



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Industry, Science and Technology

INDU • NUMBER 011 • 1st SESSION • 42nd PARLIAMENT

EVIDENCE

Tuesday, May 3, 2016

—
Chair

Mr. Dan Ruimy

Standing Committee on Industry, Science and Technology

Tuesday, May 3, 2016

• (1535)

[English]

The Chair (Mr. Dan Ruimy (Pitt Meadows—Maple Ridge, Lib.)): Good afternoon. Welcome to the 11th meeting of the Standing Committee on Industry, Science and Technology.

Today will be an exciting day, because we have some of our favourite people here. We have the Canadian Space Agency and the Business Development Bank of Canada.

We'll start off today with the BDC. We have Michael Denham, president and chief executive officer; Jérôme Nycz, executive-vice-president, BDC Capital; and Paul Buron, executive vice-president and chief financial and risk officer.

You have 10 minutes. Please go ahead.

[Translation]

Mr. Michael Denham (President and Chief Executive Officer, Business Development Bank of Canada (BDC)): Mr. Chair, distinguished members of the committee, we are pleased to be with you today.

First, I will tell you about our mandate at the BDC as well as about our clients and services. Then I will talk about what distinguishes us from other financial institutions. Finally, I will deal with three steps that Canadian entrepreneurs must take in order to prosper in the current economic climate.

[English]

I've been at BDC since August 2015. I've had the opportunity to meet with hundreds of entrepreneurs, both clients and non-clients of BDC. I firmly believe the success of the bank resides in being attentive to entrepreneurs in order to be in a position to efficiently respond to their ever-changing needs. We must also address these needs in collaboration with other players when appropriate. This is part of the reason why I'm so pleased to be here today and to receive your perspectives on BDC, on entrepreneurship, and on innovation in Canada. In total, BDC has over 700 clients in your constituencies, so I'm looking forward to a good exchange of views.

BDC is a different kind of bank. It's the only bank dedicated exclusively to entrepreneurs. Since 1995 our mandate, as a crown corporation, has been to support Canadian entrepreneurship, with a focus on small and medium-sized enterprises. To be clear, we're not a lender of last resort, we do not provide grants, and we do not provide subsidies. BDC is financially sustainable, it does not receive appropriations from Parliament, and it has been paying dividends to the government yearly since 1997. Over the past five years this

has totalled \$291 million. BDC's revenues reflect the success of the entrepreneurs we support. The profits generated are fully reinvested in our balance sheet and subsequently used to support more entrepreneurs.

I think I'm preaching to the choir when I say SMEs are a key driver of Canada's economy. You all know this. Canada has more than one million SMEs, which generate nearly 40% of our nation's GDP. In terms of our portfolio, BDC currently has more than \$26 billion committed to 40,000 direct and indirect clients. Most of our clients have between 20 and 100 employees, and our median loan size for fiscal year 2016 was approximately \$100,000. Our clients operate in sectors such as manufacturing, tourism, ICT, oil and gas, clean technology, and other high-tech industries throughout the country.

I'm aware of your interest in manufacturing, and I'm happy to tell you manufacturing represents about 23% of our total loan portfolio. I can speak further to this and the needs of the sector during the question period. Our support to entrepreneurs comes in three forms: loans, so they have the capital they need; investments, including venture capital, as well as subordinated financing; and consulting services, because entrepreneurs need more than just money to succeed.

What makes us a different kind of bank? First, we're a complementary lender. Our tools and services are available to credit-worthy businesses and fill out or complete those of regular financial institutions. We also partner with these institutions on joint transactions to help reduce the risk. This fiscal year alone we authorized more than 3,000 transactions jointly with our partners.

Second, BDC takes on more risk, and we price accordingly. BDC provides support for underserved sectors and markets, as well as for higher-risk projects. Overall we take much greater credit risk than regular financial institutions. In fact, we have eight times less investment grade loans in our book than do regular institutions. In the majority of transactions, we price a minimum of two percentage points above the bank's prime rate, and our portfolio is also quite different from commercial banks. This translates into initiatives targeted toward women, as well as aboriginal entrepreneurs. We also partner with Futurpreneur Canada to support young entrepreneurs, and we've been developing approaches to address the specific needs of key industries such as aerospace, automotive, and shipbuilding. We've also been providing specialized support to SMEs affected by the lower price of oil.

We're also different because we're a patient lender, and we're there for the long haul through good times and through bad. We have two teams that are dedicated to taking care of clients who are having a hard time. Our business restructuring unit, or what we call BRU, and the special accounts team, work to help firms recuperate. Rather than simply liquidating, the focus of the BRU team is client rehabilitation and bringing them back into operations. We've rehabilitated 187 companies over the past five years and put them back into the healthy stream. That's tens of thousands of jobs that have been saved and more than 500 million dollars' worth of files resolved.

As a development bank, we also invest heavily in non-financial services. We provide affordable advisory services to help SMEs address challenges, such as operational efficiency, international growth, and business management skills.

Finally, our employees also make us a different kind of bank. We have a team of 2,200 employees. Many of them are former entrepreneurs. They are true development bankers and a big part of why BDC is able to make a difference. They work from 108 locations across Canada and have more than 315,000 interactions with our clients in a given year. This gives us a deep understanding of the needs of entrepreneurs and of the reality in which they operate.

● (1540)

[Translation]

You asked us to talk about the current situation for Canadian entrepreneurs. Three aspects are critically important if entrepreneurs are to succeed. They are innovation, productivity and exporting.

[English]

Simply put, innovation is key to competitiveness. The 2015 BDC study "The Five Do's and Five Don'ts of Successful Businesses" shows that top-performing companies regularly introduce new products and new services. We work with SMEs to make them more innovative in many ways.

We have consulting mandates that help entrepreneurs think about their businesses in new ways. We also have flexible loans to help them adopt information technologies in the workplace, and through our venture capital investments we support innovative start-ups. In fact, BDC is the biggest venture capital investor in Canada with more than \$2 billion under management.

One of the companies we've invested in is called D-Wave. We're proud to have been an early investor in D-Wave back in 2002, and we've been part of each of their subsequent 15 rounds of financing. Today, we have over \$24 million committed to this high-tech B.C.-based company, and their quantum computer is 3,600 times faster than a normal computer and is used by Google and NASA alike. This is just one of many hundreds of future-looking investments that we've made.

The second challenge for business is productivity. To increase their productivity, firms need to start by measuring how efficient their operations are, compare themselves to peers, and identify which issues to tackle first. They need to invest in the machinery, equipment, and technology to make their businesses more productive, and by way of our flexible tools, such as equipment loans and consulting mandates, we're helping thousands of SMEs increase their productivity.

The third challenge is exporting. We believe that not enough Canadian SMEs are exporting. This is keeping them from reaching scale and impeding their growth. The recent trade agreements signed by Canada represent a tremendous opportunity for SMEs, but they need help to get there.

BDC helps SMEs become export-ready with flexible loans and consulting mandates to help them prepare and execute an export strategy. We offer these services while working very closely with our partners in the trade commissioner service and EDC.

Let me tell you about one of our clients, Louisbourg Seafoods, which expanded to a new market. They're a fast-growing, family-operated seafood harvesting and processing company in Cape Breton with over 500 employees. They're a big employer in the area and they decided to diversify their markets when the recession hit and reduced their U.S. sales. BDC helped them to develop strong relationships with buyers in China to enter that new market. They're now successfully exporting there in addition to their markets in Europe and the U.S. While their high-quality, traceable, and sustainable seafood is making its mark in foreign markets, they remain true to their core values of family and community.

We're so proud that we've been able to help this fine Canadian company.

To conclude, investing in these three essential areas—innovation, productivity, and exports—will help our entrepreneurs become more competitive, more efficient, and more growth-oriented, and BDC is here to help them.

As CEO, I am focused on increasing access to our services, fuelling innovation and business growth, and finally making it as easy as possible for entrepreneurs to do business with us. While we do all of this, we'll maintain our role as a complementary lender.

● (1545)

[Translation]

Rest assured that we will do our best to stay in tune with the needs of Canadian entrepreneurs.

I am happy to tell you more about what we are doing to increase access to us and to improve our clients' experience.

I would like to conclude by telling you that I am very proud to be at the head of an organization with so much talent, vitality, and passion for entrepreneurs. I am very happy to observe that we all share the same objective, to encourage innovation and growth in our SMEs in Canada.

Thank you.

