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# **Standing Committee on Government Operations and Estimates**

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**EVIDENCE**

**Thursday, April 30, 2009**

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**Chair**

**Mr. Derek Lee**

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## Standing Committee on Government Operations and Estimates

Thursday, April 30, 2009

•(1105)

[English]

**The Chair (Mr. Derek Lee (Scarborough—Rouge River, Lib.)):** I call the meeting to order.

Colleagues, we're continuing our study of federal government procurement, with specific reference to small and medium-sized enterprises.

We're delighted to have with us today two representatives from each of two government departments. Each play different roles with respect to either procurement or small and medium-sized business, but we're looking forward to continuing our conversation with these departments because of the roles they play.

We have, from Public Works, Liliane saint pierre, ADM, Acquisitions Branch, who has appeared before us previously; and Shereen Miller, director general, small and medium enterprises sector of the Acquisitions Branch, and she has also appeared before us.

From the Department of Industry, John Connell, director general, Small Business Policy Branch; and Denis Martel, director, research and analysis, Small Business Policy Branch.

Thank you for appearing today. Members like to think of these two-hour meetings as quality time.

I know each of you has a presentation before we get into the thick of the meeting, so if it's all right, I'll look to Public Works to lead off, unless the witnesses would like to change the order. I invite your opening remarks, and then I'll turn to Industry Canada when you've completed.

Ms. saint pierre.

[Translation]

**Ms. Liliane saint pierre (Assistant Deputy Minister, Acquisitions Branch, Department of Public Works and Government Services):** Good morning, and thank you very much.

Mr. Chairman, members of the Committee, we are pleased to be here again today as part of your study of small and medium enterprise access to the federal procurement process. I am Liliane saint pierre, Assistant Deputy Minister, Acquisitions Branch at Public Works and Government Services Canada. With me today is Shereen Benzvy Miller, the Director General responsible for the Office of Small and Medium Enterprises.

Mr. Chair, since we have previously appeared before you on these matters, my remarks will be very brief. I would just like to reiterate

that PWGSC recognizes that SMEs are a vital engine of economic activity in Canada and that they make a valuable contribution to government procurement.

In fiscal year 2007-08, Public Works and Government Services Canada purchased more than \$4.8 billion worth of goods and services from Canadian SMEs. This constitutes 49 per cent of the total value of transactions between the government and Canadian businesses, an increase from 43 per cent in 2005-06, and from 46 per cent in 2006-07.

[English]

The Office of Small and Medium Enterprises was created in 2005 to assist SMEs in accessing government business. OSME provides information and training services to SMEs wishing to do business with the government and help them as they navigate the government procurement system. It also studies the impact of government buying patterns and other factors related to SMEs, and it works with SMEs to identify the key barriers for them in procurement.

Since its inception, OSME has assisted more than 40,000 businesses and individuals across Canada, an average of 16,000 a year.

Mr. Chair, I want to thank the committee for its study on the ability of SMEs to access federal government procurement opportunities. I understand this is your last meeting on this issue and that you will be preparing a report in the months ahead.

[Translation]

We look forward to the Committee's report and recommendations.

We would now be very pleased to answer any questions you may have.

[English]

**The Chair:** Thank you very much.

Now we'll turn to John Connell from Industry Canada.

[Translation]

**Mr. John Connell (Director General, Small Business Policy Branch, Department of Industry):** Good morning, Mr. Chairman, and thank you very much. My name is John Connell. I am the Director General of the Small Business Policy Branch at Industry Canada. With me today is Denis Martel, the Director of Research and Analysis at the Small Business Policy Branch.

I would like to begin by thanking you for your invitation. We are very pleased to have this opportunity to talk to you today of our work with small business.

•(1110)

[English]

I really want to underscore what a pleasure it is to be here. I have a lot of respect for your work and for ministers as well, and I embed those values in the organization I lead, so it is generally a pleasure and an honour to be here.

I'll say a little about myself to begin with. I'm a career public servant. I've been in the economic development field for about 29 or 30 years in my career, with recent experience in the Department of Finance and the Privy Council Office. I've been in my current position for approximately five years.

