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Chair

Mr. David Sweet

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•(0845)

[English]

The Chair (Mr. David Sweet (Ancaster—Dundas—Flamborough—Westdale, CPC)): Good morning, ladies and gentlemen. *Bonjour à tous.*

Welcome to the 30th meeting of the Standing Committee on Industry, Science and Technology. Today we're going to be looking at portions of the budget implementation act that were referred to us a couple of weeks ago.

And we have three organizations with us. I think it's just three witnesses as well. From the Canadian Manufacturers and Exporters we have Martin Lavoie, who is the director of policy; from The Conference Board of Canada, we have Glen Hodgson, senior vice-president and chief economist; and from Futurpreneur Canada, we have Julia Deans, chief executive officer.

I'll follow the order that's before me.

So, Mr. Lavoie, I think the clerk has advised you to try to stay within five minutes for your opening remarks.

Please proceed.

Mr. Martin Lavoie (Director of Policy, Canadian Manufacturers and Exporters): Thank you, Mr. Chair.

[Translation]

Mr. Chair, members of the committee, thank you for inviting me, once again, to appear before the Standing Committee on Industry, Science and Technology to speak to Bill C-43. I was asked to comment on the sections pertaining to the Business Development Bank of Canada.

[English]

Before I begin I'd like to say a few words about my organization. CME represents about 10,000 companies nationwide. We're Canada's largest trade and industry association. More than 85% of our members are small and medium-sized enterprises, and we represent every industrial sector and every export sector of the economy.

Despite the loss of jobs in the sector in rough times during the financial downturn, of course, manufacturing remains the industrial sector with the highest economic multiplier. Every dollar of value created by manufacturing companies leads to close to \$3.50 of direct and indirect benefits in the economy. Manufacturers account for over half of business investment in R and D, and we also represent about two-thirds of all Canadian exports.

As you can imagine, manufacturing is characterized by its heavy dependence on capital. While you can invent a new software on your laptop in your basement, you will be limited doing mass production in your garage. The access to financing is crucial, not only to start new companies, but also to finance the growth of the manufacturing companies.

We believe that all financial institutions have an important role to play for manufacturing to succeed. Chartered banks, EDC, BDC. In terms of BDC, our members who do business with them generally like BDC because they've shown an ability to be more flexible in the terms and conditions associated with their financing.

The support that manufacturers get from BDC is quite impressive. Twenty-two per cent of BDC's financing portfolio is in manufacturing. To give you an idea of scale, manufacturing represents 13% of Canada's GDP. All subsectors of manufacturing benefit from BDC financing. I think it reflects the importance of our sector for BDC, but also the capital-intensive nature of our businesses and the financial challenges that our members are facing.

One area that is becoming crucial to our members, especially SMEs, is support for their international activities. By that I don't mean financing exports because EDC is already taking care of that. I mean providing financing services to foreign affiliates of Canadian companies, for example. This is an important new role that BDC will be able to play. An increasing share of our members are looking to grow by investing abroad, either to buy market share by taking over competitors in foreign markets or by setting up operations overseas to sell into new parts of the world. It's important that those manufacturers who value BDC as a business partner can continue to count on their support as they move forward with their plans.

I'd like to end my remarks maybe by raising the importance of BDC and chartered banks working together, and not against each other. In our view BDC and the banks must act in a responsible manner when it comes to providing financial services. For BDC it means what they're offering must provide an alternative solution to the ones offered by the chartered banks, and they've been playing this role very well so far. For chartered banks it means they should not use BDC financing as a reason to reduce the credit available to companies. We can talk about that a bit further if you want, but we've heard some complaints from our members in the past with respect to the relationship between BDC and chartered banks and I'd be happy to talk more about that.

Thank you very much for inviting me today.

•(0850)

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

We'll now move onto Mr. Hodgson.

Mr. Glen Hodgson (Senior Vice-President and Chief Economist, Conference Board of Canada): Thank you, Mr. Chairman and members of the committee. It's a pleasure to be here. I spent about 20 years of my career at the Department of Finance and then at EDC dealing with financial crown corporations, so it's always fun to be invited back to that space. I know them far too well in terms of the government's capital structure operations.

It's a pleasure to be invited today to speak in support of the BDC amendments. I want to focus on two things.

First of all, there is the important role that the BDC played during the financial crisis in 2008. At the Conference Board, we wrote the only book I think written in Canada about the policy response to the financial crisis. I think Canada was very lucky to have the BDC and the EDC as policy instruments. Financial markets basically shut down after the financial crisis, and we had two powerful policy instruments—or even three, because Farm Credit also played a role—that we could turn to in order to fill gaps in the financial marketplace.

The BDC was asked to do some exceptional things. It was able to do so fairly quickly. I think that anything we can do in legislation to actually expedite that process... Because this won't be the last financial crisis we'll face. It may be the biggest that most of us will see in our lifetimes, but we know from academic research that there have been 200 financial crises under capitalism, going back 200 years. Smart governments have tools available to deal with a crisis when it happens, and the BDC is one of those policy tools.

Ultimately, the BDC is there to build capacity and add capacity to the Canadian financial system and to do it in a very smart way without really being a cost to the taxpayer. I think the BDC has made great progress in its evolution in being a very sharp policy tool.

The other point I want to make is that international business today—or business today—is built around what we call “global value chains”. In my time at the EDC I came up with a concept called “integrative trade”, that is, looking at international businesses and the integration of all the parts: exports, imports, investment, services, and goods. The value chain part is really key for the BDC because more and more Canadian firms have to find a way to fit into the global value system, where they can actually find markets and customers abroad as well as within Canada. It's very logical that capital from the BDC should be able to follow businesses as they try to expand their business model on a global basis. Therefore, the thinking around the amendments in that area I think is very logical.

