of investment. A portfolio of seed-stage investments is going to have a much higher loss rate. Sometimes as many as eight out of 10 of the portfolios will be absolute losses. At a later stage, in what is called a series A, a start-up round or a growth round, then the loss ratio will decline to perhaps only 40% of the companies, but still the losses are very high.

We have recently done an accounting of all of the venture capital investing that BDC has done for the last 30 years, and we are just now able to say that for every dollar we've put into venture capital in Canada—obviously that is the only place we invest—it is now worth a dollar. We have sustained substantial losses over those many years to help bolster the industry to invest in multiple sectors of industry and multiple stages of companies. We're encouraged that the system seems to be working better now, but we do believe it's our job to find the spaces where others aren't investing and try to deploy capital and resources there.

[*Translation*]

Mr. Joël Godin: Mr. Chair, I know that time is short, but I have a very brief question.

What organization would be in the best position to take the lead and review the model to help our start-up businesses and see to it that they are made welcome in Canada, as is the case in other countries like the United States and Israel?

[*English*]

Mr. Neal Hill: I think that we, as a Canadian entrepreneurial ecosystem, are actually beginning to get there. We are deploying more capital than we have before. We're deploying it through more different vehicles, both private and public sector. The bulk of the growth is happening in the private sector. I am encouraged by that, because I think the knowledge and the expertise tends to be more heavily concentrated in the private sector.

I believe we are contributing our share to the improvement in the ecosystem. I believe that we often are a lead in those projects, these incubators and accelerators. We are often the only funder from outside of the organization, and we think that is our role. Our job is to be there and help the organization exist and, as companies graduate from those incubators and accelerators, we will often make available additional financing immediately to help them move their ideas along.

The Chair: Thank you very much. I'm going to have to cut you off there.

Mr. Neal Hill: Yes.

[*Translation*]

The Chair: Okay?

Mr. Joël Godin: Thank you.

[*English*]

The Chair: Mr. Masse, you have seven minutes.

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

The BDC occupies a really interesting component of our rural economy and for Canada. It really comes about from the Second World War, basically moving people from wartime to peacetime activities.

It's interesting in the sense that you're criticized for making too much of a profit and you're criticized for not making enough of a profit. Many people like to go around saying, "Oh, government needs to act more like business." If you were in business, you wouldn't provide many of the loans that you do provide. It's an interesting aspect. You take risks, but you only exist because the private sector won't do this, so it becomes a giant muddle in terms of what we expect out of the BDC.

I think that's where we really have to come to grips in terms of a modern understanding of where the BDC falls. You pay a dividend to the government. You don't see a benefit of that dividend. You don't see that dividend being similar to Canada Post, for example, where for generations upon generations, it returns annual returns to the government of any political stripe, and then it doesn't count for anything later on, even despite anomalies.

Right now you're a $23 billion organization with 2,000 employees. The mandate, though, of the BDC is very difficult to square right now related to young entrepreneurs getting access to capital, and that is really their mandate. It is to entrepreneurs, smaller SMEs. To be quite frank, I don't think it's done a great job of doing that over the years. I think it's strayed from that. I'd rather have more risks to support more entrepreneurs and start-up businesses than other ventures.

On your website, you have an incentive model for performance, based upon the success of lending in different departments. That seems to be a conflict with the overall mandate, and for taking risk. If you do those and you don't have that return, you get less of a salary. Could you explain a bit about that, and how that can work in the culture of what you're supposed to do?

Overall, I actually do have great empathy. It's an incredible tool that could be available for the economy and for Canada, but the mixed messages that are being received are quite contradictory to what you're able to do, in the sense that if you return less, it's “Why didn't you return half a billion this year?”, when it was only $400 million.

At the same time, we have many people who are complaining because they don't get access to capital for riskier ventures that may turn out to be losers at the end of the day, but that capital is actually still in our economy, in our society.

Can you explain how this works internally, when you actually post for people who have expectations that risk is not financially rewarded when return is?

● (1705)

Ms. Susan Rohac: I can answer for the finance department in the field.