That means leading a team of about 140 people at the Department of Industry in respect of research, analysis, and policy development on small and medium-sized enterprises. It's the entire focus of the work we do, and we support the Minister of Industry in respect of his interests in that area, with the Department of Industry Act having assigned responsibilities to the minister for small businesses in respect of all matters that are not assigned to other ministers, departments, and agencies.

What I'd like to do, with your indulgence, is to provide a short deck on small business activities in the department, challenges and opportunities that we see facing the sector, and kind of an overview of recent initiatives in support of small business. I'm doing that on the understanding from the clerk of the committee that you had a general interest in knowing a little bit more about small businesses generally.

I can tell you emphatically that I'm not an expert on procurement. I'm not mandated to look at procurement in any way, although I certainly stay in touch with my colleagues in Public Works and Government Services to assess, on an ongoing basis, how small businesses may or may not be impacted by current government policies in this field. As well, of course, Industry Canada has a role in procurement, which is another section of the department. The industry sector is the main one. So the IRB policies and everything like that are found there.

I would ask you to bear that in mind in respect of any questions you may have for me.

Would you like me to go through this deck? I can circulate it now. It might take about 10 minutes for me to present it.

**The Chair:** I think it would be a good idea, because one of the reasons you're here today is to provide a backdrop for the committee members to ensure that we have a good grasp of the small business sector as we embark on dealing with the procurement process. So please go ahead. It will be instructive and useful.

**Mr. John Connell:** I'm happy to do so.

On page 1, we'll start off with some key facts about small business. Clearly they're the largest segment of the Canadian business population. About 98% of all business establishments in Canada fall into the SME category, and you can see that 74% of them have fewer than 10 employees, and 57% have only one to four employees, a category of firm that we call micro enterprise. In totality, those firms account for about half of the private sector workforce, or 5.1 million people employed in Canada right now.

In the kinds of studies that Denis undertakes for me—and please put all the tough questions to him on this one—over 80% of net job creation between 1993 and 2003 was accounted for by small business enterprises. Large firms actually shed jobs over those years. It can change, depending on the year, but the long-term trends that we're seeing are a lot more heavy lifting, a lot more job creation by small business, with some restructuring in respect of larger enterprise.

Clearly they're a major economic engine, with firms with fewer than 50 employees accounting for 26% of gross domestic product. They help with constant renewal of the economy. So it's kind of an image where economists—I'm not one—will talk about Keynesian views, where the economy is essentially stable and government intervenes to even out the bumps, or Schumpeterian, where firms enter and exit all the time, and there's massive job destruction going on. I think that's what we're seeing in this small business sector. So 140,000 new firms are being created in Canada every year, and that exceeds the exits by about 8,000, but you have a lot of firms that are just heading out of business for a variety of reasons. It's a very dynamic vision of the economy that is driven by small business creation and exits.

On the next page, it's found in all sectors, but particularly in the service sector, where you see a lot of entry/exit concentrated in retail trade, accommodation, food manufacturing, and construction sectors.

On the next page we see that small businesses reflect the diversity of the Canadian population. We see that in terms of gender, about two-thirds of business enterprise is owned and operated by men, 17% is owned by women, and 19% are partnerships. We've certainly seen a lot of trends for women's entrepreneurship being up over the last decade or so.

On minority status, the stats are there for you; about 10% of all enterprise is led by a visible minority, 2% aboriginal, and so forth. You can see that.

It's heavily concentrated in terms of age in the 30 to 64 category, and very much an issue—and I'm sure you would have heard this from the CFIB—is the number of businesses led by persons of a certain age, who are now looking to exit their enterprise and need to have a plan to do that. Just like we've seen with a lot of demographics, a lot of the labour force is getting older. That's very true of small business owners as well. So we need to think about policies and measure that will help them do that.

Managerial experience: 71% have more than 10 years of experience in those businesses. That can be counted upon for a great value-add in their enterprise.

Some 72% are urban, 28% rural, and 9% are exporting outside of Canada. Those are the numbers, but when we look at the volume of exporting, we see a lot more activity by small businesses, and of course they can be very involved in supply chains as well.