There's a real difference between the EDC and the BDC and I'm glad Martin made that point. The EDC's strength is in evaluating foreign risk: the risk of foreign buyers and the risk of foreign markets. The BDC's strength is evaluating the operations of firms operating in Canada: growth firms and small firms. Giving the BDC the capacity to play a larger role internationally I think is a very logical extension of the act. Financial and crown corporations are constantly in evolution. This is really just another step in their evolution.

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

We'll now move on to Ms. Deans.

Ms. Julia Deans (Chief Executive Officer, Futurpreneur Canada): Thank you, Mr. Chair.

Good morning and happy global entrepreneurship week. My name is Julia Deans. I'm the CEO of Futurpreneur Canada which until May was known as the Canadian Youth Business Foundation or the Fondation Canadienne des Jeunes Entrepreneurs. We're the only national not-for-profit organization that's helped close to 6,000 Canadians, 18 to 39, launch businesses across the country. I'm very happy to have the opportunity to speak to you today in support of a proposed amendment in division 12 of Bill C-43.

This amendment will expand BDC's ability to support young entrepreneurs through not-for-profit organizations like ours. We have been co-funding with BDC for young entrepreneurs since 2008. With one application, a young entrepreneur can obtain a loan of up to \$15,000 from Futurpreneur Canada and a further loan of up to \$30,000 from the BDC. That's up to \$45,000 collateral free with just one application through Futurpreneur Canada.

We work really hard to make it easy for young entrepreneurs to work with us. We use as many of our resources as possible for the front-line programs and services we provide to young entrepreneurs. Our admin costs are about 7% of our budget.

The way it works is this. Futurpreneur Canada manages the initial relationship with the young entrepreneur applying for financing and we conduct the due diligence. BDC relies on our strong track record and our sound adjudication process when it looks at applications from young entrepreneurs who also would like loans from BDC.

Since 2008, we have had close to 1,700 young people take advantage of BDC's co-funding. Last year, 44% of our young entrepreneurs also secured co-funding from BDC, so it's on the rise.

I should note that since October, BDC has also provided all of the financing, that's up to \$45,000, for 34- to 39-year-olds. They might not strike you as young people but they are and they're often coming to entrepreneurship for the first time at that point. This is a really growing group.

Through this co-funding arrangement, BDC is able to help young entrepreneurs who are considered too risky to get mainstream financing. They're also people who are very hard for BDC to reach and who need a lot of extra support when they're starting their businesses.

The proposed amendment won't change this co-funding arrangement at all. It will, however, make it possible for us to help start more new businesses with less money from government. Right now, we raise money from governments and other sources to provide loans and services to young entrepreneurs. In the future, we plan to secure our loan capital from a private bank. This is a new relationship and so to start with, the private bank, while they get to know us, requires a guarantee. The proposed amendment will allow BDC to provide this guarantee. Given our loan repayment track record, there's a very low risk of the guarantee ever being called upon and BDC will price the guarantee accordingly.

This amendment will mean that the money we raise to provide services to young entrepreneurs will be leveraged to raise private sector money for the loan capital. This could be up to \$50 million of new money from the private sector going into the hands of young entrepreneurs in the next five years. It will also mean a reduced ask of governments and improve our future sustainability and our capacity to help grow more successful businesses in the future.

Thank you.

•(0855)

The Chair: Thank you very much, Ms. Deans.

Now we'll go in a rotation. Colleagues, you're going to have the luxury of five full minutes because the remarks were quite concise from all of our witnesses.

So, we'll begin with Mr. Lake.

Hon. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thank you, Mr. Chair.

And thank you to the witnesses today.

I'm really enjoying this. This BIA process is kind of interesting, to have different groups come before us an hour at a time and to learn some new things.

I'm going to start with Ms. Deans if I could. Could you use the opportunity right now to explain your organization to a young potential entrepreneur who doesn't know about your organization? How might you be able to help them, maybe in terms of a change in legislation and maybe in terms of what you do in relation to what BDC does?

Ms. Julia Deans: Let's say you're a young person with a great idea for a business. You probably are not one of the 10% who has a great business plan. You're going to come to us directly or through one of our 250 partners across Canada, youth-serving agencies or economic development agencies.

We're going to help you get your business plan in order. We have an online business plan writer that 30,000 people have used. It's amazing, if you know anybody who wants to start a business. We're going to get your business plan to a point at which you have a good cash flow for the first couple of years and we feel that it's sound. Then we can lend you up to \$45,000, \$30,000 of it from BDC, with this one application. You're not having to run around seeing lots of different people.

Before you get the money, you're going to be assigned a volunteer mentor, and you will have that person working with you for two

years. We have close to 3,000 volunteer mentors across Canada. It may be a restaurateur who is going to help you because you're a restaurateur. It may be a financier who's going to help you because you're an art gallery owner and don't have those skills. Then we're going to provide you with networking and resources and other things to help you get through your first five years.

If you don't have any collateral, we're not looking for that. We're looking for a good business plan and good creditworthiness. If at any time you want to repay the loan, we let you do that, which is novel as well.

I guess the final thing is that if things go wrong for you, which often they do, we don't punt you to collections. We call you and ask what's going on and how we can help you get through this period. It might be a case of changing the terms of your loan or giving you some advice that's going to help you figure out how to get your business back on track.

The end result is that generally in Canada, just under 50% of start-ups are successful after five years. Our success rate is 50% to 60%. These are young people with no collateral, and they repay their loans at a rate somewhere between 80% and 90%, depending on the year. That money then goes to help more young people.

Hon. Mike Lake: That's impressive.

Mr. Lavoie, I'm going to switch gears. I'm going to give you the opportunity to elaborate. You talked about the importance of BDC and banks working together, and earlier you said you might have more to add. I was making a note, because you sounded as if you might have more to add. I'm going to throw the ball to you and let you go with it.