It's absolutely true that people have objectives, but they're not bottom-line objectives. We have objectives to do deals. No one would be penalized if deals go the wrong way and don't turn out. It is expected, in fact, and encouraged to take risk within the bank.

Our scorecard does emphasize certain types of deals that we think we will have greater impact with the Canadian economy, so start-up companies are on the.... I actually put some notes about our scorecard. High-growth firms are a specific target. Doing more equipment and ICT loans are specific targets for us, because we feel it addresses the productivity and efficiency concerns that we have. Doing loans to exporters is also a target.

When our loan officers are in the field doing business development, we absolutely expect them to be in the ponds where these types of companies swim. We're going to export association trade shows. We're going to sponsor events where we'll see exporters.

Clearly, their objective is the number and dollars and deals that they put into the market to do deals. No one's salary would be penalized if these deals did not turn out.

Mr. Brian Masse: With that, too, on the opposite scale, since we're actually filling a market of risk the private sector won't deal with, why don't we fill part of the non-risk private sector and compete there? That might make them competitive overall in the other risk sector.

I don't think it's fair to.... It predates a post-war agenda for us to move on what has been developed by the people of this nation. It's not something that's just been invented out of air, so why let them off the hook for everything else?

I'll play the devil's advocate in a sense here and ask why the banks should get away with this. Why shouldn't we actually have greater risk in terms of what we can do for small and medium-size manufacturers and businesses and so forth by taking some low risk when we have the capital to step in with a better loan opportunity that could actually be a better investment for those large ones as well?

You could take the profits from that, which are guaranteed, and put them into greater risk portfolios for other people. I don't understand why we wouldn't be doing that.

Ms. Susan Rohac: It is a tight rope to walk, because if we are too aggressive in the market, then the chartered banks will say, “You're being too aggressive and not being complementary.” If we're not being aggressive enough, then we're not taking enough risk. We always try to walk that balance. There are some times when the chartered banks will say that we are being too competitive.

Mr. Brian Masse: I say, "So what?" at this point in time.

Ms. Susan Rohac: Maybe in the field that's been said once or twice. Certainly if we've helped grow a company and they're looking for another round, we will try to support that company as well.

Don't forget that we also rely on chartered banks to give us referrals. Often a client, an entrepreneur, will go to the chartered bank first, and if they can't do it, they'll pass it to us. We try very hard to play nice with the bank. On a case-by-case basis, there will be times where they feel we're being too aggressive, offering too much money, not pricing to risk, or offering terms and conditions that are off market.

● (1710)

Mr. Brian Masse: I don't want to suggest that we should go out and pick a fight. The reality is that they've had generous corporate tax-cut reductions with increased user fees, increases to a number of different benefits for their shareholders, including their management, where salaries have gone up. They've closed bank branches across this country and all those different things. I guess I haven't seen the love coming the other way to the Canadian consumers, while potentially they have an executive branch of themselves here that could offer some of those services and certainly have some real competition.

The Chair: On that note, we are going to move to Mr. Arya. You have seven minutes.

Mr. Chandra Arya: Thank you, Mr. Chair.

I want to continue on a couple of points Mr. Masse raised. One is on the performance model. In my view, you're not taking enough risk. You are not sharing the risk with the entrepreneur.

Do you consider yourself a development bank?

Ms. Susan Rohac: Absolutely, yes.

Mr. Neal Hill: Yes. In fact, our new CEO has been in place just about a year now, and his theme is to remind us that, yes, we're a bank, but we're a development bank. We hear and think about that all the time.

Mr. Chandra Arya: In venture capital, what percentage of your venture capital investments are in manufacturing?

Mr. Neal Hill: We did run some numbers. Manufacturing and venture capital is all about definitions, because manufacturing, as a sector, is not one that's targeted by any venture capital fund in the world.