On the next slide on page 4, I call your attention to the fact that high-growth firms drive economic growth. This is a special area of focus for our branch. We tend to distinguish between traditional firms like the ma and pa shops, the micro firms that are essentially in existence to achieve income for their owners, managers, and employees, and then the other firms that really focus on growth, and growing the enterprise, whether through applications of new technologies, exporting, or what have you. So these are really important firms in the economy. And that's reflected in the fact... there are pretty good studies we've undertaken in the branch, and they're 100% samples of all firms in Canada, marrying up StatsCan employment registered data with the business incorporation data.

• (1115)

We're able to go back and track quite comprehensively and find that of the 7% of firms that existed in 1993, if we track those over to 2003, they've accounted for 50% of net job creation over those 10 years, and 60% of that creation was accounted for by small business. They're found in all sectors. This isn't just a high-tech story. We see it in a combination of services, retail merchandising, amusement, recreational services, right across an awful lot of sectors. We have very talented business people establishing businesses, getting them going, doing the heavy lifting in their communities, and creating tons and tons of jobs for Canadians.

We think those kinds of firms face very difficult and different challenges than traditional firms. In respect of financing, for example, they'll be more in need of risk capital versus debt-based or traditional loans from banks. They need specialized and firm-specific skills to be able to grow an enterprise at a very rapid rate. They tend to be more involved in supply chains and exporting and the development of new products and processes.

I'd like to speak now to the current economic downturn and the small business challenges. It clearly has had a significant impact on small business. At the same time, about two-thirds of business owners in a recent poll said they're concerned about the economy, but they're also displaying confidence that the situation could improve over the next six months or so. We see various strategies that they've been undertaking to cut costs, including not taking a salary themselves, which has emerged as a significant one, and doing a lot to avoid laying off staff and get to the other side of the current crisis.

On the other hand, CFIB data is showing that growth expectations are declining on the part of the members they survey. As of March 2009, 20% of surveyed businesses had plans to expand, while 14% expected to cut back. Those numbers are a deterioration from the previous poll. I'll let you read those numbers yourselves.

Credit concerns are clearly the top-of-mind issue on the part of many small businesses, and a lot of the business associations had flagged that.

Next we provide just some general data, but evidence suggests that credit for SMEs has tightened and the banks in Canada are continuing to report tighter conditions in whatever they're saying to the Bank of Canada in the bank's lending surveys. Moreover, the SMEs themselves are saying, through the CFIB business barometer, that they have deteriorated access to bank financing. A lot of that is because the cost of capital to the banks has increased quite

significantly. Anyone who has purchased long-term bonds from the banks lately can see that.

Secondly, we've had major sectors, major parts of the financial services sector, that have essentially ceased to function. Whether that's in respect of the leasing companies or others that traditionally were providing innovative kinds of financing, they're no longer there. Some of that has gone over to the banks, but not all, that's for sure. So I think we're seeing some of that in the reporting by SMEs. They rely on debt financing as their main source of capital. In fact, 25% of the total value of all outstanding business loans in Canada are accounted for by SMEs. In any given year, 20% of them will seek financing, and 80% of those loan applications will be approved.

So not everybody gets credit approved, and it's clear that not all business propositions are creditworthy. But at the same time, we feel that there are structural barriers in the marketplace, including where there are simply not cost structures on the part of financial institutions where they can provide a profitable loan to small businesses. You can have many businesses that are start-ups and don't have the business history or the collateral to be able to obtain a loan from the bank.

Thirdly, a lot of them are more in that high-growth area, where we get a lot of small businesses with untested business ideas and it's not clear that they're going to generate much cashflow in their business plans ahead. So that's another candidate for growth capital.

Innovative firms are particularly challenged. We find that 30% of growth firms seek debt financing in any year, and only 54% of those are approved. So again, there's this kind of difference between a traditional and a growth firm in terms of their success in obtaining financing. As I've said, these are the candidates for equity financing, and about 5% of those SMEs in any year will ask for venture capital or other types of equity financing.