•(0900)

Mr. Martin Lavoie: It's that transparent, is it?

First of all, one thing some members report to us is that they sometimes feel that their banker is feeling competition from the BDC. But in their view, the loans they get from BDC are very often their unsecured loans, and the bank was not interested in the first place anyway, so they don't understand why, from their banker's point of view, there seems to be this kind of competition going on.

We've heard from members in some cases, for example, that their banker had told them they had to disclose all their communications with BDC. On two occasions in the last six months I've heard companies saying that the bank told their client they could not take a BDC loan without the approval of the bank, which is new to me.

In many cases, what we hear is that when they take a BDC loan the bank would right away either increase the interest rate on other loans or would pull back certain loans within a certain period of time. I've seen as short as three months.

In their view it doesn't make sense, because by providing an unsecured loan, let's say to access new markets or just because they're growing their business, BDC is doing a favour to the bank. They're helping the company to succeed and to grow and eventually to repay their other loans.

I don't want this to sound as though it is based on a survey of some sort. Many of our members of course have good relationships with their banks, and they wouldn't call me to tell me that, but these are things that I hear. I don't know that I'm the right person to receive those complaints. Maybe there should be some kind of mechanism—I don't know whether it would be the bank's ombudsman or somebody else—to whom I could send those specific cases.

And I don't want to sound as if all the banks are like this, because sometimes they would change banks and another bank would act differently. But these are things that I keep hearing about: this kind of tension sometimes between chartered banks and BDC in the marketplace.

The Chair: Thank you very much, Mr. Lavoie and Mr. Lake.

[*Translation*]

Mr. Côté is next for five minutes.

Mr. Raymond Côté (Beauport—Limoilou, NDP): Thank you, Mr. Chair.

I also want to thank our witnesses for being here this morning.

I first want to bring up the fact that today's meeting is divided into two parts. The second part will be a discussion of recommendations to be proposed to the Standing Committee on Finance.

I think this is fairly disrespectful to our witnesses. At the end of the day, these are not optimal conditions, as there is no way to hold discussions outside this room before those recommendations are submitted. In any case, a committee normally has the privilege of proposing amendments.

Does it bother you to have to study amendments to the Business Development Bank of Canada Act as part of an omnibus bill and to come here when the committee has no power to make any amendments that would reflect your recommendations?

My question is for Mr. Lavoie.

Mr. Martin Lavoie: I haven't given that much thought this morning, but since you are raising the question, I will comment.

Over the past few years, I have often been invited to appear before a committee where discussions frequently concerned a much broader bill. I didn't know amendments could not be proposed. I personally have no amendment to put forward. I think that the proposed amendments are related to the 10-year-old review of the BDC, at the organization's request.

Generally speaking, I don't see why the committee could not issue recommendations.

Mr. Raymond Côté: Okay.

Our recommendations are one thing, but there is another problem. Unfortunately, the Standing Committee on Finance will be overburdened, as I saw when I was sitting on that committee. This makes the process terribly cumbersome, as well as questionable in terms of validity.

When it comes to amendments to the Business Development Bank of Canada Act, we could easily agree with certain aspects and potentially vote with the government. However, that will not be impossible, as any positive aspects are buried in the omnibus bill.

I will talk about the proposed amendments. I must admit that expanding the mandate related to the funding the BDC provides to support projects outside Canada has some merit. On the other hand, I am wondering whether this might not divert BDC funds that could otherwise be used for the Canadian domestic market.

I think Mr. Hodgson brought up the 2008 crisis. Although the BDC is definitely not at the level of major chartered banks, its counter-cyclical intervention to support economic activity is very significant.

Do you think this amendment could decrease the BDC's capacity to respond? Could it divert part of the BDC's funding to foreign markets?

• (0905)

[*English*]

Mr. Glen Hodgson: I guess I have two responses.

First of all, the extension of BDC's powers to extend credit beyond Canada's borders is the logical extension of Canadian business today. The world doesn't stop at our border. In fact, more and more we're integrated into a global economy. If we want our small companies that are growing to succeed in the world, we have to ensure that they have access to credit, frankly, wherever they go.

It's great to have a strong instrument like BDC available within Canada. Adding that power simply allows them to follow their clients, and ensure that their balance sheet and operations are always strong. I don't know how it would take away anything from their Canadian operations, in fact.

Here I'll draw upon my experience at EDC, where I worked for 10 years. We were given, on an ongoing basis, new opportunities to grow, new challenges, and you simply find the expertise you need in the market. EDC has to compete for talent in the private market, with the banks quite often, with private capital, with venture capital.

They don't take away any of their domestic operations; they simply add capacity. As a dynamic, organic organization, they're able to do that over time. As we were at EDC, it gives people a chance to actually build new skills as individuals and to really strengthen the fabric of the whole bank. I see it as a positive, organic process, adding capacity within the bank.

[*Translation*]

Mr. Raymond Côté: Thank you.

[*English*]

The Chair: Ms. Bateman, for five minutes.

Ms. Joyce Bateman (Winnipeg South Centre, CPC): Thank you very much, Mr. Chair. Thank you to all our witnesses for your testimony and for your support of the changes that are being proposed. It's very nice when people, who are going to be directly impacted by those changes, come to tell us that this is the right thing to do. It's very much appreciated.

I want to follow up on a few of the comments some of you have made.

To Ms. Deans first, you mentioned that you're not looking for collateral from youth; you're looking for a business plan and for good creditworthiness. If a young person of 22 has a brilliant idea and you're able to help them with a business plan, how do they demonstrate creditworthiness?

How do you assess that? I'm just curious. How could I help somebody to say, "This is what you have to do to succeed"?