[*English*]

The Chair: Thank you, very much.

Now we will move to the Canadian Space Agency.

We have Sylvain Laporte, president; Luc Brûlé, vice-president; Manon Larocque, acting director general of policy; and Marie-Claude Guérard, chief financial officer.

You have 10 minutes.

Mr. Sylvain Laporte (President, Canadian Space Agency): Thank you, Mr. Chairman. I'm pleased today to have the opportunity to present to you the Canadian Space Agency.

I understand that paper copies of our slide presentation have been handed out. To make sure we're all following, I will read out the title of the slide I am speaking to.

With respect to our mandate and objectives, the CSA, which was established in 1989 with the objective of promoting the peaceful use and development of space, supports the Minister of Innovation, Science and Economic Development in delivering the Canadian space program.

The program is reliant on a highly innovative space sector. The government acts as an anchor customer and funds advanced R and D initiatives. The long lead times to develop and launch missions in space, and the costs and risks, require that we work in partnerships domestically and internationally to ensure success.

• (1550)

[*Translation*]

The next page is entitled "Organizational Structure and Budget".

In 1999, the government established the agency's annual base budget at \$300 million, with the possibility of requesting additional support from cabinet for major state projects.

Today, the base budget is approximately \$260 million. The actual budget is greater than that amount because of our two major programs.

The first is the international space station, for which Canadian participation was reconfirmed until 2024 in the recent federal budget. That budget provides for additional funding in the order of \$379 million, spread over the next eight years.

The second is the RADARSAT Constellation Mission. This is a constellation of three earth-observation satellites that will be put into orbit in 2018. This constellation costs \$1.2 billion and will provide data to more than 20 federal departments.

[*English*]

At the CSA we have established four key areas of activity. The first is exploration, which is about exploring our universe, or looking

out. This includes our very visible and successful Canadian astronauts and international space station programs, as well as planetary exploration and astronomy, two areas with significant Canadian scientific expertise.

The satellites area includes earth observation, communication satellites, and scientific missions that look down at earth and into the atmosphere to provide services that support our way of life. For example, our flagship RADARSAT earth observation satellite supports ice monitoring, disaster management, environmental monitoring, and security and sovereignty, to name a few activities.

Technology development, our third pillar, supports the advancement of science, technology, and expertise in the space sector, both in industry and in academia.

Finally, the awareness and inspiration area is aimed at supporting the growth of the future generation of scientists and engineers who will pursue careers in STEM areas.

I'll go to the next page, "Space is ubiquitous".

John H. Chapman, founder of Canada's space program, once stated:

In the second century of Confederation, the fabric of Canadian society will be held together by strands in space just as strongly as railway and telegraphy held together the scattered provinces in the last century.

Albeit little known, our society is increasingly dependent on the services that satellite systems provide. Such basic services as banking transactions, ATM transactions, the Internet, traffic lights, and air, road, and ship navigation are often taken for granted.

Next is "Space inspires Canadians".

[*Translation*]

Space is a source of inspiration and pride for Canadians young and old.

When Canadians are asked what they know about the space program, two aspects stand out. First, the Canadarm, which is essential for assembly and operations on the international space station. We have gained unparalleled media coverage for this robotic technology. Second, our astronauts.

Commander Hadfield's mission on the space station in 2012-2013 resulted in an unprecedented frenzy in both traditional and social media. The indisputable interest for the mission was felt in classrooms and living rooms all over Canada.

[*English*]

The next slide is about the science and innovation benefits of space.

In addition to inspiring the Canadian population, space science and technology investments have led to finding solutions to concrete problems on earth. Robotics technologies are finding applications in the medical area, particularly for neurosurgery and breast cancer screening. Vision systems developed for planetary exploration are now used for navigating mines and guiding helicopter landings. Scientific experiments on the ISS have led to bone regeneration material in support of treatments for osteoporosis. Earth observation systems are also finding new applications in fields such as precision farming.

Let's talk now about the Canadian space sector.

The space program's success is tied to the health of our Canadian space sector. Over the last five years, the sector's revenue growth at 3.7% is about double the average growth of the Canadian economy. Canadian firms have become leading experts in robotics, optics, satellite communications, and space-based radar technologies. The industry is highly successful in exporting, with half of its revenues consistently generated abroad.

To remain successful, the space program must continue looking at the opportunities and challenges that lie ahead. Our key partners are examining options to join in the deep space human exploration of the moon and Mars. Canada is participating in these discussions.

Increased commercialization of space is expected to greatly reduce costs, thereby providing more affordable access to space. With more access comes greater product offering. As the scope and access to services provided through space assets increase, direct benefits are anticipated for our economy and for Canadians broadly.

The next generation of space systems are influenced by new disruptive technologies. Continued investment in R and D will keep Canada in a privileged position to stay competitive and at the leading edge.

•(1555)

[*Translation*]

In conclusion, the space program has the potential to make a major contribution to the quality of life of Canadians and to our economy. Space can contribute to a significant number of government priorities dealing with climate change and the development of remote regions. It can also enhance safety and security in Canada and overseas.

The global space context is presently going through major changes. However, Canada's reputation as a leader in certain niche areas of science and technology makes it possible for us to remain a major partner in the future.

Once again, thank you for giving us the opportunity to make this presentation to the committee on the various facets of the Canadian Space Agency.

[*English*]

The Chair: Thank you very much for that inspiring.... I can speak only for myself. I started remembering the lunar module's landing when I was, I don't know, nine years old. It is incredible to think that we are a part of that, so thank you very much.

We are going to go right to Mr. Longfield. You have seven minutes.

Mr. Lloyd Longfield (Guelph, Lib.): Thank you, Mr. Chair.

Thank you for the wonderful presentations.

I said it before the meeting. This is one of my favourite parts of being a parliamentarian. We get the coolest presentations of what is going on, right at the ground floor, so thank you for being here.

I am going to start with a few questions for BDC. I have been fortunate to work with BDC through Innovation Guelph, one of the innovation centres in Ontario, working with the partnerships you talked about a little bit, and also the partnerships you have with financial institutions.

I see BDC as a very collaborative organization. The people you have working out of Kitchener who service our area are top notch, and there is no "but" in that statement. It is terrific to have your support for innovation.

I am very interested in the metrics you are using, and whether those are available in some form, when you talk about innovation, productivity, and exports. The large document you gave us in background talks about what you have done globally in terms of your numbers, but not so much by sector. I wonder whether we could see, by sector, how you are measuring productivity, innovation, and exports, and whether that could help us in our next study, which is going to be on manufacturing success and manufacturing strategies.

Do you have any kinds of templates or results that you can share with us on how you develop your measure of success with the businesses you are working with?

Mr. Michael Denham: Thank you for the question, and thank you for the positive feedback on BDC. It's very nice to hear.

Again, I wanted to make sure that we were organized from our end to properly answer all your questions so we brought Paul Buron who is our CFO and Jérôme who is our EVP for BDC Capital, which is where our venture capital and subordinated financing exists. I hope that with the three of us here we can answer all your questions.

Your question relates to innovation, productivity, and exports, and specifically how we track the performance of our clients vis-à-vis innovation, productivity, and exports. Again, with 45,000 clients in total it's hard to get an aggregate picture of their performance.

I have two answers to your question. First, one thing we do look at as a source of input is the amount of loans and consulting mandates we do to support innovation, productivity, and exports. On our balance scorecard, one of our closely watched numbers is the combined total of those activities.

I know this doesn't answer your question directly, but we're tracking the activity we have under way to support clients in these regards.

On aggregate we don't have the data we'd like to have in how innovative our 45,000 clients are in the productivity improvements that we're affecting across those clients as well as the export. But on a case-by-case basis we're involved in working with them. We do have regular dialogue and follow-on work, especially around consulting on the extent to which our support has moved the needle on those three fronts.

We don't have the aggregate picture yet. We'd like to get it. We're working on it.

• (1600)

Mr. Lloyd Longfield: Okay. Thanks.

It's right at the client level and I was thinking of one of your field people, whether they keep track of their individual clients on those terms and then consolidate numbers. I could leave that on the floor because I'd like just one more question, and I'm watching the clock closely here.

Do you have similar defaults to other financial institutions on the risk profiles that you take on, or because you take on higher risks do you also have higher default rates?

Mr. Paul Buron (Executive Vice-President and Chief Financial and Risk Officer, Business Development Bank of Canada (BDC)): Thank you for the question.