Venture capital invests in brand new technologies that have hopefully disruptive large-scale potential or are brand new applications of existing technologies. The process by which that technology is brought to market is a secondary consideration, but I can answer your question precisely if you'd like me to. We are able to identify at present in our portfolio 31 companies that qualify in our minds as advanced technology. They have a substantial manufacturing component to their business, and that total investment is about $90 million.

Mr. Chandra Arya: Advanced technology and manufacturing still go hand in hand. In fact, the previous witness has mentioned that in the United States, 25% of all the new patents come from the chemistry industry. That's a point to be noted.

I understand that BDC is doing quite well in the rural areas in Newfoundland. What is it that you're doing there? Why is it not being done elsewhere in Canada?

Ms. Susan Rohac: You're absolutely right that in Newfoundland we have a higher market share than in other parts of the country.

About a year and a half ago, we embarked on something called an increased reach and visibility program, where we were to look at the market penetration in other markets to see how we can increase that to have more impact.

In some parts of the country, the market penetration is as low as 3% for our target SME market. That means 97% of SMEs don't know about us. That's a shame. We do client surveys. In 2015, we surveyed 7,345 clients; 62% of them said they were very satisfied and 34% said they were satisfied. That's 96% that were satisfied or higher. That's unheard of in commercial lending.

I think it's a really good thing that these 97% of entrepreneurs that haven't dealt with us have to hear about us. There's a myth among entrepreneurs that haven't dealt with us that we're very bureaucratic and slow, and it's the 3% that deal with us that realize we're a very good organization to deal with.

We've embarked on this increased reach and visibility to have more impact in areas where we don't have a lot of impact now. That involves partnering with more rural agencies to share space and to have satellite branches. It also involves doing some advertising and sponsoring events. It involves hiring people who have specific market skills that we didn't have before.

For example, we now have an automotive team focused on the automotive sector who have special skills that are specific to the automotive industry. We have a food and beverage team specific to food and beverage manufacturing, so we can have more impact with that manufacturing industry. We have an aerospace team looking at aerospace opportunities to make sure we have more impact with that. We've targeted some key manufacturing industries and hired experts to increase our reach and visibility.

● (1715)

Mr. Chandra Arya: You talked of so many manufacturing sector segments there, and you financed close to $1 billion to manufacturers, so with your experience in the financing and manufacturing sectors, what specific advice do you have for the federal government to promote advanced manufacturing?

Ms. Susan Rohac: I'm going to go back to the consulting question a little bit, because when we survey our manufacturers, access to capital absolutely comes up, but so does the access to talent. I'm not talking about talent as in labour talent; I'm talking about talent in the ability to learn.

Exporting for the first time takes a skill that a lot of these entrepreneurs don't have, so we're talking about a skill set that is missing in a lot of our Canadian manufacturers, and that's why we felt consulting was very important to us. We're bringing the talent component to these entrepreneurs, and it has to go hand in hand with capital. If we want our entrepreneurs to be successful and play on a global stage, they have to have the talent of exporting.

Mr. Chandra Arya: Witnesses have mentioned that the number of medium-sized business is actually shrinking here. Why do you think that is so?

Ms. Susan Rohac: I don't know if you know the statistic, but you're right. Our research department did a survey that did show, in fact, that medium-sized business in Canada are not growing and did shrink a couple of years ago.

Mr. Chandra Arya: What do you think the reason might be? Maybe as a venture capital expert, you may have some thoughts on that.

Mr. Neal Hill: Yes, in venture capital, which is the sector I know the best, unfortunately the path that tends to happen for our most successful businesses is that they grow to a certain size, and then they get an acquisition offer from a foreign company, usually, and in the owners' minds it's an offer that's too good to refuse, and they take it, and they're gone. That's something that concerns us a great deal, and we've been working with—

Mr. Chandra Arya: I only have a few seconds left. The last question is, do you have different strategies to fund businesses in rural areas compared to urban areas?

Ms. Karen Kastner: Yes, we partner with the CFDCs. There are about 270, and we have agreements with about 230 of those, and it's one of the key ways that we try to access the rural markets.

The Chair: We will go to Mr. Lobb.

Mr. Ben Lobb: Thanks very much.