Ms. Julia Deans: We use the same sorts of diagnostics that a bank would use, so we have a matrix. We look at their credit reports and things to see if they've had any issues. Unfortunately, you'd be surprised at how many 22-year-olds have blown their credit scores because of cellphone bills, gym, and things of that sort.

We're not worried about student loans and things, but things that really damage their creditworthiness because we do need the repayment. When we find that they have an issue, we often counsel them through that or get them help, so that they can restore their credit scores.

Ms. Joyce Bateman: Okay, I was just curious.

Ms. Julia Deans: It's not a huge percentage, but it's pretty sad how many people have found themselves in that position.

Ms. Joyce Bateman: That's very helpful.

You also mentioned in your remarks—I think you were answering Mike's question—how you work with regional development agencies.

How do you?

Ms. Julia Deans: I think I was referring to economic development agencies so that might be—

Ms. Joyce Bateman: Yes. Like where I come from we have Western Economic Diversification and FedNor, all of these groups. How do you work with them to make sure that your client doesn't get lost in the bureaucracy?

Ms. Julia Deans: Oh, no, they don't get lost; they actually get sort of an added bonus. If somebody walks into the enterprise business centre in the city of Toronto, they will say, "This is wonderful. Here are the things we can do for you, but you should also be talking to Futurpreneur Canada because you can get financing and a mentor and you can use their supports, and then we can help you with some things that are maybe Toronto-specific."

You have people working together, and we will pay a small fee to the agency that may be doing a lot of the heavy lifting with them on their business plan. We have that relationship with about 250 organizations across the country.

Then we have referral partners, which may be university placement offices. You're about to graduate and you say that you want to be an entrepreneur. They will say that you should go and talk to Futurpreneur Canada who can help you develop your idea and get yourself started. The relationship we have is defined in an agreement of how we're going to work together. The young person actually gets the benefit of our working together to help them.

• (0910)

[Translation]

Ms. Joyce Bateman: Mr. Lavoie, I am speaking to you.

[English]

I believe it was you who mentioned that BDC is here really to fill a gap. I was talking to a businessman just the other day, hearing a great story how BDC was the gap financing that they needed to succeed, and that was wonderful to hear.

In your remarks, you were very careful to say how you ensure that BDC doesn't ever encroach on the banks' role, which is great because, if we're competing with the private sector, why are we giving taxpayers' dollars to you? That's good.

I want to hear in your view how do...because everybody isn't bank-centric in this country. Where I come from there are a lot of credit unions.

How do you work with the credit unions to make sure that the BDC and the Export Development group work with and not against the credit unions?

Mr. Martin Lavoie: I've never heard stories about the unions. It's funny you're raising that. The concerns I raised that I heard from my members were all related to financial federal chartered banks.

Ms. Joyce Bateman: In western Canada not everybody goes to a chartered bank; they often go to credit unions.

Maybe Mr. Hodgson has actually heard of it. Would you like to weigh in on this?

Mr. Glen Hodgson: I'm a long way from the ground now so I haven't heard any stories about credit unions.

Ms. Joyce Bateman: Okay. I guess the point is that I think it's very important that we're filling a gap, and it's very nice to hear that you're taking care not to get in the banks' way.

The Chair: We'll have to leave that at the gap filling right at the moment and move on to Mr. Regan.

It's good to see you back, Mr. Regan.

Hon. Geoff Regan (Halifax West, Lib.): Thank you very much, Mr. Chairman. It's a pleasure to rejoin the committee at least for this morning and to see that it's engaging today in some industriousness. You will recall I had some concerns on that point.

The Chair: We're working assiduously here.

Hon. Geoff Regan: I'm delighted to hear that's been done, Mr. Chairman, and it's a joy to enjoy your chairmanship as well, may I say.

Thanks very much to the witnesses today for coming.

Let me start with Ms. Deans. I had the pleasure on Monday of participating in the program the "a day in the life of an entrepreneur". I want you to know I spent a good part of the day undercoating vehicles at House of Auto Details in Bedford, Nova Scotia. That's a plug for them. I can't take a commission for advertising, but I'm happy to support that local business in my riding.

Would you like to talk a bit more about the history of your organization and why you changed the name from the Canadian business youth foundation to Futurpreneur?

Ms. Julia Deans: You just sort of solved that answer because you said the “Canadian business youth foundation”. We had a name that was hard to say. It was actually Canadian Youth Business Foundation.

We had the name Canadian Youth Business Foundation, a different name in French, a different acronym in English and French, and some words that didn't mean a lot to the people we were dealing with. We help people who are 18 to 39, and not too many 33-year-olds see themselves as youths. “Youth” is a bit of a dodgy term. I don't know about you, but I used to think it was up to 18.

We aren't a foundation, and we sounded like we were a bank. In the past, we worked only through agencies, and now we are also more of a retailer; you can come to us directly. We wanted a name that made some sense to the people we help, and one that worked in both French and English.

Futurpreneur Canada speaks to the future. It speaks to entrepreneurship. When we tested it with the people we want to talk to, 18- to 39-year-olds, 88% said that this sounded like an organization that could help them and that it's about building entrepreneurship.

To us, that was a home run. We changed the name in May, and it's been brilliant. I'm absolutely thrilled. My team is lifted, but most importantly young people say “I get what you do”. It doesn't really matter what older people think; it matters what they think. And we're pretty excited.

• (0915)

Hon. Geoff Regan: I don't see “youth” as a dodgy term.

I see it more and more—

Ms. Julia Deans: Not dodgy—misunderstood.

Hon. Geoff Regan: —as an enviable term.

Some hon. members: Oh, oh!

I think the chairman agrees.

Ms. Julia Deans: We should have extended it to 70.

Hon. Geoff Regan: No, you have a great name.