As Michael has explained, when we lend to entrepreneurs we assess their risk and we follow their activities and their progress toward their projects. We have conditions in our loans as well, but we are very patient with this so we'll not put a business in default just for ratios. We're going to step in before that and make sure we understand the problem and support the entrepreneurs in more difficult times.

When they are in true difficulties, when they become delinquent in their payments, then it becomes more serious and we put all our people to work to support and help the entrepreneurs get through. If not, we have to act as we have to act.

Mr. Lloyd Longfield: That's part of the consulting feature of business, I guess.

Mr. Michael Denham: If you compare us to commercial banks in terms of provisions for losses and downgrades to impaired, we're four times the level of commercial banks.

Mr. Lloyd Longfield: That's exactly what I was looking for. Thank you very much.

Over to the Canadian Space Agency, again I've been very fortunate to work with your organization over the years through previous work I was doing in robotics, and what a first-class institute you have.

Sometimes we think we're investing in things outside our atmosphere, and you briefly touched on a lot of impact locally and across Canada. The University of Guelph is doing food research around growing tomatoes on Mars. We're doing things around zero gravity, automation that could be used in aerospace. Materials development is being done in other parts of Canada.

With a minute left—I'm watching that, Mr. Chair—could you comment on the return on investment of your agency across Canada, beyond what we do outside our atmosphere?

Mr. Sylvain Laporte: Thank you, that's a great question because it allows us to boast of some of our achievements in utilizing what we've developed in space and how we bring it back to earth. ISS is all about robots, and MDA has been very successful in using that technology in adapting robots for surgery.

We do a lot of medical research on the ISS, and we've been able to develop new miniaturized analysis gear that will now be deployed in the north or in emergencies, which replaces the very bulky cabinet-sized equipment that you would find in a hospital. The miniaturization has been very beneficial.

• (1605)

The Chair: Thank you very much.

We will go to Mr. Dreeshen. You have seven minutes.

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

Welcome to our guests today. It is certainly an interesting topic for all of us.

I know, Mr. Denham, some great work has been done with BDC, and I've had the opportunity to speak with many entrepreneurs who have found that working with you has been very beneficial, so I appreciate your being here and your being able to be part of the discussion that we have.

I'd like to speak to the Canadian Space Agency. I had the opportunity in 1980 to be in Moscow when the Apollo-Soyuz link-up was on display there, and then just a few years ago I saw a similar display in Washington. It's rather interesting how, depending on where you are, which one gets shined up and which one doesn't, but that's simply between the two countries involved, I assume.

I want to talk about an issue that is part of the U.S. relationship. Last November the U.S. government updated their U.S. commercial space legislation with the passing of the Spurring Private Aerospace Competitiveness and Entrepreneurship Act of 2015, which legalizes space mining. It specifically allows U.S. citizens to engage in commercial exploration and exploitation of space resources, including water and minerals.

My question is whether or not we have similar legislation provisions that would address the same issues, or whether the department would be dealing with establishing laws and regulations on space mining. I know that BDC deals with Canada and EDC with global, but perhaps you could just speak to that particular issue, please.

Mr. Sylvain Laporte: With respect to U.S. legislation and whether or not we have similar legislation here in Canada, the answer is no. With respect to a future desire to take on similar activities, it's currently not in our plans. As with most of my international colleagues, we use a UN committee that specializes in this kind of matter to look at regulating space from an international perspective.

Mr. Earl Dreeshen: That leads me to my second question. We have seen great growth as far as small satellite technology is concerned, and I would assume you would be engaged in that as well, as the cost to build and launch these satellites has got to be such that even smaller and medium-sized companies can enter the market and be players. I'm just wondering how closely they are working with the Space Agency to see these projects move forward.

Mr. Sylvain Laporte: To put any kind of asset in space you are required to go through a certification program. In Canada that is managed through our Global Affairs folks, in that department, to seek permission to actually put something into space.

With respect to the amount or volume of satellites going up, particularly if costs are going to come down, we, in the international community, have substantially increased our monitoring capability to make sure that we know where everything is once it's launched into space. We don't consider that to be something that is out of control, but certainly it is an area of concern with respect to potential future space debris.

Mr. Earl Dreeshen: You also spoke about precision farming. As someone involved in agriculture, I know how important that is.

I'm just wondering if you can give us a bit of a view as to how the Space Agency considers those important parts of industries that tie into the work that you do, and perhaps I'll then ask BDC if they look at these types of initiatives in a positive light.

Mr. Sylvain Laporte: With respect to those types of applications, we get access to, or provide space-based information for those purposes, and that is picked up by downstream businesses that actually build the applications using the space-based data. We don't get involved directly in terms of providing to farmers, for example, how they should look at various types of seeds for planting. From that perspective, we are one-step remote from that, so as long as the downstream businesses, the application developers, have access to the space-borne information, we're happy with that.

• (1610)

Mr. Earl Dreeshen: When it comes to things that BDC is doing for agriculture, can you give us a bit of an idea of how things are going, especially when we're dealing with these rather unique opportunities, as were mentioned earlier?

Mr. Michael Denham: Our direct lending to clients in agriculture is relatively low given the role that Farm Credit Canada plays in this space. Certainly there's lots of buoyancy in certain of these commodity markets. We do a fair amount of investing through our venture capital business in support of agricultural technology. Perhaps that's the best lens we would have on the agricultural questions. Jérôme could shed some light on our agricultural technology investments if you'd like.

Mr. Earl Dreeshen: Okay. Thank you.

Mr. Jérôme Nycz (Executive Vice-President, BDC Capital, Business Development Bank of Canada (BDC)): Agricultural technology is an emerging field for the VC industry and we're seeing some green shoots in the marketplace. We have a company out of Quebec City that combines cellular technology and smart irrigation that helps farmers use water and resources for their crops efficiently. That's backed by BDC as a co-investment and also by a Farm Credit venture capital fund in which we're an investor. That fund specializes

in supporting that type of technology across Canada, and we've made some good progress in that regard.

As digital technology makes its way through that industry, we'll see increased opportunities, particularly for managing resources and reducing costs for the producer. There's one fund that specializes in that, and there are a couple of companies that have done quite well.

Mr. Earl Dreeshen: Thank you.

The Chair: Thank you very much.

We're going to move to Mr. Masse.

You have seven minutes.

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

Thank you to our guests for being here today. We appreciate the presentations.

My first question is for the BDC.

What were your investments last year in support of the number of companies in Windsor?

Mr. Michael Denham: In Windsor we have 47 clients, and a total commitment of just under \$25 million.

Mr. Brian Masse: I appreciate that. That's around what I thought.

I often get a lot of companies coming to me saying that access to capital is one of the most difficult challenges they have, and they ask me what the BDC does. I've met with them several times and they're nice people, but I don't get any specifics because of client issues and so forth. What should I say to that business person who comes to me and asks me what the BDC does and what they have done in Windsor?

Mr. Michael Denham: It's a two-part answer. First, the comment you made around the challenges in getting access to financing is accurate. You may have seen the StatsCan data on this. We always analyze the extent to which loans are being approved by segment and subsegment of the population, and we look at the differences between mid-sized businesses and smaller business. The approval rate for larger businesses by the financial sector is 96%. For smaller businesses it's 81%. For women-owned businesses it's 79%. For immigrant-owned businesses it's 77%. For young entrepreneurs it's 72%.

• (1615)

Mr. Brian Masse: Okay, but that's not really a....

Mr. Michael Denham: It's just context, so the point around—

Mr. Brian Masse: I have limited time, so I'd just like to know quickly what I can say the BDC does when someone in my constituency approaches me about using the BDC services. I have to give a quick answer. I can't recite a number of statistics. What should we say to those individuals? We're hearing from our constituents that access to capital is a very intensive problem.

Mr. Michael Denham: Our role is to make sure that clients have access to capital, so what I'd say to a company in Windsor would be to approach us. We can make start-up loans, we can make subordinated debt loans, we can provide equity if they are looking for equity investments, and we can provide standard term loans. We look through their financials, their business case, and come up with the right financial solution for them.

Mr. Brian Masse: From that, is there a certain point in time when we can use examples? I meet with BDC, and no matter what, unless you decide to go public on something, it's very difficult to give specific examples from our constituency. Can we get that type of information coming in sometime? It's helpful when we refer to a local business that's willing to do this. We don't get that kind of communication.

