



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Finance

FINA • NUMBER 051 • 1st SESSION • 42nd PARLIAMENT

EVIDENCE

Thursday, October 27, 2016

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Chair

The Honourable Wayne Easter

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•(0830)

[English]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): I call the meeting to order. This meeting is called pursuant to Standing Order 83.1 in regard to pre-budget consultations in advance of the 2017 budget. This morning, with us from Seoul, South Korea, is Dominic Barton, chair of the Minister of Finance's advisory council on economic growth.

Mr. Barton, thank you for appearing. I understand you have an opening statement. We are, as I indicated, doing our pre-budget consultations, and I think you know that our theme is how to achieve better economic growth in Canada. Your testimony should be very helpful to us. Welcome. The floor is yours.

Mr. Dominic Barton (Chair, Advisory Council on Economic Growth): Thank you very much, Mr. Chairman.

If it's okay with you, I thought I would, for a maximum 10 minutes, do a bit of an overview.

[Translation]

It is a pleasure to be with you today.

I should also tell you that my French is not very good.

[English]

I thought in my opening remarks that I would say four things. The first is a little bit about the council.

The council started in May of this year, so we've been at it for nearly six months. The council is made up of 14 members from a range of different areas—academia, business, and some people from outside and inside Canada. Our mandate from the minister was to look for ways to significantly increase inclusive growth in Canada. With that as our background, we spent time trying to make sure we have a good understanding of the context.

The context or the situation for Canada is pretty tough as we look forward. We have a lot of great strengths and weaknesses but we've enjoyed about a 3.1% GDP growth rate for the past 50 years. As we look ahead over the next 50 years, unless we do something significant, we will see a growth rate of about 1.5%. It will be cut by more than half. On the GDP growth rate side, it's even starker. It goes from 1.9% GDP growth rate to about 0.08%. A big chunk of that is driven by demographics. We have literally one of the most rapidly aging populations and therefore one of the most diminishing workforces of any OECD country. That is just to put it into context. There are many other elements to be looked at—our share of global

trade and what's happening on that front, and the quality of our workforce in terms of education, and so forth.

The big message for us is that we are going to need to do something substantive to be able to change the trajectory from a significant shift down to upwards. That was the context. Basically, we think we should have a target. With that target, we want to force ourselves to think boldly and raise that GDP growth rate, which has been going down to 0.08%, up by a percentage to 1.8%. In terms of the median household pre-tax income, that would mean we would see a \$15,000 shift versus what the trajectory would otherwise be out to 2030. We're trying to use that as a target, if you will, to force us to look for ideas that are going to really shift it. We also have the view that we don't want to have 95 different ideas. We'd actually like to have fewer than 10, but have them really have a jolt or a push to them. We wouldn't be sort of spreading the peanut butter across multiple things; we want to make some choices. That's just the background in focus.

We then picked four streams to look at. First was infrastructure and capital, because they're among the biggest levers for improving productivity over the long term in an inclusive way. We looked at market competitiveness and trade, because they're also big drivers for growing GDP and GDP per capita. We looked at labour markets and skills, and then we looked at innovation. We then looked for the ideas within those four buckets.

Last week we released the first wave of ideas. There were three of them. The first is around infrastructure and establishing an infrastructure bank. Underneath that is having an infrastructure strategy, and this basically would be what municipalities and provinces would be servicing. But we should have a view about where productive infrastructure could be developed, and that includes everything from the transportation sector to technology, 5G, and also our electricity grids. Being able to transfer our green energy to different parts of North America, as well as in country, would be good.

•(0835)

Having an infrastructure bank that would have an infrastructure strategy, and the notion, too, that there would be.... I'm just going to stop at that. The infrastructure bank is the main one.

Our view there is that we want to leverage private capital, because we see the infrastructure gap being about \$500 billion in Canada. There is no way public money can fill that gap—the deficit would be too significant—but we think there is a way by matching, if you will, the public funds with those of private sector investors. We think it could be at a ratio of 1:4—for every dollar of public funds, we could get four dollars of private. It would really help us close the infrastructure gap and provide a significant jolt to productivity growth for the country. That was the first bucket of recommendations.

The second was on immigration. There were a number of pieces to the immigration side. The first was around high-skilled labour. A lot of businesses are concerned that they can't get the talent they need from outside to fill key positions. It takes way too long to do that. It's a very arduous process, and we want to simplify and speed up that process.

The one that seemed to get more attention was to actually increase the amount of immigration significantly, by about 50%. We said we wanted to flange that in over five years. It wouldn't just be a jump up, because we have to make sure the absorption systems are in place, but basically we would be going from 300,000 to 450,000 over five years. That talent would be very targeted. It would be younger people with particular skills that we are looking for. We think we can leverage the great universities we have in Canada in terms of attracting more talent to come to the country. We think that's actually quite essential, given the significant drop we are going to have in our workforce over the next 10 to 15 years.

The third bucket of recommendations was around a foreign direct investment agency and having a fairly aggressive one that would target particular investments. This is with a bias towards greenfield investment, as opposed to brownfield—in other words, not trying to find companies to take over Canadian companies, but to find investors who want to invest in Canadian companies or Canadian infrastructure. That's an area where we think we could do much more. We punch way below our weight on that side in Canada. We've lost significant ground over the last 20 years. We are at about a quarter of the rate of countries like Australia, New Zealand, and others. Again, we think a targeted approach to finding the right capital and people would help boost it.

Those are three parts of the first wave. We are doing it in waves, because we are hoping this fits the digestive tract, if you will, of the government. We are working on a second wave, which is around skills. We are very concerned to make sure that the 18.1 million Canadian workers continue to be skilled up properly, given all the technology shifts that are going on. We think that about 50% of jobs can be automated over a 10-year period, so we are looking at the skills side of things and what we can do to improve that.

We are also looking at how we can improve the participation rate in the workforce from existing Canadians. How do we get more women into the workforce? That number has plateaued. How do we get more first nations into the workforce? That number is quite low. How do we reduce the frictional unemployment? There are a lot of unfilled jobs out there. We want to have a set of ideas or recommendations around that. The skills innovation area is one.

The second is innovation itself, how we can help more Canadian companies commercialize and scale at a higher rate. In Canada, we seem to be very good at inventions but not at translating the inventions into large commercial successes. We think there are things we can do on that front.

Finally, we think sectors are going to be important. Agriculture and food is a very underplayed sector. By being a global champion in agriculture and food, health care, and a number of other sectors, we could also boost growth as we look ahead.

● (0840)

I should probably shut up; I'm talking for too long. Those are the things we're working on now, and the plan is that we would release them at the end of the year. That's the thinking, and we're still debating and working on it. Forgive me for talking for so long.

The Chair: Thank you very much, Mr. Barton. Those are all good points.

We'll go to our first round of questioning.

Mr. MacKinnon.

[*Translation*]

Mr. Steven MacKinnon (Gatineau, Lib.): Thank you, Mr. Chair.

[*English*]

Thank you, Mr. Barton. Thank you first of all for your service to Canada, and through you to the other members of the council, my thanks for your constructive suggestions. I know these things will be debated avidly in Canada. I had the opportunity to hear you speak at the Public Policy Forum, and I know you've been beating the drum around the country and the world. So thank you for that.

My colleagues will have other questions on the infrastructure proposals. We know the Caisse de dépôt et placement du Québec has proposed a pretty sprawling public-transit project in Montreal that would connect the West Island and Laval and the South Shore.

Is it public transit, or some other sorts of investments, that would attract pension funds and other wealth that, as you say in your paper, is now parked on the sidelines or garnering negative returns? What kinds of projects would attract returns that would interest this kind of capital?

● (0845)

Mr. Dominic Barton: There's a range, and they would include those transit examples you mentioned. I think we see this in a number of cities. Four of the ten most congested cities in North America are in Canada. So I think we need more of that in Montreal, Toronto, Calgary, Vancouver. There would definitely be a transit piece to it.

The second thing is around the gateways. We think agri-food is a big opportunity for Canada. We should be a global champion, but we don't have the capacity in the rail and in the ports to be able to deal with that. We haven't done the analysis on it, but I'm looking at the Emerson report, which we considered quite closely, and we think that there's infrastructure there and that there are investors who would love to invest in a port or in rail hopper cars. People would be interested in investing in any part of the infrastructure that's there. In that case, businesses in a sense would be paying the fee the investors would get.

We think electricity grids are another possibility. We're fortunate to have one of the biggest sources of green energy, but how do we transport that energy to different parts of the country, or to the U.S.? We think there's an opportunity there. There's a pretty standard fee-based approach we think we could build into that, which investors would see. Then there's the whole 5G broadband area, which we think is going to require investment across the country. This is one we believe can be structured. This has been happening in other countries, like India, where they're getting people to help pay for the infrastructure that's being laid down.

I don't know if that gives you the detail, but our sense is that ideas should also be coming from the municipalities and the provinces. This isn't a case of the federal government telling us what they want to do. The idea is that there should be some screening or criteria. For example, the project should be over \$100 million. Institutional investors aren't really interested in investing in anything less than that, and we think it's necessary in developing that pipeline of the projects you're mentioning. I don't know if I'm being specific or not.

Mr. Steven MacKinnon: That's very good. Some of those categories include things for which private capital has traditionally underwritten the whole build-out, like electricity grids, with funds from private investors or from crown-owned utilities. Do you see a role for the federal government in underwriting, if you will, some of the returns and some of those categories of investment?

Mr. Dominic Barton: Yes, because I think private investors would like there to be a base level of investment with subordinated equity. It would be there to ensure that there is a participant for the long term to help deal with some of the regulatory issues that are in place and that there's a commitment from the Government of Canada that gives people more confidence that it's not going to be messed with.

The worry is that someone will come in and change the rules. Having the government participating in a minor way gives people more confidence that it will be stable for the long term.

It's a similar structure to what we've seen in Australia and in Chile for some of the infrastructure projects.

• (0850)

Mr. Steven MacKinnon: With regard to attracting foreign investment, I read with interest some of your comparative statistics about what other countries are doing in the area of foreign investment attraction and how easy, or in Canada's case difficult, it may well be not only to attract foreign investment but also to accompany foreign investors through a morass of regulations and other barriers. You also mention the Investment Canada Act as a possible impediment to investment.

I would like you to amplify your comments and your recommendations on foreign investment attraction.

Mr. Dominic Barton: Sure. As I think you were saying, I said at the outset, we're at around a quarter of the level of what we see with peers, and it's dropped.

We talked about the challenges with a number of people who invest overseas. First of all, there are multiple groups, so you have multiple provinces trying to attract, for example, a Japanese company to be based there. People find that confusing. They don't find that attractive. They think, "Are we going to insult someone if we go here or go there? Who's our counterpart to help us stickhandle our way through it?" The good news is that people are trying, but it's not coordinated. There's a sense of confusion that's there.

The other element is that we just don't talk to them. We're not at the table with them, and so people are investing in different parts of the world. Canada has many attractions, and we're seeing that people don't know where to go to. Often it's not only about getting the money, but it's also about having the people to go with it.