Would you like to talk more about the amendments to division 12 that you began to speak about earlier?

Ms. Julia Deans: I understand that BDC is in a position now to give guarantees to for-profit organizations—and my friends from BDC can correct me if I'm wrong—but not to not-for-profit organizations. We have the track record that allows them to have a high level of comfort in giving a guarantee for this purpose. They understand our operations extremely well, as they are our co-funder. They can provide that guarantee on a basis that's cost-effective for us and doesn't mean pulling money away from young entrepreneurs.

Without the amendment, they are not allowed to make that guarantee, and that means we'd be leaving \$50 million in private sector funds on the table that could be going into the hands of young entrepreneurs.

Hon. Geoff Regan: Let me turn to Monsieur Lavoie.

On the issue of patent rights and the idea of the easing of the Canadian patent registration system to allow international registration, the question is whether that opens the door to patent rights holders who make excessive use of the rights that are awarded.

In other words, what is the situation in relation to patent trolls, which is a big issue, a big problem, in the U.S.? Would this lead us more in that direction? What measures are needed, and what measures are in this bill to prevent that from happening?

Mr. Martin Lavoie: There have been a lot of discussions about patent trolls in the consultations that Minister Moore has had.

From what I've seen from these amendments—I've seen a lot of international agreements, harmonization—to be honest, maybe it's going to help. I haven't looked at the specifics and I'm not a patent expert, but I can say that in the patent world out there, the more the risk, the less that people want to patent what they've discovered. We have some members who tell me that they don't actually patent. They think it's not worth it.

We all think it's the right thing to do; you should patent everything. However, out there in the business sector, some SMEs don't feel it is worth it.

I'm worried about it, and I'm sorry that I don't have a solution for that as yet. It's a conversation that we need to have. There is a lot of open-source innovation being done over there with the Internet right now. I just don't know that that is reflected in our patent system, to be honest.

The Chair: Thank you, Mr. Regan.

Now on to Mr. Daniel for five minutes.

Mr. Joe Daniel (Don Valley East, CPC): Thank you, Chair.

Thank you, witnesses, for being here.

My first question is to Futurpreneur, Ms. Deans.

One of the things you said was that your success rate for small business start-ups is about 50%. That seems pretty low, since you're already preparing the business plans and mentoring them, etc.

Can you make any comments on that?

Ms. Julia Deans: It's actually higher. Across Canada, the average five-year survival rate is just under 50%, and for our businesses it's between 50% and 60%.

Sometimes people don't want to be entrepreneurs; they get out of it. Sometimes the business fails. Sometimes they sell the business. There are a lot of reasons that people don't continue.

What I look at is the fact that they're repaying their loans as well, at a rate of up to 90%. That tells me that even if they're not in that original business, they have the economic wherewithal to pay a loan.

I wouldn't consider somebody who starts a business and gets out of it and then goes to work for Bank of Montreal or the House of Commons as a failure. They have those entrepreneurial skills. I see that as really exciting.

Mr. Joe Daniel: Good.

Do some of these changes help entrepreneurs get well established and actually be successful in their entrepreneurship?

Ms. Julia Deans: In terms of the amendments?

Mr. Joe Daniel: Yes.

Ms. Julia Deans: We think we have a pretty good process—we're always improving it—in helping young entrepreneurs succeed, and my team and I have some ideas about how to do even more. This will allow us to help many more people. We figure that right now we're reaching somewhere between 10% and 15% of the potential market of young people who want to open businesses. Being able to access private sector loan capital will allow us to expand our numbers.

Last year, we helped launch over 800 businesses across Canada. By March 31, it will be close to 1,000, and we would like to increase by 10% every year. We can't look to government to be funding all of that, and the private sector donations only get you so far. This unlocks private sector capital in a way that every other organization like ours around the world, I can tell you, is looking at very hard, and they're saying, "If you can figure out how to do this, we can do it in South Africa", or Brazil or wherever. It's pretty huge, what it can do for us.

• (0920)

Mr. Joe Daniel: Why are amendments being made to the BDC to help businesses grow beyond the domestic market given that we have the EDC, etc.? Maybe one of you gentlemen would like to tackle that.

Mr. Martin Lavoie: My understanding is that it's the amount of the loan. The EDC would leave anything under \$1 million, I think, to the BDC. That's the reason. As you know, the EDC finances exports; well, one thing they are supposed to do is finance your customers to buy your product. In the case of the BDC, they would help with real estate acquisitions being made overseas, for example, when they're too small to be financed by the EDC.

I think there's a rationale behind it. Last year, the BDC did a very good study about the fact that most Canadian businesses did not grow. We're good at setting up businesses, but what they found is that very few businesses actually grow from small to medium to large, and that's a problem. We don't want SMEs to be SMEs forever. The idea, I think, is that in the Canadian market they're limited in growth because we're only 35 million people, I guess, and if you want to grow, you have to go somewhere else. I think that's the philosophy behind it.

Mr. Joe Daniel: How will these changes help to provide even more flexibility to SMEs that wish to grow beyond our borders?

Mr. Martin Lavoie: As I said, because the EDC will not finance under a certain threshold, and because I think it's sometimes difficult for Canadian banks to finance a business subsidiary in another country, probably you would find the same gap for a Canadian subsidiary in another country that you would find in the domestic market.

I think that's how they will become more flexible. The company will have an alternative. Before that, maybe the only alternative was a local bank somewhere else where they're not really comfortable doing.... All countries have different financial systems, right?

Mr. Joe Daniel: Given all of that and the wonderful work that our government has been doing on international trade, do you think this will help to improve our trade with other countries, such as the EU countries and others?