Mr. Michael Denham: I agree. I mentioned two clients in my set-up, D-Wave and Louisbourg. We have permission from them to use their names publicly.

I can get you a list of clients in the Windsor area whom you can reference. One I have in front of me is Advantage Engineering. They have given us permission to talk about them and our relationship, and there's a longer list that I can get you.

Mr. Brian Masse: Is this something we could do on a regular basis, just get us a quick...? It's helpful when we're communicating. It becomes the case that people—I'm sorry, I don't want to seem negative on this—when they think of the BDC think of big, giant buildings in Ottawa. They don't necessarily see it on the street corner, or when coming into our office.

That's what I'm looking for.

Mr. Michael Denham: That's good. We can't disclose names unless we have permission, but when we have permission, we're happy to.

Mr. Brian Masse: Of course, even if we have a few examples that are modern, it just helps, because they don't feel as though they're going to some kind of faceless organization. They'll attach a local name to it.

I was interested in your statements regarding trade agreements. We've had trade agreements with Panama, Jordan, Liechtenstein, Colombia. Are those the trade agreements you're talking about, or is it future trade agreements? What are you talking about? How do you look at those trade agreements, and how do we measure how we're doing with them?

I know that often we have a trade deficit for many of our trade agreements. That seems to be the particular pattern we've had over the last decade. How do we work with that? How do we measure whether they are working or not for your organization?

Mr. Michael Denham: Here's what I'm hearing from our clients. These trade agreements have been signed, and for the average small business it's really hard to figure out how to take advantage of them.

We're trying—we're actually working on it as we speak—to put in place a very simple set of tools that will allow them to find out for their specific company or industry what new opportunities each trade agreement represents, both for those that have existed for a while and some of these new ones as well.

I think this is a big opportunity, because it's really difficult for these entrepreneurs to figure out how to penetrate Jordan, how to penetrate Chile and these other countries with whom we have trade agreements.

Mr. Brian Masse: That's really good to hear. I think one of the reasons we have trade deficits with many of those countries is that small and medium-sized businesses can't research whether Liechtenstein is going to take their product, but maybe there are some particular elements they would exploit if they knew, because there's lots of diversity happening with regard to it.

Do I have any more time, Mr. Chair?

The Chair: You have 45 seconds.

Mr. Brian Masse: Great. I'll quickly move over the Canadian Space Agency, then.

Thank you very much. I'll get back to you later.

I'll ask some more questions there, but concerning manufacturing, I was interested to see that you're six times more R and D-intensive than regular manufacturing. How do we then exploit that? Is this manufacturing happening in Canada, or is it being exported elsewhere? Are we able to do it in-house?

Mr. Sylvain Laporte: We were referring to what takes place here in Canada.

Mr. Brian Masse: Yes, it's on page 8 of your slide.

Mr. Sylvain Laporte: I'm not sure I caught your question, then.

• (1620)

Mr. Brian Masse: You claim that you're six times more R and D-intensive than total manufacturing in Canada. Is that separate? Is it inclusive of all? Is it mostly happening in Canada? Is it happening elsewhere in terms of your six times more R and D? Then, how do we exploit that in terms of increasing it?

Mr. Sylvain Laporte: These are Canadian facts, so it is about how companies in Canada that work in the space sector spend their money. They are more R and D-intensive than the average manufacturing sector. That is a Canadian perspective, for sure.

We've done that analysis. It's not a claim. We have facts to back it up.

The Chair: I'm sorry, Mr. Masse, we're way over.

We're going to go to Mr. Arya.

You have seven minutes.

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

My first question is for BDC. My personal experience is that the new manufacturing companies in Canada have quite a bit of difficulty in accessing capital. In this same room, a couple of weeks back, we had the federal economic development agencies, and we asked them if an entrepreneur comes in with a proposal to set up a new manufacturing company, what do they do? One of them bluntly told me, "No, we don't finance them". Tuesday morning I had discussions with two eastern Ontario development agencies: the Kingston Economic Development Corporation and the Quinte Economic Development Commission. They said the same thing, that access to capital for small manufacturing companies is quite difficult to get.

How many new small manufacturing companies have you supported during the last year?

Mr. Michael Denham: I don't know that. I'll have to take some time and give you the proper—

Mr. Chandra Arya: Please, can you give that to the committee?

I'll move to the Canadian Space Agency, which is a great thing. One of the statements you made is that Canada could be highly competitive in the next generation of disruptive technologies. For me, the key words are "could be highly competitive".

You also mentioned Canada is positioned to be at the forefront of commercialization. How much commercial exploitation have you achieved up to now?

Mr. Sylvain Laporte: In the particular context of my presentation, I'm referring to what's called new space. In new space, we have commercial ventures, and not government ventures, that are out there and looking at commercializing space. It brings about a totally different paradigm when businesses are contracting out for services in space than when a government agency is. With respect to positioning, Canadian companies have always done well in winning

Mr. Chandra Arya: I'm sorry, my context for the question is in your mandate. In the legislation that established you, it was mentioned the agency shall "encourage commercial exploitation of space capabilities, technology, facilities and systems". How much commercialization revenue have you achieved?

Mr. Sylvain Laporte: With respect to encouraging the commercialization, we have a number of programs that look at making some of the businesses more competitive, such as grants and contribution programs, and something called STDP, where a business can approach us and look for funding, so it can develop to position itself better to win a commercial contract.

Mr. Chandra Arya: Okay, I was thinking this would lead to some sort of revenue generation like some other countries are exploiting with their space technology. Am I incorrect in understanding that?

Mr. Sylvain Laporte: We don't generate revenue from that—

Mr. Chandra Arya: No, what I am saying is that you help commercialize the capabilities we have developed in the space sector. You're saying it's not your agency that does it, but that you help private industry.

Mr. Sylvain Laporte: If the technology is born out of grants and contributions work, then the industry, or the recipient, looks at

commercializing the goods themselves. If the goods have been developed through some kind of a mission-specific contract we have given them, in terms of developing their expertise, we open up the intellectual property and the data rights to make sure they can license the technology properly, and they can be well positioned to commercialize that technology.

Mr. Chandra Arya: Thank you.

Back to BDC, this will be a bit of an unfair question for this session because this morning the Auditor General submitted their report on the venture capital action plan. The Auditor General was quite critical that the government chose a fund manager even though the firm did not respond to the call for expression of interest. The Auditor General also noted BDC was actively involved in managing the process of evaluation of potential candidates.

Why do you think a manager who did not respond was selected? That's number one.

Number two, the Auditor General also stated that no feedback was given to the applicants who were not chosen. Can I have your comments?

• (1625)

Mr. Jérôme Nycz: Thank you for your question.

BDC's role in the program is as a program manager. The selection process was run out of the Department of Finance with Industry Canada, and using an external panel. Questions related to the selection of the funds of funds would be best directed to them.

In terms of the performance of the fund and the economic impact of the fund, we could—

Mr. Chandra Arya: The Auditor General said that BDC followed its investment procedures in its evaluation of potential candidates throughout the process. That's number one.

The AG also reported no feedback. I guess that should be for the ministry of finance, in terms of why no feedback was given to the managers who were not selected.

Mr. Jérôme Nycz: Yes.

The selection process was run by the Department of Finance. The funds that were selected were referred to BDC, and we did apply our criteria that we use for funds investment and fund of funds. We went through the due diligence, the evaluation, the team assessment, and the likelihood of being able to deploy the capital in the fashion that the program requires. We went through the standard board approval process.

Once we got referred—

Mr. Chandra Arya: It means that you just went after the fund manager was selected.

Mr. Jérôme Nycz: That is correct.

Mr. Chandra Arya: Okay, thank you.

The Chair: Thank you very much.

We'll be moving along to Mr. Nuttall. You have five minutes.

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

Through you, Mr. Chair, to BDC, first I want to say thank you for coming to my office previously and discussing some of my concerns. For some of the things I think I found resolution, and for others I would agree to disagree.

Going through the financial statements, a few things stuck out to me, the first being on page 20, which talks about the performance against objectives. It says:

The consolidated net income of \$490.7 million was \$172.4 million more than the corporate plan objective.

When I work backwards on that, we have a 54% variance from plan. I know you would probably think, we have a Conservative MP asking about doing better than expected in terms of return, and that's a great thing. I actually believe the opposite. I think your organization is there to provide capital to invest in the marketplace where others can't necessarily compete.