• (1120)

This type of financing represents almost half of the total financing going to those innovative firms. Right now, I think it's fair to say that the B.C. industry is in crisis. Its activity is at the lowest level since the mid-1990s. It fell 36% last year, and part of the problem is that the returns from venture capital in Canada have been exceedingly poor. They have not been able to attract capital into the space from pension plans and other institutional investors. That has sort of dried up and is kind of an issue that is of current concern at the Department of Industry.

We've said that financing is a concern on their part. So, too, is having a competitive marketplace, which means a competitive tax regime and a supportive regulatory environment with minimal paper burden. The whole idea of support for innovation that I have referenced, the challenges and needs, are also in the area of exporting human capital and what we call the culture of entrepreneurship.

The next page demonstrates that the tax regime is becoming more competitive for small business. The small business tax rate has been reduced to 11% from 12%, effective January 1, 2008, and moreover the threshold at which businesses qualify for the reduced small business tax rate has been increased in recent years, the most recent being under Budget 2008, to \$500,000.

In the department, in my branch in particular, we have something called the Canada small business financing program. It provides loans of up to \$350,000, and \$500,000 for real estate transactions, to small businesses with revenues under \$5 million per annum. Those maximum loan rates were increased under Budget 2009, as was the cap on lenders in terms of the amount that we can reimburse them for loan losses under the program. We do about \$1 billion of financing under the CSBFP in any year right now, or about 9,000 loans per annum to small businesses.

We're also responsible in our branch for the Business Development Bank of Canada. It's reporting actually to Parliament through the Minister of Industry, and we serve as a bit of a go-between in that respect. We take a great interest in the corporate plans and strategies of the bank in trying to ensure that they line up with our understanding of small business financing needs. I think it pertinent that a capital injection of \$250 million was made in January 2009; the \$100 million is pending for a working capital guarantee product that the government had announced.

The 2009 Budget Implementation Act increased the capital limit of the BDC from \$1.5 billion to \$3 billion. So there's an opportunity to put additional capital into the BDC to lever incremental lending to small businesses. Moreover, there was the announcement of the Canadian Secured Credit Facility, which is simply an initiative that will be taken through the BDC to address securitization problems in respect of auto leasing and other firms.

Of other measures supporting small business and youth entrepreneurship that have been taken recently, one is the Canada Business Network, and the department receives \$15 million per annum ongoing—it's in our A-base now—for the network. This is essentially a one-stop service. I understand the committee had some interest in this, for government information service. It's not transactional; you can't kind of go on and get a corporate permit or anything like that, but it does bring together all pertinent business information from federal, provincial, and municipal levels of government. We provide the service; we provide that information on the Internet through a national toll-free telephone service and at 13 in-person service centres in each province and territory in Canada.

I'd also like to talk about a program we have called BizPal. It's essentially an online wizard for accessing permits and licences, again from federal, provincial, and municipal governments. The idea there is that if you're in a particular municipality, we'll map out all the permits and licences you need. And you can get that in a matter of

minutes, versus having to go through the trouble and the runaround of applying to different levels of government and different departments and agencies within those levels of government to get the permits you need to start, establish, or grow your business.

● (1125)

I also want to flag the one-time grant of \$10 million that was made to the Canadian Youth Business Foundation. This is a small group that's based in Toronto that provides first-time financing of up to \$15,000 for youth entrepreneurs, and they combine that with a mentor. It's something we've supported quite enthusiastically in the department, given the contribution made toward building an entrepreneurial culture.

It's very clear from a lot of the studies we've undertaken that Canada has a tremendous entrepreneurial culture and that our business start-up rates are among the most impressive in the world. We lack an ability to grow enterprise, but just the outreach and support given to young entrepreneurs in this country who are creating tremendous value, including the youth from university research and some of the companies they are creating...

It's a desire on our part to put in place all the support and encouragement we can give to these absolutely outstanding young entrepreneurs. If you have ever met them, including those supported by the CYBF, you'll know what I mean.

In terms of innovative small businesses, Budget 2009 expanded support under IRAP, which assists with technology transfer challenges to small and medium-sized enterprise. Moreover, it helped them hire over 1,000 graduates in the new internship program.