Mr. Martin Lavoie: Yes, absolutely. I think the contacts are there, especially with the European market opening up. Yes, there are probably a lot of export possibilities, but I think that even more that, there are acquisitions. For SMEs to grow and have a presence on the European market, especially if you work in the fields of government procurement, transportation, and so many sectors that tend to be local by nature, you want to have a local presence. I think the BDC, from that perspective, would be very helpful.

The Chair: Thank you very much, Mr. Lavoie and Mr. Daniel.

[Translation]

We will now move on to the next member.

Mr. Nantel, you have five minutes.

Mr. Pierre Nantel (Longueuil—Pierre-Boucher, NDP): Thank you, Mr. Chair.

I would like to begin by thanking everyone for coming to testify before this committee. I also want to thank the committee for having me.

As I am really not an expert in financial matters, I won't have any questions for you, Mr. Hodgson.

[English]

But Mr. Lavoie, we spent many hours in the same rooms on October 22, and it was, of course, a special experience. But yesterday I had a much more pleasant experience with Mrs. Deans. We were at the—

Some hon. members: Oh, oh!

Mr. Pierre Nantel: I always bring some fun in a meeting. *Souvenirs, souvenirs*. Not too much....

Mrs. Deans, yesterday it was great to be with your young entrepreneurs. There were something like 20 entrepreneurs there. It was very exciting to see these new ideas coming up. My first reaction to your initiative, the way you're doing business and the way you are supporting new ventures, is that you've found a niche to adapt to the new needs and the new nature of entrepreneurs who are rising up.

I just saw the business card of one of your agents, Maryse Gingras, who's installed on Avenue de Gaspé. This is very meaningful, right in the middle of these new entrepreneurs.

Do you feel that we in the government should insist on having more agencies of that nature, to make the system lighter and more flexible to adjust to new realities? I'm thinking about so many technological changes we've been through. When we all got elected in 2011 in this Parliament, almost no one had an iPad, and now we all have an iPad, and it changed everything. Do you think we are doing enough of these initiatives to acclimatize to the new changes?

● (0925)

Ms. Julia Deans: Thank you so much for coming to the reception yesterday evening. I understand there were about seven votes in the House, so we lost a lot of people who were going to come. The young entrepreneurs had a fantastic time and really loved seeing one another. Hopefully, you can come next year.

In terms of being where the entrepreneurs are and being available to them—how they need us—using technology is obviously very key, as well as having a presence on the street.

I think the one thing I would also want you to be thinking about, for those of us who come from places like Vancouver, Toronto, or Montreal, is that there are a lot of people on the ground. There are lots of avenues for young people wanting to start businesses. But that's not the case across the country. An organization like ours, where we're available to people in Yellowknife—I'm going to Prince Rupert right after this meeting—there are a lot of places where people have no resources at all. There's no accelerator in Saskatchewan that I'm aware of, so we need to think about how to make sure young people, wherever they are in Canada, can access these services.

In Quebec, the government's done quite a lot to make that available. It's not the case in other places, so I think all of us who care about young entrepreneurs and having vibrant communities right across the country should be thinking about whether those people are going to be able to get these services, particularly in light of retiring business owners. I'm sure all of you are very aware that we're going to have 60% of our small business owners retiring in the next few years, and there are communities that are going to lose their dry cleaners and their HVAC technicians and so on. If we don't have services there to help them get set up, they will leave.

[Translation]

Mr. Pierre Nantel: Thank you, Ms. Deans.

I now yield the floor to Mr. Masse.

[English]

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

Tonight we're studying several amendments to the Industrial Design Act, Radiocommunication, Investment Canada Act, Broadcasting Act, Telecommunications Act, and Business Development Bank of Canada Act. I'm a little bit concerned about the process we're going through. Witnesses from the previous committee meeting on Tuesday had these things to say, "...full impact remains to be seen...appears...good faith...devil's in the details...lack of guidance...real risk...chilling...key stuff left to regulations...put this in the mix early on is problematic...courts will have to explain in detail...devil's in the details...uncertain how they might be implemented...destroy...insufficient...very difficult to advise...Canadian business susceptible...go to court".

My concern is that we're going to have to go to court with these amendments. Do you think there a possibility that these amendments might eventually end up in court?

Mr. Martin Lavoie: For the BDC amendment, I wouldn't know. I wouldn't think so, but I haven't looked at the others. I'm not sure if the other members have....

The Chair: We are way over time. I gave a little bit of latitude for one response, but we will now go to Mr. Warawa for five minutes.

Mr. Mark Warawa (Langley, CPC): Thank you, Chair.

My opening comments are maybe going to address the NDP focus on process instead of the content of the changes.

Those quotes we heard from Tuesday, again, were concerns about the process.

For clarity, witnesses, there is an opportunity for recommendations. If there are recommended changes, you can make those and those changes could be passed on by this committee. That's the process, and it works.

I think, generally, we heard very positive responses on Tuesday, and now today, on those changes. They mean a healthier economy; they mean healthier opportunities for young entrepreneurs, expanding our market beyond the domestic one; and they mean jobs. They mean a stronger Canadian economy. I think that's what we're hearing. I'm very optimistic, and I would hope the NDP would realize the opportunities that Canada and entrepreneurs have.

I want to focus on maybe one concern that I have, which is with the definition of young person or young entrepreneur. To benefit Mr. Regan and me, maybe that definition could be expanded from 33 to closer to 70 for Mr. Regan.

Some hon. members: Oh, oh!

Mr. Mark Warawa: I want to ask about the mentors. You've said that these are volunteer mentors. Making a two-year commitment to mentor a young entrepreneur is admirable. How do you keep a bank of volunteer mentors to help these young volunteers?