When we are seeing that type of positive variance from plan, it would also suggest that perhaps we can start allocating dollars into areas that are more risky. Can you quickly tell me—maybe a 45-second to a minute-long answer—how we got to a 54% variance from plan?

Mr. Paul Buron: As you know, variances are mainly explained by two factors. The first factor is in trying to assess a year in advance, when we do the budget process, what the provision for credit losses will be, which is a good reflection of the health of our clients, of the entrepreneurs in Canada. I guess their financial situation was better overall than what we had anticipated, and their results were better; therefore, the provision for credit losses was lower.

Also, in our activities, we need to take into account that we have quite volatile investments. I am referring to the venture capital side of our business, where we do a fair value of our investments on a regular basis. Twice a year, we do it completely, and every three months we do an overview to make sure that we represent fairly their valuation in our portfolio.

As you know, these investments tend to vary a lot and to fluctuate a lot, depending on their results. All of them are early-stage or start-up companies, and their results vary a lot; therefore, the fair value will vary a lot. It is very difficult to assess.

• (1630)

Mr. Alexander Nuttall: I completely understand that. My background is in commercial banking, and I get where you're going with that. However, I would also say the variance between your highest venture capital loss and your last year, which was your gain, is about \$70 million in the last five years, and we have a \$170-million variance planned. Personally—this is feedback—that's nothing that I want to see. I would like to see those dollars going to places where they are higher risk, where they do create more jobs than perhaps otherwise would be, because those organizations can obviously move into a different space in terms of financing.

I have to be quick, I apologize. Hopefully I'll get more questions.

On page 113, it says “set performance targets and monitor progress”. First of all, I want to commend you because you actually outlined what your targets were and where you were based on plan. We don't see that a lot in government, so I commend you for doing that.

Can you make public what your targets are for this year in advance? Is it possible to get either twice or three times or quarterly results on where we're at on that? Or is that information that we consider to be of a competitive nature?

Mr. Michael Denham: I started in August. This is my first time through the cycle, but all this is in our corporate plan and corporate plan summary, which I think should be approved before the summer. It's all available through there, with the explicit targets we've set for ourselves for this year and beyond. I think that should give you the information that you've....

Mr. Alexander Nuttall: Therefore, I'll know the targets in advance. It's wonderful to be able to see what we did last year, but it's also great to be able to understand where we're hoping to go, and with your organization, those measurements will hopefully align with your overall—

The Chair: Thank you very much.

Now we're going to go to Monsieur Arseneault.

[Translation]

You have five minutes.

Mr. René Arseneault (Madawaska—Restigouche, Lib.): Thank you, Mr. Chair.

I am going to share my time with my colleague, Mr. Fergus. I am going to give him the floor now.

Mr. Greg Fergus (Hull—Aylmer, Lib.): Thank you very much, Mr. Arseneault.

I am asking for my colleagues' indulgence. I asked to speak first because I have to leave in a few minutes.

I have a question for Mr. Laporte and the Canadian Space Agency.

First of all, thank you very much for coming to meet with us. I had the pleasure of visiting your facilities near Montreal and it was one of the best experiences of my life.

You emphasized the fact that, when calculating its costs and its budget, the Canadian Space Agency will develop a framework for investment. Your organization will not be alone in conducting research or developing tools. You are doing so in partnership with the private sector. That can generate economic benefits down the road, especially in the areas of robotics, as you mentioned, and the vision system. We know that NASA is looking at investing more in the exploration of Mars or the moon.

If you had a bigger budget, which areas do you think that Canada could invest in to develop expertise, not only to facilitate those explorations, but also to produce economic benefits here on earth?

Mr. Sylvain Laporte: Thank you for your question, Mr. Fergus.

It is an excellent question and it reminds us of the extent to which some aspects of space exploration can be a source of inspiration.

If I understand the intent of your question correctly, you are talking about human exploration and not about investments in order to make more communication satellites as is being done in the North. You are asking me what we would do with more money. We have a long list of projects that we could consider, of course. You talked about the moon and Mars. So let me stick to that part of our universe.

NASA has made public its plans for lunar and Mars missions. The American agency has a lot of studies to do before it can go to Mars, for example. However, working in partnerships, scientists could make a lot of technological and medical discoveries when a space station is built on the moon. They could then use the research and discoveries made there to eventually develop the technology necessary to take humans to Mars, or at least into Mars orbit.

As for Canada's role in that, we have internationally recognized strengths that could make a contribution to missions of that kind. We have done a huge amount of research in robotics and vision systems, and medical research too. Canadian university researchers have made amazing strides in areas like neurology, oncology and human aging, thanks to experiments done in space. Who knows what simply unheard-of possibilities the moon could provide for partners working on medical discoveries that could be used on earth?

In terms of investments, Canadian industry is certainly interested in perfecting its technologies so that it can grow because of those possibilities. We also cannot overlook the human aspects of medical research and the possibilities for major investments

[English]

in outer space,

[Translation]

in deep space, as they say. We are expecting very productive discoveries that will greatly benefit humankind. If we had to choose an area for investment, rather than in all areas without exception, it would be to work with Canadian industry on technology. That would be an investment in the economy. However, investments in medicine in order to cure some of the problems affecting humanity would be also very attractive.

•(1635)

[English]

The Chair: You have 30 seconds.

[Translation]

Mr. René Arseneault: Mr. Chair, let the record show that I would like to express my thanks to my colleague for his generosity. I only have eight seconds left.

Voices: Oh, oh!

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

Mr. René Arseneault: I will ask my questions in the second round.

[English]

The Chair: Mr. Lobb, you have five minutes.

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

BDC, thank you for coming.

What rates are you charging borrowers at this time? I'm sure there's a variation on rates and a variety of rates, but could you tell us the range and the average rate for this period?

Mr. Paul Buron: The rates always vary depending on the risk we are taking. For every transaction we assess the risk not only of the transaction but the client. We put that together and we define the risk, and based on market data we define what premium we should be charging. It depends on the risk, but as a base I can say that the average we charge the client is prime plus 2%, so that gives you an idea of where we are today.

Mr. Ben Lobb: You guys are doing prime plus 2%?

Mr. Paul Buron: The prime rate plus 2% would be the average we are charging customers.

Mr. Ben Lobb: On a regular basis, would you be communicating strategically with the chartered banks and the credit unions and so forth to make sure that BDC is maintaining its place in the marketplace and is not overstepping on too many occasions what the credit unions and the banks are trying to accomplish?

Mr. Michael Denham: Yes, at a working level we have those discussions, and then one thing that I made a point of doing since I started was to sit down with each of the chartered bank CEOs and the credit unions and have the discussion around our role. I wanted to make sure that they see us and are acting with us in a complementary way.

•(1640)

Mr. Ben Lobb: If you were going to rate it, with one being not so great and 10 being great, with the current thoughts and feelings of the banks and the credit unions, where would BDC lie right now, as far as maintaining their space in the marketplace is concerned?

Mr. Michael Denham: From the perspective of the banks and credit unions, they'd probably give us an excellent number, but from what I heard, probably 8.5 or 9. We're doing 2,200 transactions per year partnered with financial institutions and others, many of them pari-passu loans and asymmetric loans. They view us as a real partner when they have issues around single-name exposure and what have you. We're partners with them to advance the interests of their clients.

Again, just based on our role, we're not doing operating lines or lines of credit. By definition, every client with whom we're active has a bank or credit union. In every client situation we're working side by side with another financial institution.

Mr. Ben Lobb: I have a couple of other questions, if time permits.

In your opening statements you may have talked about this a little bit, but could you explain the idea of working with EDC as an SME grows and wants to expand their business and insure their receivables and do all the stuff that they do? That would be one question.

Another one, which I've talked to other businesses about, concerns lines of credit. In some businesses, when you quote for a job you have to get a bond to basically back up that you're going to be able to do the work and not go broke or whatever. For some businesses, if they're in the small range, it's very difficult, because they have to get a line of credit, and sometimes it's just not doable. You can do the work and you can complete the work, but you just can't meet that covenant, either a line of credit or being able to get a bond for \$300,000 or \$400,000 or \$500,000.

Is that something that you do? Is it something that you would look into doing to try to help those small and medium-sized businesses grow?

Mr. Michael Denham: I'll answer the first, and Jérôme will handle the second.