When a company is, for example, establishing a headquarters or a new plant, they want to also be able to move the people. How is that coordinated with immigration? That's where it's disparate. That's where people get confused and say it's too complicated and difficult.

The Chair: Thank you both.

Mr. Deltell.

Mr. Gérard Deltell (Louis-Saint-Laurent, CPC): Thank you, Mr. Chair.

Good morning, everybody.

Mr. Barton, it's a real pleasure and honour for me to talk to you.

I would like to follow up on some questions from my colleague, Mr. MacKinnon, because like him, I'm from Quebec. Maybe you recognized that from my accent.

I would like to get back to the proposition and the new way of doing business by la Caisse de dépôt et placement for this famous project in Montreal, as it was so well described by Mr. MacKinnon.

Does that mean that this is an inspiration for you with your new proposal?

Mr. Dominic Barton: I think you have to ask Mr. Sabia about that. He's part of the group. Our sense is that there's this big infrastructure gap of at least \$500 billion. We don't think the federal government should be trying to provide all the money for it. We should be looking for ways to get private money for it, and I think there are various ways, as you said.

I'm not as familiar with that project you're talking about. Our Canadian pension funds are some of the best known and best respected by foreign investors. I think about Chile or Brazil or Australia or the U.K. Those governments love having our pension money there, and I don't know why we can't figure out how to structure the projects we need here to attract our own money into them.

I'm also keen to try to attract money from outside of Canada that could help us, but it just seems odd that we don't do that as much. I'm sorry that I'm not answering you more specifically on that project, but I just don't know the details about it.

Mr. Gérard Deltell: No problem. It's quite similar to what Mr. Sabia has done with the Caisse de dépôt et placement du Québec, and I'm sure we'll be pleased to explain it in detail to you.

I would also like to get back to your project about the federal infrastructure bank, with \$40 billion of federal funding over 10 years. Does that mean that the government will have \$40 billion less to invest directly in new projects for the next 10 years? Can you explain that?

● (0855)

Mr. Dominic Barton: I don't think so, sir. I think our hope is that this will allow even more money, if you will, to be put into the system. We do think that federal money is needed—in fact, they call it non-profit generating areas—in low-income housing areas. There's a very big infrastructure deficit with first nations, somewhere in the order of \$25 billion to \$40 billion. We think this \$40 billion is going to attract a lot more money overseas to do more projects, which will therefore enable people to also have money to do these other projects. In other words, we think we're going to be increasing the size of the pie.

Another part—and I know this is a bit of controversy but I'll just put it on the table—is the asset-recycling notion. The view is that once we put money into a project—it may be a government project, a greenfield project—it then, over time, is sold to private investors outside, and that money is then used for other purposes. Again, I want to say I have no idea what the government's doing on this with airports and things like that, but this is the notion of creating an approach whereby we're investing, building a project, which then, if it's completely government-owned, is sold and that money is released for investment in other areas.

We think that following this approach will mean that the pie will be much bigger and we will actually be able to do more of these.

Mr. Gérard Deltell: Thank you.

I have one last question, Mr. Barton. You're talking about a new foreign corporation, a new agency, to assist corporations wanting to invest in Canada. Basically, we can applaud that, but don't we have enough civil servants around the world working on that? Would this new agency be merging with other people, or would it be a brand new agency with new people, new red tape and all of that, instead of merging with what we have now?

Mr. Dominic Barton: That's a great question, by the way. I'm taking notes from what you guys are saying on these things.

We have roughly 1,000 officers out there, and our sense is that only about 11 of them are actually focused on what we're talking about here, so there are not enough people doing this function.

We haven't gotten to the federal and then the provincial side of it. We've also seen, by the way, that there's also a group of people operating at the city level to try to attract.... I would hope there would be some opportunity to look at some rationalization, so that we're just not adding those to this. We think the numbers who are actually dedicated to this, if I can call it, marketing aggressively for Canada are very small right now, but we need to establish that.

The only other thing I'd say to your point is that Mark Wiseman, in particular, has what he calls the “stop-do” list. Not only should we be making recommendations about what we should be adding, we should also be looking at what we're taking away. For example, I think we see that on the innovation side.

Sorry, I'm probably talking too much.

The Chair: No, that's fine.

Mr. Caron.

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): Good morning, Mr. Barton.

We talk a lot about pension funds, but the idea of leveraging public funds to get that private capital would also be open to private asset management and private equity. Is that right?

Mr. Dominic Barton: Yes, it would.

● (0900)

Mr. Guy Caron: So we're basically talking about privatization, because obviously those investors, be it pension funds or be it private equity managers, will actually ask for a decent rate of return for them to invest. They won't just give the money for free. They'll ask for that rate of return. We heard actually from Mr. Sabia at some point in time that a decent rate of return would be between 7% and 9%.

If we're talking about that rate of return for projects over 30 years, that's a lot more than what government could actually do by itself by actually borrowing the money at 2% or 3% interest, at most. I'm trying to see how this privatization or this move will actually be to the benefit of the country, especially since most of the risk will be assumed by the federal government in any case.

Mr. Dominic Barton: I'd say a couple of things. First of all, I don't think you'll see too many private equity players investing in long-term infrastructure. The returns are too.... They get nervous after five years, and I think these projects, as you said, are more 30-year events. I don't think you'll see the likes of the Blackstones and the Bain Capital people. The time frames are too long for it. This is the pension fund money in particular.

Right now, \$13 trillion worth of money is earning negative yields. I appreciate that Michael Sabia says he'd like to see 7%. I think that's a very high return in today's environment. I mean, he may be getting that; he's very good. I'm talking more in the order of 2% to 3%. Yields are just so low.

The other thing I want to say is that I also think this doesn't mean that government shouldn't look at borrowing. They can't borrow it all to close this gap, because then we'll have a very large deficit, which we don't think will be sustainable, because those rates will eventually move back up.

Mr. Guy Caron: My point, I guess, is the fact that we're considering right now, and we hear the government musing about, asset recycling, which is basically privatizing public assets so that we'll raise the capital to actually fund the privatization of other public assets. We've never had this debate in this country. I don't recall the word "privatization" being said during the electoral campaign. Right now this is the direction we're going in too.

I would beg to differ with you that private equity would actually not be interested. Maybe they wouldn't be interested in those 30-year projects, but there are projects that won't take 30 years, which they might actually want to fund over five or 10 or 15 years. We're opening the door to this. At some point I'd like to understand how we can actually go in that direction right now, how we could be pushed in this direction as early as November 1 for the fiscal and economic update or November 14 when there will be that major investment meeting in Toronto, and not have the debate in the House by calling it what it is, which is privatization. Canadians have never been told that we're ready to actually provide either our pension funds or private equity asset management with those assets.

The way they will get the return is basically by tolls, basically by fees, and by other ways of getting back their investment. Where's that debate right now? I understand that you have been hired. I'm putting that on you right now, but you are basically the agent of government. At some point we'll need to have the debate in the House.

Mr. Dominic Barton: Can I just make one comment, Mr. Chairman? Is that all right?

The Chair: Go ahead.

Mr. Dominic Barton: I think for us, asset recycling is one element. That's not on the critical path for this. I actually would say that's on the far end of the table. What's key is that there's so much infrastructure that needs to be built now in terms of greenfield—transit systems, ports; a big list is already being stacked up again. I just look at that Emerson report as one small example. It's in those areas that businesses can actually help pay for it. It's in their interest to be able to pay it and get pension funds to help finance it.

There's so much to be done that I think we have to get on with it, because we just have this gap. It also creates a lot of jobs and a lot of productivity improvement sustainably. All I would say on the private equity side is that there is a lot of money looking for returns. I think private equity will have a very difficult time competing with these. I honestly do. Japan Post has so much money earning negative yields that to be able to participate in something where they're going to get

a positive yield over time in a country that's as safe as Canada, I think, is a serious opportunity and a benefit.

I'm obviously biased in how I think about it, but that's my view.

• (0905)

Mr. Guy Caron: I'm looking at the comment that Claude Lamoureux, the ex-CEO of the teachers' pension fund, actually made, following the announcement that we might be going in that direction. He said that for the government, this is a way to offload its responsibility and to give that to someone else, and that in his opinion, that someone else can be more efficient than government.

The former CEO of the teachers' pension fund gets it.

I would submit that the government—and once again this is not an attack on you, because I understand your role in this. When the government created this advisory council on economic growth, it was supposed to be advising on economic growth, not bringing it to a foregone conclusion. By having you here—you have been working on infrastructure for many, many years and you've been talking across the world on this—and having Michael Sabia and having Mark Wiseman, all who actually had very strong views about going in that direction, I would tell you that for the advisory council to be coming to this suggestion was actually a foregone conclusion, without any debate in the population, and without any mention of it during the campaign.

I think at some point we'll need to look at it and make what's going on here a bit better known.

The Chair: I don't think that's up to Mr. Barton to answer.

Mr. Guy Caron: I understand, and I mentioned that at the beginning.

The Chair: That's a debate for us to have in the House, no question about it.

Thank you both for that discussion. It was a good discussion, nonetheless.

Mr. Sorbara.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Good morning, Mr. Chair.

Thank you, Mr. Barton, for your service, on both the public side and the private side, for many years, for Canada.

Earlier this week, we had the Bank of Canada governor and the deputy governor come speak to us. In their writings in the last few papers they've put out, they've talked about two broad impediments to increasing our long-term growth rate. I think their forecast is about 1.5%. One is the labour force, specifically, the labour force growth rate. The other is the broad bucket of innovation/productivity and how Canada can do better.

I'm just specifically looking at the labour force growth rate, not really the participation rate, because that hasn't really changed in the last 20 years. The labour force growth rate is slowing down. Our demographics are not the worst in the world, but they definitely could be better, and we have this immigration system. One of the key recommendations you and the Wise Persons' Committee put forward is to increase immigration from 300,000, gradually, up to 450,000.

I'm a proponent of that. I think it's been proven that immigration is good. My concerns right now are that when I look at a number of very, very successful entrepreneurs in this country, people such as my parents, under our current system, they wouldn't get in. I would say that probably the top business people in Canada currently could not immigrate to Canada under the current system.

The LMIA process by employers is broken, as I call it. It's slow. It's tedious. I've heard a lot of feedback that basically you are guilty until proven innocent when you are trying to prove that you actually need the person to come through.

I'll stop in a second, but I'm an individual who had the privilege of working for a U.S. investment bank for almost a decade, in the United States, going there under an H-1B visa, and seeing how their system worked. I'm not saying it's better or worse.

I want you to focus your comments this morning on the importance of immigration, not only attracting the best but having a larger piece of the pie come over.

● (0910)

Mr. Dominic Barton: Thank you.

Yes, we have a similar view to yours. This declining workforce worries us, because, again, it's happening so quickly. My personal view is that for Japan it's too late; they've gone beyond the curve. The amount of immigration they would require to do it would be too significant to be practical in the time frame, so I think there's an urgency to it.