● (0930)

Ms. Julia Deans: We've had close to 3,000 volunteer mentors, and I have yet to meet one I wouldn't want as my own mentor. They're really wonderful. The new head of Purolator moved from Vancouver to Toronto and he said, "I was one of your mentors in Toronto and I can't wait to start again", and he has started. These are really great people, and the fact that young people have access to them is huge.

We have a reputation for mentoring around the world. Organizations look to us for how to develop their own mentoring programs. We train our mentors. We don't give a young person their money until they've met their mentor. They do an online orientation together, which we designed, actually, with the help of Lavalife. It says, "What do I need to know about you?", "How are we going to work together?", and all of those sorts of things. They get this really good foundation for working together, and the mentors love it. They often say that they get more out of it than the young entrepreneurs do.

By word of mouth we're able to attract mentors, and then we work with chambers of commerce. Often large companies will recruit their staff who want to be helping in the community. It's a great way to use their skills and expose them to young entrepreneurs who have these crazy ideas and to spark them in their own lives. But obviously we need to recruit more mentors, and that's part of my job. Part of having a more distinctive name is to recruit more mentors. It's not been an issue for us and they seem to love doing it. In fact, they tell us they want to become better mentors, so we've developed a program to help them. It's called the art of mentorship, and we did it with Ryerson University, so mentors can actually improve their own skills.

Mr. Mark Warawa: Could you comment on our low corporate tax rate and how that is helping grow business in Canada?

Mr. Glen Hodgson: I guess that falls to me.

Clearly we're in a competition for capital around the world. We're trying to attract head offices, and we're trying to attain investment within Canada. It's really important that we try to create the most competitive tax regime possible within the country. The unfortunate reality—and I said this to a crowd in Calgary yesterday—is that we're actually forecasting that private investment will contract marginally this year, because even though nominal investment is growing, with the dollar going down 10%, we're actually seeing the cost of importing new technology, for example, falling. It's hard to find the hard evidence right now that a lower corporate tax rate is actually converting into stronger investment. The trouble with that is we don't have a counterfactual. The world could have been even worse off. Looking at the entire suite of policies over the last number of years, I think a variety of things have been done by the federal government and by provincial governments to create a more competitive tax regime, and corporate taxes are part of that.

Mr. Martin Lavoie: I would add that where we've missed the boat a little bit with regard to corporate taxation is that the provinces haven't followed the federal lead in many cases. The reasons we're not having as much investment as we would expect is that: first, our combined corporate income tax rate in Canada is about 25% on average, if you combine the federal and provincial rates. Compared to the OECD countries, that is not even in the top 10. It's in the middle of the ranking.

Second, in the last three or four years, there have been a lot of other countries reducing their rate.

The Chair: Monsieur Côté, from the NDP.

[Translation]

Mr. Raymond Côté: Thank you, Mr. Chair.

Mr. Lavoie, you talked about the difficulties some private companies could have in securing financing and the fact that the BDC and EDC could in part remedy that. Four years ago, Mr. Laurin talked about the same difficulties when he discussed the automotive product supply chain, among other things.

Of course, I can't help but think about other government decisions that could complicate matters. One of the things I am thinking of is the federal government's abandonment of the credit for labour-sponsored funds. Those funds, which are very important in Quebec, were rather effective, especially in terms of long-term support.

However, long-term support for company activities is probably the most difficult approach.

The BDC will be able to invest in venture capital funds internationally, but that will absolutely not make up for the loss we may have to contend with.

Given the government's other plans, do you think the BDC's new plan would have been a worthwhile addition when it came to maintaining the credit for labour-sponsored funds? Do you think it will be possible to replace what we are losing in the short term?

• (0935)

Mr. Martin Lavoie: That's a good question.

We will have to see with time. I think you are right to say that labour-sponsored funds really are long-term initiatives. They are worthwhile for small and medium-sized companies that want to develop without constantly having to fear being dropped by investors. The BDC has some of that mentality, as well. In a situation where those investments are going through organizations like Futurpreneur, we will see whether this can replace the previous system. Be that as it may, I think that labour-sponsored funds are still present and active, even though the federal tax credit has disappeared. They continue to play that role.

Mr. Raymond Côté: Indeed.

Mr. Hodgson, when we talk about company development, we talk about financial capital, but human capital also needs to be considered. The Conference Board of Canada was wondering whether young Canadians may be the first generation to be less well-off than their parents' generation. Among other things, you were talking about revenue and social benefits. In that respect, young people could be poorer than their parents or grandparents.

Labour-sponsored funds were a very worthwhile option in terms of savings. In the Beauport-Limoilou riding, for instance, between 8,000 and 10,000 investors were participating in labour-sponsored funds.

What do you think about the risks associated with a potential drought and about the fact that there may not be a way to replace labour-sponsored funds, if only through amendments proposed under the Business Development Bank of Canada Act?

[English]

Mr. Glen Hodgson: I resist the tendency to respond to a question where I don't really have expert knowledge. It's not a topic that I've really studied in detail. Perhaps it's something we could come back to at a future date, but I don't really have a substantive answer to provide you.

I suspect that Martin knows more than I do on this topic, not that I'm trying to pass the ball to you.

Mr. Martin Lavoie: I wouldn't play on the same line with you in hockey, that's for sure.

[Translation]

How much did the amendments to the Business Development Bank of Canada Act aim to offset the loss of the tax credit? I agree with you when it comes to savings. I think that many Quebecers use that fund. That being said, I don't think this was the primary goal of the amendments.

I think we should keep in mind that any potential holes in the financing from the labour-sponsored fund could be plugged by the BDC. Our association is definitely going to keep an eye on that.

Mr. Raymond Côté: Very well.

It was a pleasure.

[English]

The Chair: Now we move on to our final MP.

Mr. Wallace, five minutes.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair.

It's my pleasure to be back at the industry committee. It's been a few years since I've been here. I was here for a meeting a few weeks ago.