On the first one, concerning the EDC, I think it's important for Canada to have more SMEs exporting, and 18% of our clients currently export. We work very closely with the EDC. We have the reach—we're in the field, we have 2,000 employees, 45,000 clients—and we're trying to work with them to make them aware of opportunities to export.

To make sure they are competitive so that they can succeed while exporting, in terms of export readiness, we have them pinpoint specific market opportunities to go outside of Canada. Then, as they work towards that goal, there's a natural hand-off to EDC for the insurance, the lines of credit, etc. We are trying to work hand in glove with EDC to help clients from step one right through to being a successful exporter. We work very closely with them at a senior level and also location by location.

Do you want to talk about the bonding issue?

Mr. Jérôme Nycz: Yes. Thank you.

You are right. It is harder for smaller companies to qualify for a project and to be able to perform according to specs. There are few providers in Canada of bonding for SMEs. One of the ways we've provided some support for these companies is to provide working capital with flexible repayment terms, so that the repayment is matched with the payment on that project. You can have a holiday on repayment of two, three, four years on the capital, depending on the size of the project, and then companies are able to do cash flow sweeps and repay us, if they get their payment in advance. We address that need via the growth and transition team, and we're pretty active in helping these companies be able to qualify and then able to deliver on those projects.

I know EDC is quite active on the international front. They help SMEs bid on international projects in that regard.

The Chair: Thank you very much.

Mr. Jowhari, you have five minutes.

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

Thank you to both groups for a good presentation.

I'm going to pick up where we just left off. The first question is going to go to BDC.

It's great that you focus on innovation, productivity, and exports, specifically with the SMEs. As they grow and as they scale up, the focus becomes one on exports, especially in the emerging markets outside of Canada.

Can you expand on saying at what point the hand-off happens between BDC, EDC, and the financial institution? I see those three as a three-legged stool for SMEs as they grow, and it's a natural transition, but right now I'm not sure how clear that transition is for many small businesses.

Also, what do they have to do to ease that transition?

● (1645)

Mr. Michael Denham: I agree with you.

As a bit of a way to bring this to life, we had a meeting with our board last week, and we had five clients come to speak to us before dinner. One of our clients, a company called the Konrad Group, gave advice to the board. It said that when BDC sits in with a client initially, and they map out the financial plan, it should be in a four-way discussion between the client, BDC, EDC, and the chartered bank. For clients serious about growing, you need those three organizations to work together. That was great advice from our client.

We're going to make sure we do that for those companies that are getting organized to seize export opportunities. It's complicated for SMEs. Each of those entities needs to play a role, and we have to make it easier for SMEs to work with those three institutions together.

Mr. Majid Jowhari: Specifically on the financing side, some of the financing is going to be in place as they grow, and they need to move into and leverage some of the financing and insurances available through EDC. What are the thresholds? At what point is the decision made to bring in EDC? At what point is the decision made to bring the financial institution into the process?

Mr. Jérôme Nycz: Thank you.

I can add some colour to the comment.

It's not a threshold as much as it's the purpose of the financing. If the purpose of the financing is to buy a competitor in another jurisdiction, then it could be either through use of equity or debt financing. If the purpose is to have working capital, that's another good example of working with EDC, where they can insure the export and we can finance the working capital. It's a collaboration of where the skill set is best addressed.

Growing companies in Canada, as they expand abroad, is difficult in terms of knowledge of the market. BDC is very hands-on in helping to do a diagnostic on export readiness. We can provide working capital so companies can buy advice, and term lending so they can scale up in terms of machinery and expand their facilities. As they generate sales, EDC can come in and present the financing.

In some cases, we've been able to work with—

Mr. Majid Jowhari: Sorry, I have about a minute and a half. I'm watching, because the chair is going to cut me off.

I have one more question. It's not as strategic. Its more local.

I represent Richmond Hill. Last year, the BDC office in Richmond Hill was closed. It moved to a neighbouring riding. I'd like to understand the criteria used when making a decision to move a BDC office from one location to another location.

Mr. Paul Buron: We have a mapping of where the entrepreneurs are, and it's across the country. We tend to move our business centres where there is a concentration of entrepreneurs. It's as simple as that.

Mr. Majid Jowhari: In this case, the concentration of entrepreneurs in that riding was less than in the riding you moved it to.

Mr. Paul Buron: Yes.

Mr. Majid Jowhari: Okay.

I still have 30 seconds...? I'll keep that and bank it.

The Chair: No banking allowed.

Mr. Majid Jowhari: Okay. I'll give you 30 seconds then.

The Chair: Can I be generous and give them to Mr. Masse?

Mr. Majid Jowhari: Absolutely.

The Chair: Mr. Masse, you have two minutes and 45 seconds.

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

Thank you to my colleagues.

I am interested in following up with BDC.

With regard to your clients that make it through the development stage and then work toward exporting—which is good, we were mostly built on exporting—do we have any statistics in terms of what happens to them as they grow larger? We know what happens to the failures. They just fail, or maybe they turn into something else if they were experienced.

Do they remain Canadian? Are they bought out? Are they sold out, and to whom? What's the net benefit for Canada and for Canadians for fronting the risk? I understand there's a give and take in this. I'm interested in that because I do get asked that from time to time.

Mr. Michael Denham: I can't do it justice now, but there is some research we've done on this topic on mid-sized firms, which are companies that are in the 100 to 499 employee zone. What has happened over time, especially in manufacturing, is a number of Canadian companies in that size segment have shrunk dramatically. The research lays out some of the root causes and reasons for that.

It's an issue for the country. Disproportionately, innovation, R and D, exports, etc., come from companies that size. It's something we're focused on, and we can go through the number of initiatives we've put in place to help reverse that trend and help companies not just scale up, but scale up and stay Canadian.

• (1650)

Mr. Brian Masse: Is that something you'll be able to provide by the end of our study, which is going to carry over to the fall? It would be critical. What we're looking for are answers for these types of questions and how we prevent that from happening. Maybe there's some of it you can't prevent, and maybe there's some of it we could, but from my perspective that would be interesting. One of the

reasons we're committed to the study is to solve those problems. It might be a different role of assistance for BDC. It might be looking at those suggestions internally, but also it might be external to some of the other supports we have out there that aren't reaching their full potential through the BDC clients.

Mr. Michael Denham: We're happy to share the research. We just updated the data, and once that's complete we'll share that with the committee as well.

Mr. Brian Masse: That's terrific. Thank you for that.

The Chair: Thank you very much.

Mr. Brian Masse: I'm done...?

The Chair: You're done.

Mr. Brian Masse: Thank you to my colleagues because we wouldn't have had that chance.

The Chair: Where we stand is that we have enough time for a round of seven minutes each with a couple of minutes left to spare.

Mr. Baylis, you have seven minutes.

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

My first question is for BDC. Your mandate is to fill out and complete services from the chartered banks and not to compete with them. In terms of the new economy.... Let's say I show up as a manufacturer, I understand that you'll take a bigger risk, but to lend money to a manufacturer, I don't want to say it's easy, but it's more standard. What machine are you buying? What is this and that? Maybe they're a little more shaky and the banks aren't going to take them, so you take them.

What are you looking at for the new economy? There's such a challenge. A guy shows up, and he has the new Facebook, and we say, "Well, forget about it. There's nothing here." Are you doing anything along that line to even attempt to deal with it, and if so, what is it?

Mr. Michael Denham: You look at start-ups and knowledge-based industries that don't have the assets for security. You look at the StatsCan data I was citing before. They have a big issue around loans not getting approved, so you're focused on the right issue.

We have some lending algorithms that allow us to lend to these companies in a way that doesn't require an asset as a security. We could lend based on projected cash flows. We could lend based on the size of the loan, or on the personal credit rating of the individual involved.

We recognize that's a key segment underserved by the commercial banks, and we need to play a role to make sure these folks get access. We have different lending tools in place to allow us to do that.

Mr. Frank Baylis: How are you doing with that so far? Those have to be shaky, risky things. First of all, what do you do? Do you assess the entrepreneur? What are you doing there?

Mr. Paul Buron: As Michael just said, we gather some data, we assess the risk, and we do lend money. We follow these smaller loans on a separate portfolio. We follow the portfolio to make sure we meet our objectives.

So far this is more risky, and we know it. The results are according to our expectations.

Mr. Frank Baylis: I would like to have some drill-down on how it is going so far for these loans without any capital assets to protect them. It would lead into my next question going to Jérôme, which is VC money, because I guess you would tell them, “Go see Jérôme.” Is that right? “We’re not going to lend you the money, but he’ll give it to you.”