The way we looked at it, just quickly, one thing was to facilitate entry for top talent. That goes to your point about delays with the LMIA exemptions, and how you go through it. It just takes too long. In the round tables and discussions we had around the country, we saw countless examples of Canadian companies that ended up putting a key part of their business in New York because they couldn't bring that capability into Canada. Doing that was just too arduous. We did want to expand the exemptions for some of the senior executive roles. We wanted to have a two-week process. We said let's put a time frame on it; it takes too long.

Also then, relax some of the restrictions once the permit's in place, because there is also quite significant retention. So there's a top talent piece that we felt was important, and we think it actually leads to fewer jobs being created in Canada because that occurs so slowly today.

The second was around the students. To your point about not qualifying, we have a lot of superb international students who come in and who we think would be terrific entrepreneurs and people who would create jobs and build businesses, but the point system makes it very difficult for them to stay. That's quite different from how it

typically would be in the U.S. Obviously, the U.S. is a lot worse right now than it has been, but that's a very big source for Canada.

Australia's third-largest export is education, foreign students coming in, and we think that's something. Then there's this 300,000 to 450,000 target we're trying to hit, but flanging it in 15,000 people at a time to move it.

The last thing is the accreditation standards, because we also need to make sure that when people come in they actually can get a job. The number of people who are electrical engineers or medical doctors and who are driving taxis because the accreditation service doesn't work is a problem, so we have tried to make some recommendations around that.

Mr. Francesco Sorbara: You brought up Australia. I think there are a number of policies that Australians have adopted on immigration, which we could emulate. They've basically opened it up to young people from 18 to 35 who have graduated from a university either back home or in Australia, or who want to come over to study in Australia. Australia has said please come over and work, because they're young; they don't need health care; they contribute, and they have a real desire to be engaged in the labour force and to open businesses.

I'll finish with a question on FDI, because I believe my time is running out. The group has advocated for a single point of entry, if I can call it that, on foreign direct investment. How would the coordination work between the federal government and the provinces? I think you know the Canadian system much better than I do on that level.

Mr. Dominic Barton: I think one way we could see it working is by, first, having a targeted set of types of companies or investments that we want. For example, I think we would like to have more people—and I'll use Thomson Reuters as a recent example—in the information technology area. It's going to help us with our innovation, and my view is that there are probably 45 companies out there we would love to attract.

This group would go out literally to try to figure out what it would take to get those 45 companies to do something in Canada. Once we, in a sense, brought them in, it would then be a matter of coordinating with the provinces to determine the best place to then operate and work with them. It would have to be coordinated with the provinces and not be done in a way that says whoever gets to them first is the one, because they're just looking for a straightforward path. So there would be some targeting of this group to bring it in and then work on the provincial side and also on the city side to see where those people would ideally be placed.

This is where it can get controversial, because we're probably not going to build a quantum computing capability in St. John's, Newfoundland, so we have to make sure we're focusing on where the people are going to want to go and where we think it will make sense for them to go, and then do it.

I don't know if that makes sense or not or it is flawed in your view.
● (0915)

Mr. Francesco Sorbara: Thank you for that, and Thomson Reuters is a perfect example.

The Chair: Thank you both.

Before I turn to Mr. Albas, I have a question.

At the beginning of our pre-budget consultation, we had all the regional development agencies in before the committee. My thinking from having had them all in, to a great extent, is that Canada is a country of very different economic regions, with a lot of similarities but different economic regions. Is your advisory committee factoring that in, in any way?

I am from Prince Edward Island. The last thing we want to see us do is fall further behind than some of our regions because all the investment is going elsewhere. In terms of your discussions, are you factoring any of that in?

Mr. Dominic Barton: Yes, we are. We're trying, Mr. Chairman, and you should tell us whether we're doing so adequately.

One of the things we've been doing is regional round tables. They've been exactly instructive, as you've said. The first one we did was in eastern Canada, in Halifax. I know that's not in Prince Edward Island. The notion there was to ask what opportunities we see in this region in terms of the sectors that we could bring in and in terms of the types of companies, and also what is going on with the universities. That was quite different from what we saw in Vancouver, where there was a different range of things. We got very clear feedback from those. It was a mixture. It was small business, large business, academia, and labour unions. We had a broad mix of people. That's one way we're trying to do it, and we're continuing that.

We've done that in five parts of the country. I'm going to Regina on November 10, for an agrifood one, looking at pulses and what we could do on those, and wherever that will move, with some technologists who we think we can bring in from Israel and from parts of Europe—Switzerland in particular. There are companies that we think we can bring into that.

We are trying to recognize that there are very big regional variations. I think this national agency has to look at it that way. That's why we think there's a need, in a sense, to have a bit of strategy around the types of companies that we want to have in Canada, in these different regions, and then go after them and try to bring them in, as opposed to doing it from the bottom up.

The Chair: Okay, that's good to hear. Thank you very much.

Dan, go ahead. The floor is yours.

Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC): Thank you, Mr. Chair.

Thank you, Mr. Barton. I do appreciate that you've been doing this work as a volunteer. Thank you for your service to our country.

I think you'll find that many Conservatives have been critical of the government's current plan, with good reason. With regard to your mandate, were you instructed to work from the Liberal election

platform on the fiscal and economic side, or were you given more of a blue sky approach?

Mr. Dominic Barton: We were given a blue sky approach. When Minister Morneau called, I had never met him before. I didn't know him. He basically said, "Your job is to come up with bold ideas that can help jolt growth."

Sometimes we got into things such as "Well, that's an interprovincial issue", or "What is the Department of Finance going to think about this?" He would say that it was his job to figure that out, and that, by the way, we were to come up with our ideas, but that didn't mean they were going to use them.

For example, we talked about—

Mr. Dan Albas: Fair enough—

Mr. Dominic Barton: I don't know if you get it—

Mr. Dan Albas: I appreciate your honesty and your dedication to putting forward some ideas, because, quite frankly, one thing we've been very critical of is the lack of economic growth despite the high costs. As you said, higher deficits down the road, if we invest in the wrong kind of infrastructure, could leave us saddled with long-term debts. Seeing our ability to promote economic growth is important.

I will say, though, that Mr. Caron does raise a good point. Many of the things you're proposing here are, in some cases, polar opposites of what the Liberals campaigned on. For example, you've suggested that tolls can actually help pay for infrastructure and bring foreign direct investment. The Liberals campaigned on removing tolls.

The Liberals have said they want to see 67% of their infrastructure budget going towards social and green infrastructure. You instead have said it should go into more transit infrastructure that's productive, such as rail and ports, and whatnot.

Is your report basically somewhat of a tacit admission that the current plan the Liberals have offered, and ran on, is not working?

● (0920)

Mr. Dominic Barton: Mr. Chairman, I'm not going to go to that place, because I think you can decide how you feel. All we're doing is trying to come up with the ideas we think will move the dial. We are not wedded to any particular forum.

We have a lot of debate in council, by the way, on the different pieces. To be very open with you, I didn't study the Liberal Party. I couldn't tell you what that was. In the group we have Jennifer Blanke from the World Economic Forum, who would have no clue what that is. We just said let's look at what's going to drive it.

The other thing I would say is on the green side. This isn't anti-green. There are many things that can be done in a profitable way that actually benefits everyone.

Mr. Dan Albas: I don't disagree at all. My skepticism isn't towards you, sir. I appreciate people who are actually willing to help out and help their country. Again, the question is how can we raise economic growth?

You have suggested an infrastructure development bank. In the Liberal platform they talked about directing an infrastructure bank to invest in social housing. It also said it would focus on giving low- or no-interest loans to municipalities.

Your proposal is quite different. Is that correct?

Mr. Dominic Barton: Yes. I still think the government should have the capacity, if it wants to, for social policy issues to invest in that type of infrastructure that doesn't have a return. I don't know of any country in the world that doesn't do that.

All we're saying is there's not enough capital, unless you want to run massive deficits, and if we played that out, it would add 15% to the deficit level, which is unsustainable. We think we need to try to tap into private capital both within Canada and outside of Canada, and that's very doable.

The infrastructure bank would be focused on these \$100 million-plus.... That's on the more commercially oriented side of it. The other types of infrastructure investments, which I'm sure will still be done, would need to be done through a different process, because private companies wouldn't want to participate in those.

Mr. Dan Albas: I appreciate your point about foreign direct investments. Since last October we've seen a lot of foreign direct investment leave.

I do question, however, the proposition that Canadian pension funds and other private equity firms should be investing here in Canada. Pension funds are obviously for the benefit of the pensioners, and diversification is an important part. Right now, it's a bit of a chicken-and-egg situation. This is not your fault. I'm happy you're raising the point that we need to attract direct foreign investment.

The challenge is, though, that there are more growth levels outside of Canada. If you're from the Canadian market, you're going to want to see returns that are greater than inflation. We just don't see that as much.

How do you reconcile your view that we should be getting more pension funds from Canada investing within Canada, given that set of circumstances?

Mr. Dominic Barton: I fully agree with you on diversification. I think it's good. It's in all our interests that the Canadian pension funds are investing overseas.

The only thing I would say, though, is that there is a humongous oversupply of long-term capital versus infrastructure projects. Every pension fund in Canada, in the United States, in Japan, and in Europe would love to invest more in infrastructure. There are simply not enough projects that have been put forward.

That's what I said about the competition. That's why I'm not worried about private equity coming into this. They won't play. They won't get the returns they want in this. That's why when someone in Australia puts in a bankable project for people, you literally have a

swarm of people because there are just not that many. We think there are those in Canada; they just need to be structured.

We want this infrastructure bank to be independent and to have world-class structuring skills, so that it can set up these types of things to be attractive but also good for Canadians. It takes a specialized set of skills to do that.

Again, I agree with you on diversification, but there are simply not enough infrastructure projects. It's one of the strangest problems in the world, because we have all this infrastructure and we have all this money, but it's not happening.

● (0925)

The Chair: Thank you, Mr. Barton.

We will probably go about eight minutes over our scheduled video feed. I'm told the video feed will stay on, so we'll have time for three more questions.

I should remind Dan as well that Liberals are always open to new ideas, as long as they're good ones.

Ms. O'Connell, you're next.

Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.): Thank you, Mr. Chair.

Thank you very much for joining us here today. You've spoken a lot about private investment and the trillions of dollars out there. I apologize to my colleagues, because I've been sounding like a broken record over the past couple of days, but you also spoke about renewable energy. I would really love it if you could highlight the focus on having that private investment for moving the climate change agenda along. It's good business, but it's also good in the long term. From my understanding, for renewable energy in particular, you spoke about investments wanting any type of growth, and with renewable, the costs have gone down dramatically and the payback is short term in comparison. Can you speak about whether this is a particular focus? You touched on it, but I'm just wondering if you had something else to elaborate on.