Let me start with Ms. Deans, just for me to understand the organization. I know it's been around a little bit, I've been to a release where I think you honoured a few entrepreneurs. What's the mix in terms of industry? In my view we have four areas: retail, manufacturing, development, software development or apps, and services. Can you give me any concept of what young people are doing in terms of that kind of mix?

• (0940)

Ms. Julia Deans: Our businesses look like Canadian business and 98% of Canadian business is small business. They're restaurants, retailers, IT companies. They're inventing new ways to do hip replacement surgery; they are doing everything you can imagine. About 10% of our clients are technology-focused companies. The rest are using a lot of technology. Even if you're making toys, you're using technology. But about 10% are tech businesses and the rest look very much like Canadian business.

Mr. Mike Wallace: Are they all start-ups? I have an entrepreneur, for example, in my riding I know fairly well. He's in his early thirties, he's doing okay and he's actually in markets around the world and so on. It's not a start-up since he's already been in business for five or six years, but do you still offer services to people who have already started?

Ms. Julia Deans: A lot of our services are available for free and they're online. Our financing is for companies that are within one year of starting, so either they're one year off starting or within a year. We've also developed a stand-alone mentoring program because we had people who would apply for our financing just to get the mentoring and then repay the loans, which is a very expensive way to give somebody a mentor. Our mentoring is available more broadly than that as well.

Mr. Mike Wallace: Okay.

Look, I'll be perfectly frank with you, I have a daughter, she's 23 and she's graduated with a bachelor of commerce degree. She's got a TFSA, an RRSP, and she's got a credit rating she's developed

already. She's a smart girl, much smarter than her father, and I'm hoping that someday she will be an entrepreneur on her own. She's working her way trying to figure out...and getting experience in different areas and so on. I think she got some of that from her education at the University of Ottawa, where she went.

Does the organization have a role or responsibility or a vision on financial literacy and entrepreneurship? There are some programs in Canada now, and I know in the United States, where you can get a degree in entrepreneurship. What's your role in terms of getting young people to understand what the opportunity is to be an entrepreneur?

Ms. Julia Deans: Given that we've been around for almost 20 years I think we have a big role and a responsibility.

Last year we did a series of round tables right across Canada on how to expand youth entrepreneurship. Half of the round tables were young entrepreneurs. We had educators, business, government there to find out what do we all need to do to expand youth entrepreneurship. A lot of it was around confidence; we need our young people to think about how they can be entrepreneurs and to develop those skills. They're going to have to create their own opportunities for the rest of their lives. It was around competence, and the financial literacy skills was obviously a big one. It was around capital and we heard over and over again that programs like ours are desperately needed right across the country. And it was around connections and networks. But for your 23-year-old, my 22-year-old, the message is you need to have financial literacy skills and you need to know that you've got to be able to create your own opportunities.

Mr. Mike Wallace: Mr. Lavoie, I have one question for you.

Around here, over the years I've experienced that some of us don't have a clear understanding of what BDC's actual mandate is, which is to make money and have a return to the taxpayer, and that they are not the bank of last resort. And that's based on legislation not on vision. Would you say your membership has the same view of BDC or do you think there is still an issue with education within your own organization, with your members on what the actual role of BDC is?

Mr. Martin Lavoie: It depends on what kind of financing they're looking for. When a company's experiencing very fast growth.... For example, one of our members in Peterborough experienced a growth of 300% in a year and a half. They got new contracts with large multinationals—they were just elected, actually, with Irving Shipbuilding, as part of the shipbuilding, so for them it's huge. That kind of order makes them explode their sales. They need to finance that growth. When that comes, I think BDC becomes a bit of a last resort. The banks look at what you've done last year to kind of establish how much and what terms. BDC will look at what you want to do.

But maybe for start-ups, they become more of an alternative to a bank. A bank could help a start-up, but it's just that BDC, for example, will make sure that you provide a financial statement every year. They will want to make sure that you reinvest all your money within your business, that you don't go and make other acquisitions. The bank won't ask you to do all these things, right?

BDC's mandate is also to help you succeed. You can't really turn around, take the money and go to the casino, right? If you do that with the bank's money but at the end of the day you pay back your loan, they won't ask you what you've done with it, right?

• (0945)

Mr. Mike Wallace: Thank you very much.

The Chair: Thank you, Mr. Wallace.

I appreciate all the testimony from the witnesses.

Ms. Deans, how do you recruit the mentors?

Ms. Julia Deans: We recruit them at events. I have staff across the country. We recruit them through our community partners. In the province of Quebec, we partner with the Fondation, and they help us on the mentoring side. Then we also work with organizations like chambers of commerce or big corporates, and they'll help recruit within their ranks.

The Chair: One more thing, how many hours, let's say per month, would one of these mentors invest in a futurpreneur, in a young person starting their own business?

Ms. Julia Deans: It's somewhere between three and five hours on average. We find that the real need is between 15 and 18 months. That's when things start to get hard.

The Chair: I think just from what my colleagues have heard today in regards to Futurpreneur, please pass on our deep gratitude to all of your mentors and an official commendation from the Standing Committee on Industry, Science and Technology for what they invest for absolutely nothing. I understand what you said, that they get a moral reward out of it. But, you know, they're obviously helping build not only the economy, but the character of young people, too, when they teach them how to reasonably take risk and learn all these things. Please pass on our commendation to them.

Thank you very much to all of our witnesses.

We're going to suspend right now, and then go into our business session in camera.

[*Translation*]

Mr. Raymond Côté: Mr. Chair, will we vote before the break on the motion to invite Minister Moore to talk about supplementary estimates?

[*English*]

The Chair: That's what we're going to do next, yes.

We're suspended.

[*Proceedings continue in camera*]

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