You mentioned that it’s the biggest fund in Canada, the BDC fund.

Mr. Jérôme Nycz: We’re the most active VC investment in Canada. We finance directly companies and technology firms through three internal funds: one in IT, one in life sciences, and one in industry, energy, and clean tech. We have three internal teams doing direct investment.

We’re also an investor in funds. We support 56 private sector independent funds throughout Canada from coast to coast. Some of them are smaller funds like Version One in B.C., and some of them are a bit larger funds like Georgian Partners in which the ambition is to have a \$250-million to \$300-million fund. It’s a broad spectrum investment indirectly.

We also support the smaller initiatives through our contributions in the accelerator programs. We support 13 accelerators across Canada. We support them in being able to help them set up a direct accelerator, but also the graduate of the accelerator will provide a \$150,000 convertible note for an IT company, \$250,000 for energy for clean tech, and \$500,000 for life science companies.

We cover the broad spectrum of the offering in several sectors either directly or indirectly through the fund. We try to address—I know it was mentioned before—some emerging sectors like ag tech, and clean tech, and so forth.

• (1655)

Mr. Frank Baylis: In that light, as well, could I see statistics, specifically on your three core areas? You said you have med tech, IT, and clean tech. You have a large pool of money. What portion is targeted for those?

Mr. Jérôme Nycz: Yes, we can make those available.

Roughly, the ICT sector is the bulk of the sector in Canada, so that is roughly about 65% of the investment. Then the rest is spread out. That is in line with the fund we support, as well.

Mr. Frank Baylis: I will move on to the Space Agency.

My riding is Pierrefonds—Dollard. It is on the western island of Montreal, so obviously this is a hub for space and aerospace. MDA is there, and I have met with them. They have underlined to me that Canada is falling behind in its position in space development. Would you say that is correct?

Mr. Sylvain Laporte: It is hard to categorize such a statement without the context.

Mr. Frank Baylis: They had statistics saying that our economic footprint was, say, third in the world and now I think they mentioned it’s down in the twenties or something. Their critique was that the government was not investing enough and did not have a cohesive plan for the space industry. Can you speak to that?

Mr. Sylvain Laporte: The CSA, like many other departments, has had to go through quite a number of economic updates and reviews of its budget. Our A-base went from \$300 million down to

\$260 million, so there has been less money with respect to spending on space. That is something we have seen in other countries as well.

However, we do see some patterns now where quite a number of countries are investing more heavily in their space programs. Canada is not quite there yet with respect to that.

Mr. Frank Baylis: We would be falling behind those other countries now. Is that correct?

Mr. Sylvain Laporte: With respect to the standings of three to whatever, we would have to look at exactly what they are claiming, in terms of third on what scale. Generally speaking, if we are talking about similar types of scales, going from top five to 10 or 12—depending on the ranking there—would be something I would be comfortable in saying would be some lost ground. If that was their perspective, that we are falling behind, then yes.

When the government is one of your key customers, any budget cuts to a space agency will result in less business. That is a fact. Our budget was cut. If that was their premise, then I would agree with that statement.

The Chair: Thank you very much.

We go over to Mr. Nuttall for seven minutes.

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

Perhaps I can pick up with BDC where Mr. Baylis left off. In talking about the new economy—we were speaking previously about the sharing economy—one of the things we have seen is entrepreneurs leaving Canada because they haven’t had the access to needed capital. One of the co-founders of Uber did that. I am using a large example. There are others, and maybe it is not fair to critique the market in this way. We also have securities commissions that are set up independently across the country.

Has BDC had any interaction either with those organizations or with FINTRAC, or whoever is putting the policies together regarding investments through equity crowdsourcing? Right now, in some places in the country it’s \$1,500 maximum per person, per company, per year, and a maximum for the company of \$1.5 million. We know that’s not a heck of a lot today. Has there been any discussion on your front? That may alleviate some of the stresses you go through in terms of your venture capital money.

• (1700)

Mr. Michael Denham: That is an excellent point, and this leads to the whole topic around fin tech, financial technology.

We are highly focused on doing whatever we can to increase options, liquidity, and access for small business, so we are looking at lending and providing some liquidity to some of these fin-tech lenders. We are looking at peer-to-peer lending. We are looking at equity crowdsourcing. We are frankly quite supportive of anything that will represent more liquidity, more options for small business.

I can’t comment on the FINTRAC discussion, per se, but as a theme it is something we are focused on, to use our liquidity to help get the ball rolling and then also to just provide some advice and the perspectives that we have in different jurisdictions to help advance some of these options.

Mr. Alexander Nuttall: Could I request a meeting with whoever is responsible within your organization for that, just to get more information on it?

Mr. Michael Denham: I look forward to it.

Mr. Alexander Nuttall: Thank you.

The last item I want to discuss is something I was able to discuss with your organization behind closed doors. I brought it up in this committee before, and now I want to go back and go over it a little bit.

I've had some concern in the past, as I look at the goal of BDC, when it comes to their entrance into the marketplace. My belief is that BDC is there to get the companies they're supporting, whom they're providing capital to, to the point at which the marketplace enters the discussion. One point brought forward was that you have to push up against where the charter banks and other lenders are in order, first, to push them to do better, but second, because you don't want to have a space in between.

Have any studies been done with the Competition Bureau to determine where we can do better in terms of getting out of that space, to leave it to the marketplace? Is that something you would consider doing?

I even heard last week of specific examples in which BDC is competing directly with lenders. Yes, you work very collaboratively with institutions, but there are also those times when the market can take over and BDC is still lending the money. I'd rather take those millions of dollars and put them into a company that doesn't have access to capital from banks.

Mr. Michael Denham: We're in 100% agreement with that role for BDC to play because it isn't appropriate for a crown corporation to compete with the head of the private sector, and as you say, it's inefficient use of resources to put resources, investments, loans to a certain place where the private sector can exist.

It's something we're always looking out for, both on a day-to-day basis as well as strategically. We make about 12,000 loans per year, so there will be some that frankly cross that line, if you will, in terms of being competitive rather than complementary. It's something we look out for. We have an ombudsman. We have quality assurance in place to restrict it.

The market is constantly moving. These financing options, especially with fin tech, are constantly changing. We're constantly looking at the marketplace and our role to make sure that we stay focused on being complementary and help by providing access where access doesn't exist.

Mr. Alexander Nuttall: Here is one piece of feedback I would give you, in terms of the ombudsman. If I'm a banker and I am lending money and running into BDC and there's competition taking place, it takes a pretty shady banker, if you ask me, to then report on their potential client with BDC and destroy the deal on the other side. Also, you're not going to have the client report on themselves to that ombudsman, when they're getting a better deal. They wouldn't destroy the competition to lower their price or to extend their terms or whatever it is.

I don't know how often you guys do this, but that's why I think a review and audit internally of those items makes a lot more sense. But I understand why the ombudsman is there and how they do their job.

Thank you for the presentation and thank you for answering the questions.

Finally, let me ask the CSA this. In the late eighties and early nineties we had some amazing programs: Canadarm, the Canada hand, Spar Aerospace at the time, then MDA robotics, etc. How do you see us, going forward, matching that type of innovation, which put us on the map throughout the world? We were still selling aggregates based on the original research and development of that product.

How do you see us getting back into that position, because it doesn't feel as though we're in that place anymore. It's not a five-year issue. It isn't a 10-year issue. It's probably 15 years since we've been at the forefront.

• (1705)

The Chair: Give a very quick answer, please.

Mr. Sylvain Laporte: I actually think that Canada is still very well positioned. We're still doing a tremendous amount of work out there, both through our industry and through academia, and we have maintained our international profile as one of the go-to countries for space. The future looks fantastic. We're very well positioned to keep if not grow our presence in space.

The Chair: Thank you very much.

Mr. Masse, you have seven minutes.

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

Thank you again for being here.

I see it a little different than Mr. Nuttall does. I think BDC exists because the private sector doesn't do its job. That's the way I view things. One of the concerns I have is that we're taking on high-interest loans. For any complaints I have about equity, most of it comes from getting to a bank, and to a credit union, and finding there are no options because you can't go any further.

In terms of your operations, do you charge service fees or similar fees to what the other institutions are doing? Is that part of it? Just go through the process and then.... Let's say a client does fail in terms of an application to the BDC, what do you provide the client at that particular point as they exit, when it's not workable for whatever reason?