Mr. Dominic Barton: We definitely think that's an important category for the reasons you mention. It isn't just because doing renewables is a good thing; it's actually because doing them is profitable and drives productivity benefits.

For the electricity grids, we're looking at clean tech in innovation. We just don't know why in Canada we're not a powerhouse on clean tech, in everything from how we use our existing energy resources.... I think we see that with some of the Canadian energy companies, such as COSIA and what it's trying to do. We think a lot more can be done on that front. We're looking, for example, at solar for greenhouses for food in the Prairies. Infrastructure is going to be required to build the greenhouses that would allow for more crops. That's not just good for the environment; it's good for productivity growth, and it is a renewable resource. Water systems are another very important category. I could go on.

Ms. Jennifer O'Connell: Thank you.

You touched on part of the attraction of private investment being policies for matching so that investors feel it's a stable investment, and you mentioned how important that is. There are things like carbon pricing and a commitment by governments to ensure they really are interested in renewables so that investments go into that sector. It's not just having the projects available but also having the overall policy commitment so that investors feel secure. Am I understanding that correctly?

Mr. Dominic Barton: You are.

By the way, we heard that also from some of the round tables we did with energy companies. A lot of people think that energy companies don't want this. It's interesting—the ones we saw in Canada do. They're saying there's an opportunity for them to do more on clean tech on the R and D and the business-building sides.

• (0930)

Ms. Jennifer O'Connell: Thank you.

I just want to get one last topic out there. If you can't answer it, that's fine, but it's something to at least take note of and to come back on with a policy on infrastructure and infrastructure banks.

I come from the municipal world. I did finance for my region. I was on that committee. One of the things that frustrate me—and I'm a full believer in allocation funding for municipalities—is that the application process for funding can be difficult, so how this infrastructure bank is rolled out is important, if the government moves forward on it. As much as I'm a supporter of allocation, I'm also a huge supporter of controls, because no two infrastructure projects are the same. I know municipal governments, and I know how they can take a project that is a pet project for the municipality but not really an economic growth type of project. They can find a way to make it fit, so to speak, so if we're focused on infrastructure that is truly to grow the economy.... There's not always just an economic impact. You mentioned social housing. There's not always a fiscal impact, except that people with stable housing tend to have stable employment. The point is that if there were to be some type of infrastructure bank or focus, municipalities need to have fairly strict parameters to ensure that projects meet those objectives, because sometimes—

The Chair: You'll have to tighten it up.

Ms. Jennifer O'Connell: Okay. I'm sorry. I could go on forever on that, but the point—

The Chair: I think you get the drift. Could we get a quick answer on that, Mr. Barton? We're going to run out of time.

Ms. Jennifer O'Connell: Thanks, Mr. Chair.

Mr. Dominic Barton: Sure. I fully agree. I think again the idea is that the ideas come from the municipalities and the provinces, and not just from the federal government putting them through. But they're going to get funded in this infrastructure bank only if there is commercial viability, as you were saying.

The other thing just quickly is that we also think roughly 25% to 30% of infrastructure projects go way over cost and way over time. We hope with this infrastructure bank there will be a capability to ensure that the projects that are done on both sides are done in a

much more efficient way than they normally are. That's another element we hope is in there.

The Chair: Mr. Liepert.

Mr. Ron Liepert (Calgary Signal Hill, CPC): Thank you, Mr. Barton, for your presentation this morning.

I'm not going to ask you to comment on my first couple of comments, but as a Conservative from Alberta, I want you to know that there's just about nothing that I agree with in what Mr. Caron said, other than the fact that the Liberals did not campaign on this agenda. In fact, their agenda in the election campaign was trying to out-NDP the NDP. I actually think, Mr. Barton, that your committee has thrown this government a real hot potato, because they did not campaign on the kinds of things that you're talking about, almost all of which make sense.

I don't expect you to comment on that, but I do want you to comment on this. As I said, I'm from Alberta, and I'm sure you're familiar with AIMCo. I know that AIMCo, which manages about \$80 billion in Alberta pension funds, has difficulty in trying to find the appropriate investments in Canada. They're investing in infrastructure in Australia, in Chile, and in Argentina.

Here's what I think we need to take into account. Given the right opportunities, I'm sure these Canadian pension funds would like to invest in Canada and make the Canadian pension dollars work for Canadians. I'd like your response to that.

Mr. Dominic Barton: Again, I think the win-win, if you will, is being able to identify and structure these projects—which we are 100% convinced are there because of this \$500-billion gap—so that we get more of what we call “bankable” projects. That probably doesn't sound very good politically, but that's what we call them. We say it's a bankable project and people would put money into it.

If it's a Canadian pension fund, that's a win-win, because it's Canadians who are benefiting from that. It's perfectly circled. They're actually ideal. Again, going back to the diversification side, yes, they are going overseas, and that's good, but there's so much more from an asset class requirement to be an infrastructure need that I think it would be a very big benefit. I'll shut up there. I'm talking too long.

• (0935)

Mr. Ron Liepert: I did want to ask you one other quick question. I had the opportunity a number of years ago to work outside the country for a provincial government trade organization. I absolutely agree with what you say, which is that our foreign diplomats are just that: they're diplomats, not investment types.

Now, when you talk about a new agency, would it not make more sense to have a new focus by External Affairs to have the right people? We already have all these consulates and embassies around the world. Start to staff them with some of the appropriate people, who can actually go out and do more than just encourage tourism or sign immigration papers or whatever. We need salespeople out there, which we don't have today.

Mr. Dominic Barton: Yes. I think we're hoping that this new FDI agency will actually be quite small to start with, just to get the DNA of the hard-core marketing, if you will, to figure out where to target, which companies, and for those 45 companies on the IT side, to figure out who they are, how we go after them, and how we put a package together. Once we build that up, I think we'll have a platform to do what you're saying, which is to then have those types of resources in the right parts of the world.

We haven't talked about this in the council. My sense is that in Canada we're still too pivoted to the old world and not the new world. I think cities in China such as Chongqing and Xiamen are where.... I have nothing against Vienna, because I think it's a wonderful city and there's a lot...but I would be thinking, too, about how we allocate those resources. We didn't get into that. We're saying let's start with a small core, and then they can go from there.

Mr. Ron Liepert: Thank you.

The Chair: Thanks to both of you.

For the last series of questions, we will go to Mr. Ouellette.

Mr. Robert-Falcon Ouellette (Winnipeg Centre, Lib.): Thank you very much.

Thank you very much for being here, Mr. Barton. I very much appreciate it.

I'm glad to hear that some of my colleagues are for the sale of public infrastructure, like roads and hospitals, but as a university professor, I would say my simplified Economics 101 says that we pay now or we pay later, but the taxpayer will eventually be paying. I fail to understand why private investors such as BlackRock would invest in infrastructure projects unless they could make a profit. Even an infrastructure bank seems like a means of ensuring that investment money—you've mentioned the \$13 trillion that is getting negative yields—will be making a profit on the backs of Canadians. It also almost seems like a massive transfer of public funds towards the private funds in order for them to make money—a subsidy towards business.

I have two questions related to this. I was wondering if you could describe asset recycling and how it would apply to Canada. I was wondering if you could also describe how many indigenous communities you've actually met over the course of your mandate and how many times you might have had discussions with indigenous leaders.

Thank you.

Mr. Dominic Barton: Sure. To the point of it being on the taxpayers' back, first of all, we have a \$500-billion infrastructure gap, and as for what we're seeing with the first nations, at least \$30 billion to \$35 billion is on that front. The question we have is how we are possibly going to fund that. You cannot do that with government money. At least that's our view at the council. To borrow

the money, which by the way the taxpayer would eventually have to pay for, would lead to a very significant deficit.

I'm just saying there's a conundrum here, and we're also trying to create growth, so that's where.... I'm not trying to argue; I'm just trying to give you a sense of how we came at it.

● (0940)

Mr. Robert-Falcon Ouellette: At the end of the day someone's going to expect a profit somewhere, so the profit from that system will have to be had somewhere. Those private bankers aren't simply doing this out of the goodness of their hearts, and they're not going to be investing in infrastructure unless there is a profit.

To get back to the asset recycling, they use it in Australia, and the federal government in Australia was using it to force local state governments to sell off assets like hospitals and roads, creating toll roads and creating private hospitals.

Could you describe that and how it might work here in Canada, even with indigenous communities?

For instance, we could have a situation, as in the 1980s, in which we're indebting African countries through the International Monetary Fund and forcing them into massive amounts of debt in order to build infrastructure. Then, they are somehow so impoverished they can't pay back those debts in the long term.

Mr. Dominic Barton: Right. I think the first thing is that there are not enough infrastructure projects being done; there simply aren't. That's the first point.

The second point is that we think there's a benefit to the taxpayer of having more infrastructure being built.

The third point I make is that Canadians pay far less in terms of fees, tolls—however you want to put it—or availability payments, than anyone else does. We're on the far extreme side of that.

In terms of recycling, all we're saying is that some infrastructure projects may have been built—because a lot of private investors don't want to invest in pure greenfield projects—that could be made available for private investors to invest in if they are not looking for outrageous returns. That would free up money to allow more infrastructure to be built. That was the basis for the asset recycling, looking at things like airports. We think there would be a net benefit to taxpayers. They're run better, and again, doing this frees up more capital to invest in these other areas.

We had two round tables with indigenous groups. Carol Anne Hilton is a member of the council from Vancouver, and she is very involved. We've had a number of one-on-one sessions with groups. I was involved in about six of them. We have been engaging, and to your point, I think we are probably not doing enough, but if I look at what regions and so on are doing, it's very much.... We are trying to make sure that we have that lens where we are, but if there are other things you think we should be doing, I would love to hear about them, because we are probably missing some things. We're trying. That's what I would say on that.

The Chair: Thank you both. Before we close, I do have one question. I chair the Canada-United States Inter-Parliamentary Group, and one thing that always strikes me when I'm at Council of State Governments meetings all across the U.S. is the integrated production and supply chains and the amount of work happening between the provinces and states in terms of energy grids and so forth—though not so much between the government in Washington at the moment and Canada.

In terms of your infrastructure bank proposal, some people have suggested a North American infrastructure bank to me. Has anybody ever broached that?

Mr. Dominic Barton: That's a very good idea. Of 100,000 areas where there are differences, I think the demand, the desire for an infrastructure bank in the U.S. is probably the one area where there is commonality. As you know, the Obama administration tried but couldn't get it through Congress. They wanted to have it.

I think that could be a very big idea, because when you think about the decay in our infrastructure across the borders, not only, by the way, between Canada and the U.S., but also between the U.S. and Mexico.... We would love to try to get one built, because a lot of people have talked about this but it hasn't been done. The economics are there. Maybe we could get this and they could then broaden out. I'm not sure.

The Chair: Okay. Thank you, Mr. Barton.

We're about 15 minutes over time. I think all committee members appreciated your straightforward answers. Certainly as a country, we appreciate the work that you're doing with the advisory council. With that we thank you for your testimony. It is much appreciated.