Mr. Chair, I'm going to give my time to Mr. Dreeshen and Mr. Baylis.

The only thing I would say is that it's great that the BDC is here again. I would just disagree with our inviting witnesses back when we have many witnesses who likely won't be heard at this committee.

Mr. Earl Dreeshen: Thank you, Mr. Lobb, for sharing your time.

I want to go back to something that was mentioned earlier, which was your BDC Academy, the online classroom learning type of thing. I am asking whether or not included in that you are also looking at mentorship as being one of the issues that you work on.

Ms. Karen Kastner: That's a really good point. For many of the partners that we partner with, the whole idea of mentorship is really emphasized. We've had a partnership with Futurpreneur Canada, for instance, since about 2008, and in order for us to do financing with them, we do a 2:1 ration of financing with Futurpreneur. That is accompanied by a mentorship program for the young entrepreneur over a period of a couple of years.

A couple of years back we also did a study on the impact of advisory boards as another form of mentorship, and we found that the performance of companies that do have an advisory board is significantly higher than those that don't. Therefore, as part of our consulting offering we also help companies to put together that kind of advisory board, because we know that it makes a big difference.

As far as the academy goes, there's a lot of power in peer-to-peer mentorship as well, so one of the modules we are envisaging in the BDC Academy is a peer-to-peer kind of learning, because we found that when entrepreneurs are put into a room together, they tend to learn a lot from one another, such as how to go to market and how do do various things. That's part of the model as well.

● (1720)

Mr. Earl Dreeshen: Thank you very much.

I know that Mr. Baylis had some points he was trying to—

The Chair: You have two minutes left.

Mr. Frank Baylis: Okay.

Thank you, Mr. Dreeshen and Mr. Lobb.

The Chair: You have two minutes left.

Mr. Frank Baylis: I'm going to move now to venture capital and questions there.

Obviously, 15 to 20 years ago there wasn't a space for Canadian venture capital. BDC stepped into it. There are two arms. You have venture capital investment and the venture capital action plan.

When you say you're at a break-even point, I assume you're talking about venture capital direct investments. Is that correct?

Mr. Neal Hill: It's BDC's own investments, both directly into companies and into external funds.

Mr. Frank Baylis: It's a fund of funds.

Mr. Neal Hill: Yes.

Mr. Frank Baylis: Are you externally validating the value of these companies? Do you have an external validator? It's very easy for you to come along and say, “Guess what? I think this company is now worth more money.” Is that done by an external auditor?

Mr. Neal Hill: All of the companies eventually are audited, but the validation comes primarily from our co-investors. Virtually never, or probably 1% of the time, are we the only investor in a given company, and then only for a short period of time. The validation comes when other investors come in, see the value, and invest alongside us.

Mr. Frank Baylis: Let's say that you have to do your books at the end of January, February, or March. You need a value at that date, and you have a book of $900 million, plus or minus. You have to give a value to that company. Are you giving it, is someone else giving it, or is it out of date?

Mr. Neal Hill: The rule in venture for the external portfolio and through the funds is that each of those funds generates those fair-value calculations with their audit.

Mr. Frank Baylis: They're a fund of funds. I got that.

Mr. Neal Hill: Yes. For our direct investments, the rule is always that the valuation comes from either the value established at the last round of financing—

Mr. Frank Baylis: Okay.

Mr. Neal Hill: —or in a new round, only if—

Mr. Frank Baylis: It's at the round of financing. Okay.

Mr. Neal Hill: —an external party at arm's length, with no connection to BDC, comes in and establishes that value.

Mr. Frank Baylis: Understood.

In the venture capital action plan fund, your fund of funds, you have $400 million. Has it all been put to work, or how much of that has been put to work?

Mr. Neal Hill: The four funds of funds, the primary elements of the program, have all been funded, and so the funds have been committed. Just over half of that has been drawn down.

Mr. Frank Baylis: So it's about $200 million out of the $400 million.

Mr. Neal Hill: Yes, it's $220 million, or something like that, as of this particular moment. The rest of it will be drawn within the next year, because the government money goes in first and comes out last.