Finally, I will just reference the scientific research and experimental development tax incentive program, which is arguably, so we hear from many businesses, one of the single most important things the government can do to help with their research and development and drive toward innovation.

Those are some of the things we are focusing on at the Department of Industry right now.

● (1130)

**The Chair:** Thank you very much for that bird's-eye view. You've touched an awful lot of territory. On behalf of members, I want to acknowledge the scope of the information and facilitation and financing for small business that's contained in your overview.

Our focus today is not on all of that, for sure, but I very much appreciate the overview.

Before I turn to Ms. Hall Findlay, Monsieur Gourde, a number of members had been anticipating receipt of a report or a business plan from Public Works with reference to procurement, and I understand you may have something to say about that before we engage the witnesses.

[Translation]

**Mr. Jacques Gourde (Lotbinière—Chutes-de-la-Chaudière, CPC):** Yes, Mr. Chairman.

I want to inform Committee members that the “Final Consultation Report: Government Enterprise Network Services” will soon be released. To ensure that Committee members have the time to read the report, I would suggest that we reserve some time in the coming weeks to do that.

[English]

**The Chair:** Thank you for that.

The document we've been waiting for is almost ready. Subject to what members feel, we may have to schedule another meeting to deal with that and other related issues. I just want to get that on the record. Thank you very much.

I'll turn to Ms. Hall Findlay.

**Ms. Martha Hall Findlay (Willowdale, Lib.):** Thank you, Mr. Chair.

[Translation]

Thank you all for being here this morning.

Ms. saint pierre, you mentioned that today we are holding our last meeting on the federal procurement process, but we are still awaiting the report. We have just been told that it will soon be released. However, we were told that we would receive it in March, and it is already the end of April. We need to have it as soon as possible, in order to carry out our work effectively.

I have just been given a partial answer to the question I wanted to put to Ms. saint pierre.

[English]

So I will actually go to another question I had. I also want to thank Mr. Connell very much for the breadth of the presentation.

I have all sorts of questions about venture capital, about the goal of Industry Canada with SMEs.

I wasn't sure, Ms. Miller, if you were going to be presenting or not, but I do want to ask you a question, and perhaps the two of you from Public Works can answer.

We have been hearing over the course of a number of the committee meetings about SMEs, of course, because of the whole question of procurement. I will say for the record that certainly we in opposition—but my sense is that most—were very supportive of the role of small and medium enterprises. We're very concerned here on this end that we're continuing to hear frustration from small and medium enterprises specifically, and from associations about the challenges in accessing federal procurement.

I understand from Mr. Connell that that's not your job at Industry Canada. If we have time, I'd love your comments on why that isn't actually part of your job, because you're expending a lot of effort helping small businesses in other ways, and obviously federal procurement is a tremendous opportunity for many small and medium enterprises.

One of the recurring themes that we've been hearing is that your office, OSME, does not have enough of a mandate, that it is a persuasive office more than anything else, that it does not have any hard ability to ensure that certain things happen in terms of government procurement.

We had an excellent presentation by a fellow from the equivalent office, the federal procurement office, in the United States. He had some really excellent ideas about their office and the much stronger-sounding mandate within their equivalent of OSME, which is also spread out through other departments as opposed to being located in just one place. I'd love it if you could comment on that.

Again, Mr. Connell, if we have a bit of time, I'd like your comments on why Industry Canada isn't in fact involved in helping get access to the federal procurement process.

• (1135)

**Ms. Liliane saint pierre:** Mr. Chair, Madame Findlay, I would first like, with your agreement, to make a comment on the release of the report you had in support of what Deputy Gourde said, and then turn to Shereen Miller, director general of OSME, to answer the question related to the role in comparison to what is happening with the U.S. government in the presentation.

I just want to recall from what has been said that we are in the process of the final quality assurance review of three documents, or three pieces that we did commit to release, not only to the committee but to the industry. We expect to do that via MERX, or in the best way that's it's accessible to all. We committed to that through the business rationale related to GENS for the consultation we undertook. These are the results of that consultation, a summary of what we've heard, along with recommendations, because it's one thing to consult, but we need to analyze and see how we can take action in response to suggestions that were made by the industry.