We will suspend for five minutes and then go to the Business Development Bank of Canada. We're going to have to tighten up the next discussions with BDC and EDC because we have to vacate the room now at about 10:50 a.m. instead of 11 a.m.

• (0940) _____ (Pause) _____

• (0950)

The Chair: We'll reconvene. I think we have most members here and our witnesses.

Just so the record is clear, I know that both witnesses know that we are doing pre-budget consultations in advance of the 2017 budget. The theme we've been working towards is how we can achieve better economic growth within this country.

We have two very important agencies before us this morning. With the Business Development Bank of Canada, we have Mr. Denham, who is president and chief executive officer, and with the Export Development Corporation, we have Mr. Daignault, who's the president and chief executive officer.

I believe you each have a short presentation to start with, and then we'll go to questions.

Welcome, both of you. The floor is yours.

Mr. Michael Denham (President and Chief Executive Officer, Business Development Bank of Canada): We'll do it alphabetically, I guess.

Thank you, Mr. Chairman.

My name is Michael Denham, and I'm the president and CEO of the BDC. I was appointed to the position recently after a 27-year career in the private sector.

[*Translation*]

I would like to start by congratulating the committee for its consultation work with Canadians in preparation for the 2017 federal budget. This is important and demanding work, especially given all your other work and all your other responsibilities.

[*English*]

So thank you.

My staff tells me you've had at least 16 meetings, and you've heard from over 160 organizations. I can only hope you find something new and unique in what I have to share with you today.

BDC has one overall aspiration, which is to make Canadian entrepreneurs among the most competitive in the world. We have more than 2,000 employees located in 100-plus business centres across Canada. We have over 2,000 interactions per week with entrepreneurs. We receive over three million visits per year to BDC. ca. As a result, we feel we have a good sense of what's going on with entrepreneurs in the country.

We seek to tailor business solutions according to the circumstances of entrepreneurs. We take financial risks that other financial providers do not. Our financing portfolio stands at \$24 billion. We're a bank, and we make credit decisions within given parameters. The most important parameter is an expectation that the enterprises we lend money to will prove economically viable so that money lent will be repaid with a return reflecting the risk taken. This means we're self-sustaining and not dependent on the taxpayers of Canada.

It also means that we can reinvest profits in initiatives aimed at satisfying business needs that others cannot meet. We're Canada's small business development bank and we're immensely proud of the role we play. Most of all, we're proud of the 42,000-plus businesses we support from coast to coast.

I'm often asked how Canadian businesses are faring in the face of economic uncertainty, global challenges, massive disruption, and significant technological change. There's one word that comes to mind—"resilient". As the Governor of the Bank of Canada indicated in his progress report on the Canadian economy which he gave in Whitehorse this past June, there's flexibility among Canadians. For the governor, this creates confidence that Canada will get through the current adjustment period and that the economy will return to natural self-sustaining growth.

Let there be no mistake about the fact that Canadian businesses are facing tremendous challenges and opportunities. Let me take you through some of those and tell you about how we're addressing them at BDC. The first challenge is access. We know there are still financing gaps, particularly for certain entrepreneurs: young entrepreneurs, new Canadians, entrepreneurs with thin or little credit history, fast-growth firms, indigenous businesses, and cyclical sectors. These are just some examples of those experiencing difficulty accessing financing.

The second concern relates to scaling up the size of businesses in Canada. Canada has made good progress in the start-up space; however, we struggle in building large firms able to punch above their weight in terms of economic impact. A BDC study released in September confirms that there are dramatically fewer businesses expanding in size than there were 15 years ago. Many firms wanting to grow continue to face financing issues, and, compared with other jurisdictions, this leads to deal sizes that are relatively small. Moreover, the greater presence of foreign investors in later stages may result in stronger pressure for early exits and foreign ownership in foreign markets. BDC has responded by increasing its lending volume from \$4.8 billion in 2016 to an all-time high of \$5.2 billion for the current fiscal year. This is in addition to the \$250 million in venture capital we'll be investing this year in technology start-ups. We're also providing leading-edge business advisory services, including to so-called high-impact firms that have the potential to really move the growth needle for the country.

The third issue, which everyone knows, is that too few Canadian companies export, and of those that do, not enough are expanding into emerging economies where growth opportunities abound. In this regard, BDC focuses on export readiness, equipping small companies to expand into new markets, including choice of the market to which they seem particularly well suited. This go-to-market strategy is being developed hand in hand with EDC, with whom we already enjoy excellent relations.

• (0955)

A fourth dimension of business performance in Canada concerns productivity, that is, how efficiently goods and services are produced. Canada's labour productivity growth slipped in the decade ending in 2014 from an average of 1.4% per annum, over the prior eight years, down to 0.9%. Although this statistic is alarming for people who study Canada's economy, more than half of the 1,500 Canadian companies we recently surveyed don't formally measure their productivity. This finding prompted BDC to introduce, just last week, a free diagnostic tool for all Canadians, developed in partnership with Statistics Canada. In less than two minutes, by filling in seven data points, a business can find out exactly how it compares with peers and receive a link to sources for making improvements in its productivity.

[Translation]

I could talk at length about Canadian companies and the situation they are in, but it would be preferable for me to do so as I answer your questions.

If, after this meeting, you have other questions in terms of developing your recommendations on the competitiveness of small

and medium-sized businesses, I will be happy to help answer them for you.

[English]

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

We will now turn to Export Development Canada.

Mr. Daignault, go ahead, please.

[Translation]

Mr. Benoit Daignault (President and Chief Executive Officer, Export Development Canada): Mr. Chair and honourable members of the committee, thank you for inviting Export Development Canada to appear before this committee. We appreciate your interest in EDC's work with Canadian exporters and our perspective on helping Canadian companies to expand into international markets.

EDC is a crown corporation, mandated to help Canadian companies go, grow and succeed internationally by providing financial, insurance or expert advice as they seek to grow their business. EDC is an arms-length crown corporation and does not receive annual funding from the Government of Canada.

• (1000)

[English]

Since we were founded in 1944, we have helped Canadian companies of all sizes undertake more than \$1.3 trillion in exports and foreign investments. We started here in Ottawa, but have since grown to establish 18 offices across Canada and 18 international representations. Most of these locations are in high-growth emerging markets.

In 2015, almost 7,500 Canadian companies used EDC services to undertake more than \$104 billion in international business. This included roughly 6,000 Canadian small and medium-sized enterprises that were helped by EDC to conduct more than \$15 billion in export trade and foreign investments.

Although EDC is an arm's-length organization, we share with the government's commitment to grow Canada's footprint in emerging markets. This includes helping more Canadian companies to become leaders in innovation-focused sectors, like clean technology. For example, in the past five years EDC has supported 128 clean-technology companies doing \$2 billion in exports.

[Translation]

More broadly, EDC partners with companies across all sectors: light manufacturing, information technology, infrastructure, clean technology, natural resources, oil and gas, and transportation.

As the global economy continues to be influenced by globalization and fluctuating trade dynamics, we need to do more than ever to ensure that Canadian companies can compete and that we can continue to create an attractive investment climate.

[English]

No two companies are alike, and that means adjusting our offerings to the specific needs of trying to break into new markets. However, recent research conducted by EDC found that 65% of Canadian exporters start by exporting to the United States. The U.S. market is similar and presents lower risks. Twenty-two per cent of companies take their first international step in non-U.S. markets and others are simply born global. Approximately 13% of companies we spoke with enter multiple global markets at once.

This variety of experiences presents EDC an opportunity to help companies across all stages of their exporter journey. This includes offering economic analysis and market data, assisting with market access, or helping them to meet their corporate responsibility obligations alongside providing our traditional financing and insurance products.

This also means that EDC partners with other Government of Canada organizations, like BDC, to ensure that the entirety of a company's needs are being met. Since the signing of our formal partnership with BDC five years ago, there have been over 1,000 cross-referrals between our organizations.

EDC participates in other government-wide partnerships, like the accelerated growth service, which brings together Global Affairs, NRCan, ISED, BDC and many others in order to help high-performing, high-potential companies leverage the full benefit of government services.

Additionally, EDC works closely with Global Affairs Canada and the Canadian Trade Commissioner Service to introduce foreign buyers to qualified Canadian suppliers through matchmaking missions, trade shows, and one-on-one meetings.

EDC works hard to build relationships with large multinationals interested in doing business with Canadian companies, or those who have a large footprint and supply chain network in Canada. An example of this would be General Electric or India's Tata Group.

Once EDC's team has a detailed understanding of a company's supply chain and business goals, we can set up introductions to qualified Canadian companies with well-matched offers.

In 2015, EDC led 26 matchmaking events. These resulted in over 1,000 introductions between 133 foreign buyers and 450 Canadian suppliers, the vast majority of which were small and medium-sized enterprises.

[Translation]

When speaking to our staff spread around the globe, I am fortunate to hear incredible stories of Canadian companies of all sizes working to grow their business, secure contracts, or fulfill a once-in-a-lifetime growth opportunity.

EDC considers it a privilege to work with Canadian businesses that constantly impress us with their innovation and determination to grow to new international markets.

• (1005)

[English]

There is more to the EDC story, but I will stop here, and I look forward to engaging with you on any questions you might have.

Merci beaucoup.

The Chair: Thank you both. We'll go to six-minute rounds, instead of seven, so we can fit everyone in.

Mr. Ouellette.

Mr. Robert-Falcon Ouellette: Thank you very much for coming here today. I very much appreciate it.

We recently heard from Mr. Barton, of the advisory council on economic growth, that there is around \$13 trillion that is having negative yields. Some of these investment companies and investment funds from around the world are looking for ways to make money

Are there enough funds for companies, such as medium-sized and small businesses in the Canadian marketplace, to create successful businesses?

Mr. Michael Denham: Let me give you a two-part answer to that question. One relates to venture capital. As many of you know, we're highly involved in venture capital. We're administering the venture capital action plan on behalf of the government. Then we have two parts of the venture capital business. First, we have three funds. We're investing directly in clean tech, information technology, and life sciences. Second, we have a fund-of-funds business. We're investing in other venture capital funds.

The asset class, over the years, has not been high performing. I continue to believe that there is a need for continued focus to ensure adequate funding to the venture capital ecosystem in the early stage and later stage. It's something that Canada has made quite good progress on over the past few years.

When I look at the quality of ideas, the quality of people, the quality of start-ups, and the quality of incubators, Canada is producing a lot of really good start-ups. I think it is important that we stay focused on making sure that enough capital is brought to bear to support them.

Mr. Robert-Falcon Ouellette: You just announced, I believe it was in July, that you would be making available another \$1 billion to Alberta companies through the ATB, the Alberta Treasury Branches, and the BDC.

You're doing that for Alberta, but what's the total amount for loans you have out currently for all of Canada?

Mr. Michael Denham: We have about \$23 billion in term loans, outstanding to—

Mr. Robert-Falcon Ouellette: You made almost half a billion dollars in 2015 in profit.