Mr. Frank Baylis: Incubators or accelerators are in which fund? When you say you invested in your...I think you have $13 million. Where is that coming from? Is it from this venture capital fund?

Mr. Neal Hill: No, the capital action plan fund is cellular. It sits all by itself. The incubators and accelerators come from our strategic investments and partnerships group. They sit alongside my group—

Mr. Frank Baylis: How much money have you put into them?

Mr. Neal Hill: I'll have to get you the correct number. I know that between the notes that they write directly into companies, and in the incubators and accelerators, it's well over $10 million, or something like that.

Mr. Frank Baylis: Okay.

I have one quick last one, and I know I'm stealing a quick question. I'd like to know the percentage of the venture capital that BDC is providing to date in the Canadian market compared to the rest of the venture capital market, and if you have historical values as well. I'm sure 20 years ago you were more needed, or maybe you were less needed—I don't know—but I want to know BDC's percentage today of the entire VC fund market and any historical data as well.

Thank you, Mr. Hill.

Mr. Neal Hill: I'm happy to get that for you.

The Chair: You'll be happy to know you stole time from Mr. Jowhari.

You now have two minutes, and Mr. Masse will have the last two minutes. Thank you.

Mr. Majid Jowhari (Richmond Hill, Lib.): Okay, thank you, Mr. Chair.

Thank you to the witnesses.

With my two minutes, I'm going to go right to the question.

You are all familiar, and we are all familiar, with the different stages that a small company goes through to its maturity. We have a stage that's called "valley of death". I assume some of those organizations start with you in their initial stage of start-up.

Can you shed some light, with the study that you've done, on what some of the causes have been? How are you helping those companies at that stage of growth to be able to survive that and hopefully partner with BDC and expand?

Mr. Neal Hill: Sure.

Depending on who you talk to in the industry, there are arguably two valleys of death. One is from the seed to the series A stage, which is going from very early proof of concept to a functioning business. In some markets that is a problem. The one that we focused on most recently in our study was the growth-stage valley of death, which is going from a \$5-million or \$10-million run rate, right up to a \$50-million or \$100-million run rate.

● (1725)

Mr. Majid Jowhari: You touched on some of it when you were answering Mr. Arya's question.

Mr. Neal Hill: Yes. We've created a pool of capital within our fund of funds group, which is dedicated to either co-investing with the funds outside of BDC or investing directly in those growth-stage companies. We've put aside what I think is targeted to be about \$100 million over the next five years to invest specifically in those promising growth-stage companies that need capital from within Canada. That's because often even the best ones can get capital, but if they get it all from outside of Canada, their future may end up there as well.

The Chair: Thank you.

Mr. Neal Hill: We've targeted money specifically there, and we've tried to identify funds that address that segment as well.

The Chair: Thank you.

Finally, we've come to the last two minutes. Mr. Masse, it's all yours.

Mr. Brian Masse: How much of a dividend did BDC provide the federal government last year?

A voice: It was about \$60 million.

Mr. Brian Masse: It was around \$60 million.

Is it legislated that you have to have a return at all?

Ms. Karen Kastner: When our mandate was changed in 1995 from lender of last resort to complementary lender, Treasury Board said we ought to be sustainable over the economic cycle.

Mr. Brian Masse: Is there a penalty with that?

Ms. Karen Kastner: I'll just add that within our law, our eligibility criteria are such that we have to finance viable businesses. I'm paraphrasing, but section 14 talks about an entrepreneur having a stake in the business that we finance and various other eligibility criteria that make it such that it is a sustainable business.

We are a sustainable organization.

Mr. Brian Masse: Thank you.

Those are all my questions, Mr. Chair.

The Chair: That's excellent. Outstanding.

Thank you all from BDC—Susan Rohac, Neal Hill, and Karen Kastner—for coming back and answering our questions.

Thank you, everybody. We'll see you all on Wednesday. Remember, we're at Centre Block.

The meeting is adjourned.

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