I also want to point out—and you'll see this—that one of the main concerns you have heard at the committee related to the GENS initiative was with the inclusion of a whole array of professional services as part of the request for proposal procurement process. We've heard it, and I'm pleased to report that we are making proposals to remove the majority of the professional services as part of the scope of work for that requirement.

**Ms. Martha Hall Findlay:** Shereen.

[Translation]

**Mrs. Shereen Miller (Director General, Small and Medium Enterprises Sector, Acquisitions Branch, Department of Public Works and Government Services):** Good morning. Thank you again for inviting me to address a subject that is of tremendous interest to me.

[English]

I listened with interest to the presentation to you on Tuesday of my colleague Joseph Jordan, newly appointed to the US SBA, so I'm actually very pleased to have this question put to me.

Obviously, there are some substantial differences between the US SBA and OSME, not the least of which is that they're an agency and we are a sector within a federal department. They have an act that governs their mandate. We essentially have a mandate from the Federal Accountability Act action plan. They have \$700 million; we have \$7 million. They have 1,000 field staff; I have 25. They're aiming for 23% of the procurement envelope as a stand-alone, and we're at 49% of Public Works contracts with Canadian companies located in Canada.

Those would be the starting points for the discussion of differences, but I'm much more interested in discussing the similarities. What really struck me on Tuesday, listening to him, is that if you had erased US SBA and put in Government of Canada... he was extremely articulate about the ways in which SMEs can be helped and the many ways in which a government can do it, and actually the ways in which the Government of Canada does do it.

While it is true that OSME does not have the full mandate that US SBA has, the various pieces of the US SBA mandate are covered by various departments in the Government of Canada. For example, as you heard from my colleague, John Connell, this morning, Industry Canada and BDC do the loan piece, so that's not within the mandate of OSME.

If you parsed out the elements that other departments do, you would be left with the nugget or kernel of the five elements that Mr. Jordan outlined for you, which are very similar to OSME. While OSME's mandate is on a much smaller scale, it's very similar to what the US SBA does.

I thought I'd run through a few of the examples. For example, the US SBA and OSME both work with agencies and other government departments. With OSME, we focus mainly on Public Works because we do have a common service provider for procurement, which is Public Works, and we focus on the policies and procedures so that small business interests will be taken into account in commodity management, etc. We strive to improve the links between the supply and the demand side of procurement to influence change within government procurement, such as ongoing work we're doing with the Treasury Board Secretariat and Industry Canada. We work very closely with other partners in the government.

Like the US SBA, OSME educates and trains SMEs to encourage and assist them to participate in federal government procurement through multiple seminars and outreach programs. We facilitate discussions between SMEs and other government departments. Our regional round tables with like-minded organizations are very successful. Similarly, we do use technology to streamline our relationship. For example, like the US SBA, we have a variety of systems that enable suppliers and small businesses to access... In Canada it would be small and medium businesses. I keep using "small business" because Joe Jordan referred to small business. That's how they define it in the United States, though you may have noted that all of his examples would have been more than our small and medium businesses. I think the language is pretty comparable. What they do and what we do is focus on the sector of the economy that isn't large multinationals, essentially. It's a definition they've chosen as a result of trade agreements.

Anyway, we use technology to enable supplier access to federal government procurement.

• (1140)

**The Chair:** Excuse me, I'm just going to interrupt here. It's a great answer, but it's starting to look like a presentation.

**Mrs. Shereen Miller:** I'm almost done.

**The Chair:** Are you? That's great, because there are other members.

Please continue if that's the case, and I'm sorry to interrupt.

**Mrs. Shereen Miller:** Yes, one more second. I just wanted to say that for the systems they have, we have one that matches all of them. Supplier registration, opportunities for procurement, contract history—all of those things we have and are actually hosted by OSME.