Mr. Michael Denham: Correct.

Mr. Robert-Falcon Ouellette: If you had another \$10 billion, would there be capacity in the marketplace to make additional profit for the Canadian government?

Mr. Michael Denham: It's always a question of balance. We play a complementary role. We're not there to compete with private sector banks. That's just not right; it's just not fair, and it's not our mandate. We're here to make sure that Canadian businesses, and typically those that are a higher risk for the banking sector, have access to capital.

I can't answer right now whether \$10 billion.... I think \$10 billion would have a disruptive effect rather than a positive effect. I do think, over time, that entrepreneurs would benefit from us doing more by making capital available.

Mr. Robert-Falcon Ouellette: In Alberta, you're probably headed into an economy that has a low level of confidence and one into which banks probably aren't willing to go. You've obviously taken up the slack a bit. The private sector is either unwilling or unable to do that. You're trying to do something that will lead to the creation of more jobs and longer-term growth.

Mr. Michael Denham: Exactly.

Mr. Robert-Falcon Ouellette: I was wondering how Export Development Canada, EDC, and BDC work together. You were talking about how we need to develop more exports for Canadians, and that means more manufacturing, more exporting of our goods, and more services, as well. I was wondering how you worked together in order to do that.

Mr. Michael Denham: We work closely together. It's clear that for many Canadian companies to succeed and achieve their full potential, they need to be successful at exporting. It's been well said that that exporting could be to the U.S. or to emerging markets.

We have complementary skills and a localized footprint. We're close to small businesses. EDC has a whole host of great relationships and mechanisms set up to help Canadian companies export. The goal for us is to make sure that we're as seamless as we can be in connecting small businesses, which should be exporting and which can be exporting, into the extensive network with the skills that EDC has to help them go to market and succeed.

We signed an MOU a few years ago to bring that about. There are hundreds of examples of referrals. One thing I've been advising our clients is that when they start, on day one they should make sure they have a meeting with BDC, EDC, and their commercial bank. Have all your financial partners together from day one to help you grow and succeed internationally.

• (1010)

Mr. Benoit Daignault: The only thing I would add to this is that if you are at the receiving end, if you are a client, and you meet with an EDC or BDC person, those individuals will have knowledge about the offering of BDC or EDC. At the end of the day, it's about being able to put the most competitive and best offer for that client to make sure they have as much success as possible.

Mr. Robert-Falcon Ouellette: This is not a criticism, but why do companies have difficulty exporting? Why are we not seeing growth in our manufacturing base with the low Canadian dollar?

Mr. Benoit Daignault: This is a very complex topic, and there are many reasons for that.

I will highlight that the biggest issue for exporters, issue number one, is not financing. Issue number one is to understand the

opportunities and to find the right partners or the right contacts in the markets.

If you look at the various needs, you'll see that the financing piece is number three. First, if they don't have a sense of the opportunity, and they don't know how to talk or who to talk to in the given market, it's very difficult for them to even understand their financial needs.

From that perspective, this is why from EDC's standpoint and from GAC's standpoint, and working with the trade commissioners, there is a lot of work being done in the markets to understand who's who, and to understand which companies have a potential interest in doing business with Canadian companies. By making that connection, you end up defining the opportunity and defining the financial needs.

The Chair: Thank you, both.

Mr. Albas.

Mr. Dan Albas: Thank you both for being here today.

I'm going to start with Mr. Denham.

Mr. Denham, obviously politicians, and Canadians generally, sometimes have varying perceptions of BDC, because your bank is so often in the background. In my area of the Okanagan, Brian Kemp is one of your representatives. He is at all the networking events, so he's constantly trying to get the name out there.

I think one of your challenges, though, is that people have a perception. For example, in my small business I made contact with BDC, and the programs and services offered at the time didn't match what I needed. However, things change. I think that's one of the biggest challenges; people don't recognize that your program changes.

How do you get it out there that BDC is available to help small entrepreneurs?

Mr. Michael Denham: It's something we're always focused on. My perspective is that there is an awful lot of benefit we can provide to entrepreneurs. The key challenge for us is to get the word out so that they understand it.

We do a number of things. We've recently started to advertise just to create more awareness as to what the BDC is.

I made a bit of a joke the other day, that just for a couple of games, as an experiment, we had the BDC logo behind the net here in Ottawa. When Auston Matthews got his four goals, they were all in front of the BDC logo, so unaided, awareness spiked up in southern Ontario big time that week.

Second, we have a very well-visited website, BDC.ca, with about three million visitors per year. That's constantly being refreshed and updated. It's very catchy, and it tries to show a range of what we do. In the context of our new branding, I think it's a lot clearer than it was.

More importantly, to your question, we take a lot of steps locally to get word out. We're active with chambers of commerce across the country, and we're very active with the accountants, the lawyers, and the advisory network. We're constantly having open houses and things in our neighbourhoods, and the hope is that through the Rotary and Lions Clubs, etc., we're staying in touch with entrepreneurs so that we hear what matters to them, and we can refresh them with respect to the services we provide.

Mr. Dan Albas: I actually have an example that is the exact opposite of Mr. Ouellette's. Many of the credit unions in my area—and I've heard from some banks as well—often do more business now because your BDC will join in and take a certain amount where the traditional banks or credit unions aren't willing to invest. That co-operative approach, I think, ends up seeing a lot more products funded, so I would encourage you to continue that.

Again, I know it's always a bit dicey when you're talking about working with or against the banks; there's always a balance between the two.

You mentioned venture capital. A number of us visited Israel, and we heard from a gentleman who is renowned in Israel. He actually visits Canada quite often. He said something that stuck in my mind: "I would love to do something in Canada, but you guys make it so difficult."

Is it because each province has its own set of rules when it comes to capital and those kinds of investments, which makes Canada's new venture capital ecosystem so difficult? When we're talking about attracting foreign direct investment, when we say "Canada", it's a much different brand from, let's say, New Brunswick or British Columbia, etc.

Do you have any thoughts on some of these barriers to having people come in and invest in Canada?

• (1015)

Mr. Michael Denham: Did he elaborate on what makes it difficult? What were some of the reasons he cited?

Mr. Dan Albas: He just said he'd love to come and do things in Canada, but it just seems like we aren't interested in facilitating that. He simply said there are just too many rules among provinces and areas. It's too complex. He'd much rather go to some place where he would go to one shop and then they would start doing business. It works in the United States. Their framework is different from ours.

Mr. Michael Denham: Right. I can't answer that. I know we get a lot of—in some cases too much—investment coming in from the U.S. to invest in both Canadian funds and Canadian start-ups through our network of accelerators and incubators. There's no issue with U.S. money coming to Canada. I can't comment on what the impediments are with respect to Israel, but I will look into it, though.

Mr. Dan Albas: Okay, I appreciate that. I didn't give you enough context maybe, but it's a question of the ecosystem with regard to venture capital.

Mr. Daignault, I have a quick question. In the United States, your equivalent of EDC has had a lot of trouble in the last year or two with funding and with being able to continue its operations. I love my American friends and I have family who live in the United States, but are we capitalizing on that? Are we trying to say, listen, come to Canada where you can work with us and we'll be able to help you carry on your business?

Mr. Benoit Daignault: Thank you for your question. I'm just going to provide a very tangible example.

There was an announcement of a new plant in Welland, Ontario, a new investment by General Electric. Essentially, General Electric looked at Canada specifically because of EDC's support for their international sales. With large corporations like GE, we actually look at their Canadian footprint. Providing their footprint is substantial and there is a commitment to do more with Canada, we essentially enter into a protocol under which we will provide EDC's capacity for their business around the world, and the capacity that EDC will deploy will be a function of their commitment to Canada. Of course, in the context of U.S. EXIM, and their lack of ability to operate, we have been able, on a proactive basis, to put more capacity in front of GE, and that actually triggered the actual process for GE to look at Canada for the investment.

Mr. Dan Albas: Is this a one-off, or is this a strategy that you will continue to build on? Because, again, it's an important way to help build our economy, and really if the Americans can't figure it out, then we should.

Mr. Benoit Daignault: It is a strategy that we pursue. We're actually looking at major buyers around the world, and more specifically in the U.S. Where our value proposition is very interesting is when the corporation in the U.S. needs buyer financing for its own international sales. This is where it becomes extremely relevant.

The Chair: Mr. Caron.

[*Translation*]

Mr. Guy Caron: Thank you very much, Mr. Chair.

Thank you very much to the witnesses for joining us today.

I know more about the Business Development Bank of Canada and less about Export Development Canada. But I am somewhat aware of the work that the organization does.

I do not have a lot of questions for Mr. Denham because, as I said, I know the bank quite well; there is one in Rimouski, in my constituency. The BDC has an excellent reputation among business people. The bank is not in competition with other types of investments. It actually works in synergy with different groups, such as Canada Economic Development and Investissement Québec. I don't have a lot to say to you except to congratulate you for your work and to hope that it continues.

My first question goes to Mr. Daignault and is about the new mandate that EDC received in budget 2015.

You did not talk about it a lot in your presentation. The mandate covers the work done in international development. In international development, we know that Canada has frozen its budgets for direct aid, for example, the aid intended for the Canadian International Development Agency, or CIDA.

However, there was an announcement about an initiative that will provide about \$300 million in coming years, in order to establish a financial development institution that is supposed to help with investments in developing countries. I'd like to know your opinion on the integration of this new mandate with the one that EDC already has.

•(1020)

Mr. Benoit Daignault: Thank you for the question.

First, as for the initiative you mentioned, our mandate has been modified in order to allow us to become involved in that development activity. However, the activity is not yet operational. We are essentially waiting for guidelines from the government about it.

As for the activity eventually being integrated into EDC's mandate, we view that very positively. Internally, we already have a lot of the skills that will allow us to bring that financial institution into operation effectively, to accelerate its impact and to carry out transactions more quickly than if the government tried to create an institution from scratch. We believe that it is excellent. In addition, it will allow for coordination between the different stages of the process within countries, which will be positive, in my view.

Mr. Guy Caron: You are saying that it is not operational yet. However, \$300 million over five years were announced in budget 2015.

Mr. Benoit Daignault: Yes.

Mr. Guy Caron: Has any of that money been spent yet?

Mr. Benoit Daignault: The answer to that is no.

As for the processes in place, a recommendation has been made about what I would call "the machinery". It deals with how to make the institution operational, but the final decision has not been made and EDC has not yet received the green light to create the institution.

Mr. Guy Caron: With the way things are going, do you see this institution's role as being a complement to, or a replacement for, a large part of CIDA's former mandate?

Mr. Benoit Daignault: International trade and international development are being coordinated. The notion of a financial institution focused on development is completely complementary to the development mandate. It is quite a small space, a niche. If you look at other similar institutions elsewhere in the world—such as the CDC group in England—you see that their goal is to invest money in projects that will involve the private sector in companies that will be financially viable. Basically, institutions of that kind are managed with quite a commercial outlook.