Mr. Paul Buron: We do charge fees. We do tend to do what the market does. We do charge fees we believe are reasonable. We're dealing with on average small clients, so we do take that into consideration in everything we do. As we go, we apply the same practices as any other financial institutions in that regard.

Mr. Brian Masse: Is there any other referral you provide to somebody that cannot acquire BDC support for whatever reason? I'm not going to get into the hypothetical. What do you say to people, or where do you send them, or do you not send them anywhere? I'm curious as to what we should do. We do run into people who say they've tried different institutions, and we don't know where to send them at that particular point.

Mr. Michael Denham: We always try to help.

On the venture capital side, often the investments are too small for us, so we refer them to a local angel network for investment opportunities. On the lending side, if it's a small-scale loan, there may be some work the CFDC organizations can do. As these fin-tech lenders emerge, they tend to lend amounts of money to higher-risk propositions and higher-risk clients. We'll refer some of these clients to some of these new emerging lenders. We do our best to help rather than just say no.

To go back to your previous question, you had asked us about how many clients we have in the Windsor area, and I said 47. That's in Windsor west. I can get back to you if you'd like with—

Mr. Brian Masse: Thank you very much. I appreciate that. I'd like to see that. It would be nice to get either every half year, or every year, a quick local summary, and also if you can disclose who you're helping already. At any rate, it's helpful. I get the confidentiality agreements and so forth. That even happens when people walk into our door about different issues and feeling discomfort about public, or not public, and so forth. There are many reasons for that. I would appreciate that because it would be helpful to relay that on to other people during these questions that we get.

Moving over to the Space Agency—

How much time do I have, Chair?

• (1710)

The Chair: You have two minutes and thirty seconds.

Mr. Brian Masse: I'm going to be quick, so I can give back some of the time I got earlier. I have a quick question for the Space Agency in regard to some of your opportunities and challenges, and it focuses around the quote, “key niche technology in areas as a trusted and valued partner”.

I don't like the term niche; it could be something else. At any rate, is there any chance of escaping that and having a more significant role, and what would that take?

Mr. Luc Brûlé (Vice-President, Canadian Space Agency): Thank you.

It's always a matter of where we put our priorities.

In our case, we do have niche technologies we want to nurture, but it does not preclude us from looking at other technologies. We're very R and D intensive. We're working closely with industry. We have an excellent grants and contribution program that can help in working with industry to develop other technologies. We also need to nurture those ones that are important to us.

Mr. Brian Masse: No, I get that, but if you're talking here and your opportunities are in niche technology areas and you have trusted and valued partners, what do we need to do to escape just

being an add-on to something versus being that something? If we have the ambition and the support to do so, how do we become more than just an add-on or a niche?

I'll let you think about it and I'll spend my time over there. It's nothing that's urgent. It's just a question of how we get bigger and broader, that's all. Maybe you can answer that in a quick email to me. I'd be interested in knowing how to get there.

The Chair: The last question goes to Mr. Arseneault.

[*Translation*]

Mr. Arseneault, you have the floor for five minutes.

Mr. René Arseneault: Thank you, Mr. Chair.

My question goes to the officials from the Business Development Bank of Canada.

The words “Business Development Bank of Canada” implies economic development. Clearly, economic development challenges vary depending on whether we are dealing with a rural region, an urban region or a major city. How does the Business Development Bank of Canada respond to those challenges, in your opinion?

Are the rules, the criteria and the relationships with entrepreneurs different in rural regions compared to what they are in major cities? When I say criteria, of course, I mean the criteria that provide access to funding.

Mr. Jérôme Nycz: Thank you for the question.

If you look at the BDC activities, you will see that our market penetration rate is very high in some regions. For example, in the Atlantic region, industry has been transformed. There was a lot of fishing and a lot of petroleum exploration. So you can see that financial institutions were very active in some periods and less active in periods of economic slowdown.

The BDC has maintained a strong presence in the region. In Newfoundland and Labrador, for example, our participation rate is about 13% or 14%, when the national average is about 3.8%. BDC activities show that our presence is strong when, for example, a town has a major employer and the economy gravitates around that employer. It may be that a plant needs equipment, but since it is what is called a single purpose entity, its market value is less than it would be in a region with more density.

The BDC is very active in funding projects of that kind and in assessing risks according to the industry characteristics. The financing that we provide is perhaps more long term in nature. We finance a larger part of the assets in order to stimulate economic activity in those regions. The companies therefore have working capital in order to support their growth and to face the challenges that are inherent in being established in a remote region.

The BDC has a greater impact in less densely populated regions that are less well covered by other financial institutions. That is really our role in development and we are really committed to it.

•(1715)

Mr. René Arseneault: You mentioned the Atlantic provinces, but, if you have time, could you send us an email with statistics like you gave us about Newfoundland and Labrador? You were talking about a penetration rate of 13% compared to the national average, which is approximately 3%.

Is that correct?

Mr. Jérôme Nycz: BDC's penetration rate for Canada as a whole is about 3.5%. In Newfoundland and Labrador, it is 14.9%. That is one example, but we could give you others.

Mr. René Arseneault: I am happy to hear that.

Actually, I was a little concerned to hear you tell our colleague, Mr. Jowhari, that you had moved your offices to where there is a greater concentration of entrepreneurs. We know very well that there is practically no concentration like that in the Atlantic provinces.

Mr. Jérôme Nycz: Correct.

Mr. René Arseneault: You have been asked a number of questions about that, but I would like to come back to the BDC's role, which complements the role of the banks.

How would you describe that complementary role with a word or two, or with an image? How is the Business Development Bank of Canada different in that respect?

Mr. Jérôme Nycz: First, we are distinct because we are a patient lender and we have no recourse to short-term assets. We fund

projects on their merits and the merits of the company, not necessarily because of the entrepreneurs' personal assets.

Second, we often take on a higher share of the risk than a bank does, and we charge accordingly. Our repayment conditions for loans are more favourable. That means longer terms and more flexible repayment options. In addition, if a company gets into difficulty, we can allow entrepreneurs to defer the repayment of the capital so that the company can get back onto its feet.

Mr. René Arseneault: Do I have 20 seconds left, Mr. Chair? Not even five seconds?

That will be all. Thank you.

[English]

The Chair: That's a good answer and that concludes that.

Before I whisk you off there were a lot of requests for documentation and so on. Could you please have everything forwarded to the clerk's office so that we can distribute to everybody?

I'd like to thank you all for coming today. It was a great question and answer session. Have a great day. We're going to suspend for three minutes.

[Proceedings continue in camera]

Published under the authority of the Speaker of
the House of Commons

SPEAKER'S PERMISSION

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

Also available on the Parliament of Canada Web Site at the following address: <http://www.parl.gc.ca>

Publié en conformité de l'autorité
du Président de la Chambre des communes

PERMISSION DU PRÉSIDENT

Il est permis de reproduire les délibérations de la Chambre et de ses comités, en tout ou en partie, sur n'importe quel support, pourvu que la reproduction soit exacte et qu'elle ne soit pas présentée comme version officielle. Il n'est toutefois pas permis de reproduire, de distribuer ou d'utiliser les délibérations à des fins commerciales visant la réalisation d'un profit financier. Toute reproduction ou utilisation non permise ou non formellement autorisée peut être considérée comme une violation du droit d'auteur aux termes de la *Loi sur le droit d'auteur*. Une autorisation formelle peut être obtenue sur présentation d'une demande écrite au Bureau du Président de la Chambre.

La reproduction conforme à la présente permission ne constitue pas une publication sous l'autorité de la Chambre. Le privilège absolu qui s'applique aux délibérations de la Chambre ne s'étend pas aux reproductions permises. Lorsqu'une reproduction comprend des mémoires présentés à un comité de la Chambre, il peut être nécessaire d'obtenir de leurs auteurs l'autorisation de les reproduire, conformément à la *Loi sur le droit d'auteur*.

La présente permission ne porte pas atteinte aux privilèges, pouvoirs, immunités et droits de la Chambre et de ses comités. Il est entendu que cette permission ne touche pas l'interdiction de contester ou de mettre en cause les délibérations de la Chambre devant les tribunaux ou autrement. La Chambre conserve le droit et le privilège de déclarer l'utilisateur coupable d'outrage au Parlement lorsque la reproduction ou l'utilisation n'est pas conforme à la présente permission.

Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante : <http://www.parl.gc.ca>