



September 17, 2004

Office of the Prime Minister  
80 Wellington Street  
Ottawa, Ontario  
K1A 0A2

Dear Prime Minister,

I am writing to you on behalf of Canada's Venture Capital and Private Equity Association (CVCA) to express both our best wishes in advance of Parliament's impending return and our hopes for continued collaboration between the CVCA and the Government of Canada to promote Canada's 21<sup>st</sup> Century Innovation Economy.

**Specifically, we would like to re-energize our dialogue with respect to the ways in which we can work together to increase the supply of risk capital available to Canadian entrepreneurs, and to ensure that significant portions of this are channeled to support new enterprises that are commercializing technology that is emanating from Canada's university and research institutions.**

The CVCA was established in 1974 and today has over 850 members which represent most of the private equity companies in Canada. CVCA members have over \$50 billion in capital under management, in three types of private equity.

- ***Venture capital***—is characterized generally by investment in early stage companies, mostly in technology businesses;
- ***Buy-out***—is characterized largely by risk investment in established private or publicly-listed firms that are undergoing a fundamental change in operations or strategy; and
- ***Mezzanine***—is characterized chiefly by the use of subordinated debt, or preferred stock with an “equity kicker”, to invest largely in the same type of companies and deals as buy-out funds.

As you are aware, venture capital in particular, but also private equity broadly are linchpins for creation of new enterprises and restructuring of existing ones. Thus they are critical for Canada's ability to outperform its international competitors and for developing high quality employment opportunities in Canada. The industry is responsible for fuelling much of the “new economy” and for revitalizing many “old economy” firms.

Unfortunately, there are reasons for concern today.

- The venture capital industry in Canada is only half the size of the benchmark risk capital industry in the world (the U. S.) measured on a per population basis or as a fraction of GDP. This results in less financing for Canadian startups and places them at a competitive disadvantage internationally.
- This situation may worsen as our data show that the supply of new capital into the venture capital industry slowed markedly in 2003, a trend that is continuing into 2004. If continued, this will inevitably lead to correspondingly reduced venture capital investment and stifling of growth opportunities for companies that rely on private risk capital financing for their development.

We believe it is important not to be complacent about Canada's positive economic performance today—rather, we should take the steps that are required to build tomorrow's economy. Success on this front can act as the foundation stone underpinning other public policy priorities. To this end, we believe that public policy regarding the venture capital and other forms of private equity ought to be guided by the following principles.

- Government(s) should fast-track discussions with the venture capital and private sector industry concerning the ways in which the supply of risk capital to entrepreneurial firms can be significantly , and sustainably, increased—we suggest that the national objective should be to develop the Canadian industry to the level of the benchmark (U.S.) risk capital industry. That would mean doubling the size of the Canadian industry.
- Government(s) could encourage private equity formation by: a) developing fund-of-funds structures, b) by encouraging pension funds, insurance firms and other institutional investors to include private equity in their asset allocation, and c) by other means which we would welcome the opportunity to discuss with you.
- More effective technology commercialization processes are required if Canada is to take advantage of its considerable investments in research and development. For example, there should be co-ordination, if not harmonization, with provincial government technology commercialization programs.
- The entire risk financing ecosystem has to be approached in a holistic manner, rather than piecemeal. The goal should be to develop a seamless web of financing mechanisms geared to each stage of potential portfolio company development, from the pre-seed and start-up funding stages, through expansion, to the later stages. The financing ecosystem, of course also relates to other key areas of government policy such as education, taxation policy, encouragement of exports and the like.

As a first step, our members would welcome a reference to your Government's intentions in this regard in the upcoming Speech from the Throne. We also look forward to the opportunity to consult with your officials in the period leading up to the next Budget.

If the CVCA can be of any assistance, please contact either the writer at (604) 891-3260 or [rlouis@ventureswest.com](mailto:rlouis@ventureswest.com) or our Executive Director, Richard Remillard at (613) 744-8969 or [rremillard@bellnet.ca](mailto:rremillard@bellnet.ca).

Yours truly,  
The Canadian Venture Capital Association

A handwritten signature in black ink, appearing to read 'R. J. Louis', written in a cursive style.

R. J. Louis  
President

cc: Leaders of the federal Opposition parties  
Ministers of Finance and Industry  
Provincial Premiers