Mr. Guy Caron: That is why I would say that there is a major change in Export Development Canada's role compared to its previous one. EDC once definitely assisted with exports; it guaranteed the goods and that they were paid for. Your work helped to get products through customs. That has changed to the extent that

you are now investing directly in certain projects and certain export initiatives.

Mr. Benoit Daignault: You have to consider two factors, actually.

The creation of the financial institution focused on development is an additional mandate and an initiative that is going to go on completely outside EDC. The goal is to ensure that the two mandates are different and there is no confusion between the two. So, the activities of the financial institution for development will not bear EDC's name; it will have a different name.

Mr. Guy Caron: The administration is still EDC's, in both cases. Am I correct?

Mr. Benoit Daignault: According to the project that we submitted but that has not been accepted yet, the financial institution for development will have access to EDC's expertise so that it can move forward with its activities and its operations.

•(1025)

[English]

The Chair: This is your last question, Guy.

[Translation]

Mr. Guy Caron: I am a little surprised and I am probably going to need more answers about this.

When this was established, after the budget in April 2015, a comment appeared quite often in the media. I will read it in English:

[English]

"The government will invest \$200 million over five years and the profit-driven financial lending institution will be housed within Export Development Canada."

[Translation]

Mr. Benoit Daignault: The model under consideration looks at establishing an independent affiliate that would manage the financial institution for development.

But if you have other questions, we can also provide you with more information about it.

Mr. Guy Caron: Thank you.

[English]

The Chair: Mr. MacKinnon.

[Translation]

Mr. Steven MacKinnon: Thank you very much, Mr. Denham and Mr. Daignault.

Mr. Denham, I had the opportunity to visit the Centre d'affaires de Gatineau business centre, where I met with many people who work there. Congratulations. Not only are these people very dynamic, but they are very enthusiastic, too. They provided some good observations about the economy.

Mr. Daignault, we are also familiar with EDC's services. I'd like to ask you both quite simply what you are seeing.

We have heard from some Canadian economic development agencies, and I think we had the feeling that what would I call deal flow was slowing down. Is that how you see it?

[English]

Mr. Michael Denham: It's hard for me to comment. I don't have any perspective or facts on that. However, I do know we are working with the RDAs in the context of this accelerated-growth service initiative. So it's us, the RDAs, SDTC, IRAP, EDC, and so on. The level of collaboration is very good. I know they're bringing a lot of clients there close to these discussions, and I think the clients are deriving some benefit from them. We've begun to work more closely with them. I'm afraid I can't comment on deal flow one way or the other.

[Translation]

Mr. Benoît Daignault: I don't have more information than Mr. Denham about this.

Mr. Steven MacKinnon: More generally speaking, are you seeing increased traffic or stagnation of the transactions and services you provide as part of your mandate?

Mr. Benoît Daignault: In terms of our services, we are seeing a growing need. I can't speak for the BDC, but we are seeing that there is currently a lot of financial capacity in the private sector, but that they tend to be focused on companies that are doing very well.

However, institutions like EDC and, I presume the BDC, are forced to take care of small riskier businesses or, in our case, very large companies that occupy tougher markets than Canada, that have many needs and that are not supported by the private sector. We tend to be pushed up and down, while the private sector is really very strong in terms of the overall market. In short, we observe that the complementary approach ensures that we are asked for very small needs and for very big needs.

[English]

Mr. Michael Denham: Then again, just to get technical for a second, much like the EDC, we manage our balance sheet as I think you'd want us to. It's very consistent with the Basel agreement and how commercial banks do that. We're very explicit in terms of the risk we're taking. We have all sorts of stress testing, and we make sure we have enough equity on our balance sheet to both support that risk and make sure that we can weather the storm in terms of stress tests.

I say that because it forces us to make some tough decisions as to the type of lending and investing we do, because that economic capital is a constraint.

To answer your question—and this gets back to Monsieur Ouellette's question—in looking at the needs of small business in terms of term loans, the requirements of Canadian start-ups around venture capital, and the requirements of small business around entrepreneur-friendly growth equity, we see a lot of demand for the types of services and solutions that we provide—frankly, more than we can meet right now.

[Translation]

Mr. Steven MacKinnon: Is it a matter of market share? Is it because you do well in this area or because there is a decline?

Based on what you're seeing, are other financial institutions seeing a decline in this regard?

● (1030)

[English]

Mr. Michael Denham: It's a mix of those two things. However, the more important thing, frankly—and I think this is good for Canada—is that the demands on us from entrepreneurs, as they try to grow and start businesses and scale up their businesses, are increasing. The commercial banks are there to support and we're there to support, but what I like about the fact that there's more demand for what we do than we can supply is that it just speaks volumes to how much entrepreneurship there is out there and the growth plans and ambitious start-up plans that entrepreneurs have.

[Translation]

Mr. Steven MacKinnon: We've been told often that the issue of intergenerational business transfers was critical. We have also been told that the tax rules were obstacles to these transfers, especially in agriculture, where intra-familial transfers are not favoured.

Are you seeing the same situation? Do you have any recommendations for us about this?

[English]

Mr. Michael Denham: We haven't studied the fiscal angle per se, so I don't have any recommendations to make with respect to that. All I can do is acknowledge that we see the same thing you see, and the CFIB and other groups have researched this, in the sense that a massive number of companies are going to go through intergenerational transition over the next few years. One of our groups is called Growth and Transition Capital, and well over half of the financing we do there is to support this type of transition.

I'm glad it's on your radar screen. I'd encourage you to look at it. Thoughtful policy in this regard will help, because this intergenerational transition point is going to be very pronounced over the next few years.

[Translation]

Mr. Steven MacKinnon: Thank you very much.

Thank you to both of you for your remarks.

[English]

The Chair: Thank you both.

Mr. Dreeshen, go ahead.

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

Mr. Denham, unfortunately I missed the BDC logo; I was busy watching Connor McDavid.

I am also on the industry committee, and one of the things we've been talking about there has to do with how manufacturing can succeed in some very difficult times around the world. One thing that was mentioned earlier was how to make sure that our businesses understand the opportunities that exist in other places, and that really becomes one of the critical components. Of course, included in that are research dollars, money that goes into universities and other research groups. When I was in Germany about three weeks ago with the science minister, it was interesting to find that, as far as Canada is concerned, we've been investing the same amount of dollars into our universities and research groups as Germany does on a per capita and GDP basis.

The issue is that we don't get businesses that are going to invest in conjunction with them. There are three critical components to this. The first is our geography, as it takes us six hours to fly from one side of our country to the other. The second is jurisdictions, as we have different provincial and territorial governments that seem to get in there, and that was raised earlier as a concern. The other is market access, of course. Germany is the draw. That's where people are going to come. When they look at us, they want to see how many other issues there are and whether they can get into the United States, and how they can get into a 300-, 400-, 500-, 600-, or 700-million-person market? These are the kinds of issues we have, and of course BDC and EDC work together to try to help businesses do that.

You mentioned the limited growth in the 10-year span from 2004 to 2014. I think we have to recognize that in 2008 and 2009 even the banks weren't lending to each other. There was a credit issue. Right now it's a confidence issue. We see that in Alberta, where I am from. There are concerns about the changes that are there. There is money available for the basic businesses that are working today, but there isn't that underlying capital pool that says, "I think that's where we want to go in the future." Right now the critical mass is really in whether or not we can have that happen.

As an example, the Alberta government had a technology fund, which was designed so that the money would come in and go specifically to projects that were going to reduce greenhouse gases. Then, of course, we come up with the clean coal issue. Right now we have people, listening to politicians and so on, who drive by our coal plants in Alberta and say, "When did you shut that down?" Well, it's not shut down. You can't tell it's running. We have that kind of technology, which we should be selling around the world. Instead, we are tying our hands, because we are picking and choosing winners. How do you make sure that the investments you are putting into business are reflecting the realities of the world and not simply the ideas that we might have here in Canada at this moment?

• (1035)

Mr. Michael Denham: Thank you for that.

I was in Calgary last week. It was Small Business Week, and I did a bit of a cross-country tour and spent a full day with a number of tech entrepreneurs in Calgary. I found it very heartening when later that week, the Calgary Chamber of Commerce hosted its event, which is a kind of small trade expo, a tech expo, and I think over 1,600 companies showed up to participate, which was a record. Even this week in the news, we saw that there are more start-ups now taking root in Calgary than there ever have been and frankly there are more than in many other regions in Canada, which, again, I think

is tremendous. Your points remain valid, but I think we're starting to see some early-stage traction, which is good.

The angle we take with respect to your topic is more local and it relates to local ecosystems that basically are designed to create a flow of research and intellectual property from universities through to commercialization and, ultimately, export sales. There are a dozen or so incubators/accelerators across the country and we've chosen these based on research and, basically, have picked those that we think have the formula right. The role of these groups is to provide that connection. So they're meant to have porosity vis-à-vis the universities and research organizations. They're meant to be a conduit into which organizations like ours and others can invest venture capital.

One key thing, to get at your question, that really defines success is whether there is an anchor tenant to almost provide big company support and offtake for a lot of the ideas and people. The set-up here in Ottawa now is relatively healthy by global standards partly because of the beneficial effects of the role that Nortel and others played over the years.

One reason Kitchener-Waterloo is so robust is that BlackBerry and RIM have left a very positive legacy there. One of the reasons you have a nice sector in Montreal around life science is that big pharma has played a role there.

So there are some key ingredients that you need to make this flow from research and intellectual property through to commercialization work. They are related to venture capital, to the institutions themselves, but also to some corporations that play this role of creating demand for the ideas and also creating a nice flywheel in terms of talent as well, and that's where we're focused.

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

Mr. Grewal.

Mr. Raj Grewal (Brampton East, Lib.): Thank you, Mr. Chair.

Thank you, gentlemen, for coming this morning. My question is for Mr. Denham.

Mr. Denham, by percentage, what industries do you guys generally support? How much of it is new tech, specifically?

Mr. Michael Denham: I'm just looking at my notes now. In our venture capital business, obviously, which is in excess of \$1 billion now, it's all tech. It's a mix of clean tech, life sciences, health tech, and information technology. Across the rest of our portfolio, it goes to the point that Mr. Barton made around the oil patch and the amount of technology taking place within what we currently define as fairly traditional sectors.

I think, all told, including our equity lending, probably about 15% or so of our total disbursements every year are to companies that are in the tech industry, but that understates the amount of tech we're supporting, because there's a lot of lending to support technology development within traditional industries. I'll get back to you with the number.

Mr. Raj Grewal: How many of your deals does the BDC end up taking equity shares in?

Mr. Michael Denham: We do, in total, relatively few. We do about 14,000 lending transactions per year, and those are all loans.

On the equity side, we would be doing fewer than 100 per year.

• (1040)

Mr. Raj Grewal: I ask because I was formerly a corporate lawyer, and some of the deals I had had a BDC component in them and some of them, unfortunately, had a bad debt component to them as well, or a writedown, or you guys taking pennies on the dollar for your shares. For what percentage of the portfolio does that happen? How many bad deals, essentially, do you guys do per year?

Mr. Michael Denham: Our loss rate is about 0.6% of our portfolio—

Mr. Raj Grewal: Okay, so it's very—

Mr. Michael Denham: —which is a lot higher than for a commercial bank, but that shouldn't surprise anybody, because, again, only 7% of our loans are to investment-grade companies. So we're lending to higher-risk companies, companies that can't get—

Mr. Raj Grewal: But you also do better, too. Your return on investment should be higher as well, on the flip side.

Mr. Michael Denham: Our net income hovers between about 7% and 9% ROE. Banks are in so many different businesses, but on average our net income per cent, or ROE per cent, would be lower than that of the commercial banks.

Mr. Raj Grewal: I actually agree with Mr. Albas, which I don't generally do very much, but he is a nice guy. In my neck of the woods, in Brampton, which is a high-growth area in population, there are a lot of small businesses. But they are traditional small businesses like trucking companies, a pizza shop that expands to 10 franchises, day cares, etc., which are good businesses. They put food on the table and create jobs, but they would never know about BDC.

I think one of your inherent challenges still is this. When I worked on Bay Street, we did a lot of private deals and we did a lot of deals at the mid-market level, and they always had a BDC/EDC component to them. The true small business owner has no idea what BDC is. A company that comes to mind, Grace Windows and Doors, is doing phenomenal work in the riding and it's expanding, but the owners don't have the expertise to scale their business. They have the expertise to make their product.

What efforts are you guys making to let people know that you're there to help on the advisory side? I think that's extremely important because of the skill set and the knowledge you can provide. The true small-business owner doesn't have that skill set.

Mr. Michael Denham: I'd love nothing more than to work with and support more entrepreneurs, especially the ones you described. We're highly motivated to do whatever we can to get the word out and raise awareness and have entrepreneurs take advantage of the

things we can do. When Mr. Albas asked his question, I took him through a list of things we're doing, and that's in part the answer to your question.

But with respect to the consulting part of what we do, we look at what companies need. It's financing but it is also capability; either capability they'll build themselves for which we provide some learning and training programs, or capability in the form of consulting help, to help them address an issue. We're also trying to get word out on how we can help. We now offer micro-solutions consulting. Even the owners of the smallest businesses up their game with strategic planning, financial planning, technology planning, and human resources planning.

The Chair: You're done.

Mr. Liepert, it's your turn.

Mr. Ron Liepert: Thank you, gentlemen, for being here. I would echo earlier comments from, I think, Mr. MacKinnon that the local BDC representative in Calgary has been making his rounds and ensuring that especially we, as new MPs, are well informed on BDC.

Regarding the situation in Calgary, I wouldn't get too excited about all these new small businesses, because my guess is an awful lot of them are owned by highly trained, highly skilled people who have been laid off from the oil and gas sector and who are starting up small businesses, consulting businesses and that kind of stuff. I think that reflected a lot on what happened in Calgary during Small Business Week.

That being said, you don't finance real estate, or do you?

Mr. Michael Denham: We do.

Mr. Ron Liepert: You do finance real estate. Okay. I was somehow under the belief that—

Mr. Michael Denham: We don't finance residential, obviously.

Mr. Ron Liepert: No, but from a business standpoint, you will finance if a business owner wants to move from leased space to buying a building.

• (1045)

Mr. Michael Denham: Yes.

Mr. Ron Liepert: I wasn't aware of that.

I was interested in a comment you made earlier in your opening presentation, around a study that BDC did relative to how small businesses, compared to those some 15 years ago, are not expanding. In that study, did you get any sense that government continued piling on things, whether they be increases in minimum wage, or taxes, or CPP benefits? What role did those factors play in small-business owners deciding whether to expand?

Mr. Michael Denham: Those things didn't come up, per se.

To take a step back, the starting point for the research is that we think it's very important for Canada, as a country, to have more of what we call mid-sized companies, those that are 100 employees plus, because those are highly correlated with more spending on R and D, more hiring, more international expansion, and more innovation. So the research is on how Canada is doing in that regard.

We started the research over the course of the 2000s and we found that we're at about two-thirds the level of the U.S. on a size-adjusted basis, and the gap is even bigger now.

We looked into examples of those companies that have actually grown to get to that threshold. What we found they had in common—and this is correlation not causation—is that they invest their top core productivity and they have operations in more than one jurisdiction, either more than one province or more than one country.

What didn't come out of that were the points you were making around regulation, tax, etc. That said, I do know that our entrepreneurs, the clients we have, value simplicity. One of the reasons that this AGS effort has been relatively well-received is the fact that it gives entrepreneurs simple access to multiple federal organizations, including EDC and ourselves. So simplicity matters. But I can't give you any perspective on the extent to which regulation, tax, etc. have been impediments.

Mr. Ron Liepert: I have a quick question on EDC. I'm not sure I understand how you're funded.

Mr. Benoit Daignault: The way we fund ourselves is through capital markets and through bank lines. We run a U.S. dollar business and we issue bonds. Based on our financial plan, we would issue approximately the equivalent of \$4 billion's or \$5 billion's worth of bonds in the international markets.

Mr. Ron Liepert: But companies don't pay for your services, do they?

Mr. Benoit Daignault: Like BDC, we essentially run self-sustaining operations. Essentially, our clients pay market rates for our insurance and all our financing and equity investments we are making. And that's very important, from our perspective, because otherwise we would not be compliant with WTO requirements.

Mr. Ron Liepert: Okay. Thank you.

The Chair: Thank you.

Mr. Champagne.

We'll split Mr. Sorbara's time with you.

[*Translation*]

Mr. François-Philippe Champagne (Saint-Maurice—Champlain, Lib.): Thank you, Mr. Chair.

Mr. Daignault, Mr. Denham, welcome to the committee. It is a great pleasure to have you here.

As my colleagues said, you are both doing essential work for our Canadian SMEs that export or that need funding.

I represent a riding in Quebec. Now, as we know, the Quebec economy is largely based on SMEs. I often hear SME representatives talk about funding, marketing products and developing markets. I fully agree when you said that entering into international agreements

requires guidance for our SMEs. Indeed, a free-trade agreement provides access to a market, but it requires a lot of support. Having done this for 20 years of my life, I can tell you that getting into or expanding certain markets requires a lot of support, especially in emerging economies.

Could you tell me, from your respective fields, what more we could do in this regard in terms of programs in five or 10 years, so in the short, medium and long term, to help small and medium enterprises with funding, marketing and exporting?

Mr. Benoit Daignault: Thank you, Mr. Champagne, for your question.

The current environment is one where growth is slow and technologies significantly change the situation. The traditional business model—take Canadian company Nortel, for example, which has a local supply chain, produces locally and exports a finished product—will be less and less common. In fact, this trend will continue. I think that the supply chains will continue to fragment.

Which means that today, a small company that wants to take advantage of international opportunities rather than stick to a local company, must find a foreign company to sell its products and services. Obviously, everything related to support, market recognition and free-trade agreements makes a significant difference because it simplifies the work of the entrepreneurs.

As for knowing whether we currently have the capacity at EDC to meet this need, I would say that we have the flexibility to do so. We think we are able to serve these clients, even though the world is increasingly complex and we need to take action more and more quickly to stay relevant for these companies. But I think we can do it.

• (1050)

[*English*]

The Chair: Mr. Sorbara.

Mr. Francesco Sorbara: Thank you, Chair.

Thank you, gentlemen, for being here this morning. My first question and comment are for BDC.

In my riding of Vaughan–Woodbridge, there is a regional BDC office. I was invited to chat with some of the representatives. Actually an ex-colleague of mine from Scotiabank who works downtown came up as well. It was great to see everyone.

I was wondering if you could comment on any regional differences that BDC is seeing in terms of companies applying economic activity that you think would be interesting to the group.

Mr. Michael Denham: Interestingly, on my last visit to our office up in Vaughan, I was hot on your heels. As I was entering the building, your colleague from downtown was leaving. They really appreciated your interest and your time. So thank you for popping by to visit us.

Your question relates to things that we see that are different across the regions and that could be worth reflecting on and learning from. I think the biggest differences we see across the regions do relate to two things. One is that with respect to our traditional lending business, we do find that Quebec is noteworthy in the sense that it has a lot of provincially focused sources of capital, be it Investissement Québec, La Caisse de dépôt, Fonds de solidarité, or others, all of which play a very useful role with respect to ensuring that liquidity is available within the province. We work closely with them.

The biggest differences we see regionally are more around venture capital and the different levels of maturity of the local ecosystems, if you don't mind my using that word again, across the regions. I think there's a lot we can all learn from those that are most successful in Vancouver or Kitchener-Waterloo most notably, and from some of the lessons learned. Canada can't have 85 or 90 successful incubators and accelerators to support tech firms. We just don't have the scale. We encourage folks to be quite thoughtful when picking spots, to make sure we have the right ingredients to make these work. I think we can learn a lot of good things from places like the Kitchener-Waterloo area, Vancouver, Montreal, and so on that we should be trying to learn from and extending to other regional areas.

The Chair: We're going to stop there. I do have one question.

First for committee members, the next meeting this afternoon is in 253D. It's our last meeting on pre-budget consultations at 3:30. We will not have a full committee meeting next Thursday, but would members be okay to have a steering committee meeting perhaps Thursday morning if we can arrange it? We have a lot of stuff coming up and we need to plan on this. Are we okay for Thursday morning?

Mr. Dan Albas: Let me just broach that this afternoon with our critic.

Mr. Guy Caron: What time are we talking about on Thursday?

The Chair: I can give you a call and we can find a time that's agreeable.

●(1055)

Mr. Guy Caron: Just for family reasons, it's much easier for me if it's past 9 o'clock; 8:30 in the morning is not good.

The Chair: We can handle that, Guy.

I'd like a quick response if you could give one. We are looking at what we can do to achieve better economic growth. You both deal with the business community all the time. What can the federal government do to enhance the ability to create economic growth?

To be honest, when I talk to business, whether they're dealing with CFIA, Canada Border Service Agencies, or any of these services that government provide, if the bureaucracy were interested in results rather than paper, it would be a heck of a lot easier for the business community. I go to some of the borders and there are 10 booths, and four of them are closed. That's not exactly great for moving traffic, whether it's commercial or public.

Does each of you have one point you think the federal government could emphasize to achieve better growth?

Mr. Benoit Daignault: From an export perspective, I will say that the theme of export infrastructure is very important whether we are talking about ports or otherwise. Everything that can help move goods and people is very important, and you need to make it easy to do so.

Mr. Michael Denham: Frankly, I recognize that there is an awful lot of discussion and options being weighed within the growth council work and the innovation agenda. My perspective is that it would be most helpful to small business to pick relatively few spots and really kind of marshal resources vis-à-vis those spots.

The Chair: Okay.

With that we will thank you for your presentations and your answers to our questions.

The meeting is adjourned.

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