The last thing I would say is that in terms of measuring their success and our success, one of the things I would like you to keep in mind is that they have had over 50 years to do this; we have had fewer than five. To quote a great man from yesterday, he said he's proud of his accomplishments in the first 100 days, but he's not content. I think that could be OSME's model. We're very proud of our accomplishments, but we're not content.

In answer to your question, that would be my submission.

**The Chair:** Thank you very much for putting those things in perspective. I guess that's the best way to put it—useful perspective, I should add.

Madame Bourgeois, for eight minutes.

[*Translation*]

**Ms. Diane Bourgeois (Terrebonne—Blainville, BQ):** Thank you, Mr. Chairman.

Good morning, ladies and gentlemen. First of all, I would like to thank Industry Canada for the great documentation and the pretty comprehensive overview it provided us this morning with respect to small and medium enterprises. That will help the Committee.

Ms. saint pierre, I do not often congratulate you, but I am going to today. I was impatient to receive your answer to the question I asked you, and we did in fact receive it this week. Your document has provided us with an enormous amount of information about the current situation and answers both my question and those of my colleagues. So, I wanted to express my thanks.

My first question is addressed to you, Ms. saint pierre. The issue we are currently examining actually flows from the initiative called "The Way Forward". That is my understanding. The purpose of that initiative was, and I will quote you on this: "[...] to simplify procurement processes in order to reduce administrative costs; [...] realize savings in relation to all purchases of goods and services."

However, the document you have provided suggests that the projected savings were considerably overestimated at the time. It even said that the targets set in terms of the potential savings will never be met. In the document, it says that the department realized a saving of \$69 million in 2005-06 and \$225 million in 2006-07, for a total of about \$300 million.

Ms. saint pierre, within your department, as a result of new work tools for staff and specific arrangements that you have made, you were able to save \$300 million, without resorting to bundling. Is that correct?

**Ms. Liliane saint pierre:** Miss Bourgeois, that is a broad question.

In 2005, the government introduced the initiative known as *The Way Forward*. This was a procurement strategy for the government as a whole, and not only Public Works, even though it is the main federal player in that area. Our goal was to propose ways of providing access services to departments that would be smarter and quicker, in addition to costing less.

At the time, after doing some analysis, we came up with the 10-10-50 formula, which meant 10 per cent lower costs, 10 per cent in in-house cost reductions for service delivery and, in particular, the procurement process. As you have heard Industry say on a number of occasions, the process was extremely time-consuming. We did some analysis and came forward with a number of potential solutions. So, an analysis was done of the goods that were procured.

In terms of the results, the expected savings were not realized in the projected timeframe. We wanted to move very quickly to realize savings. Having said that, as the document states, we did save money. Considering what was implemented, the savings realized were appreciable. Let me give you an example that comes to mind. The federal government reached agreements regarding travel. The number of companies operating in that area is limited and they were all invited to tender. After that, we negotiated reductions based on the projected volume of business travel. That is the kind of thing we did as part of that initiative.

Having said that, the cost is very significant, but we also have to consider other objectives, such as improving government services. In 2007, we introduced a new procurement renewal initiative.

• (1145)

**Ms. Diane Bourgeois:** The goals to be considered, as you say, were set out in answer to a question asked in the House by my colleague, Meili Faille. However, Mr. Chairman, they were never specifically stated before this Committee. Therefore, I would like to table them at the end of the Committee meeting, if that is all right. It will be an opportunity for all to see that there are a number of very acceptable goals, in addition to the financial ones.

However, I would like to come back to cost reduction. I would like to know what the current cost of the Office of Small and Medium Enterprises is. Are you able to tell me that, either Ms. saint pierre or Ms. Miller? What kind of budget do you have?

**Mrs. Shereen Miller:** I could give you a precise answer to that question, if I can find the figures here in my papers.

Our budget is divided into two sections. There is one budget for the six regional offices, the funds for which are provided by Treasury Board. That funding was made available to us as part of the Federal Accountability Action Plan. The total funding is \$3 million. In addition, we have a budget for Headquarters through which we have received between \$2.3 and \$2.5 million over the four years of its operation. The total amount is between \$5 and \$6 million.

**Ms. Diane Bourgeois:** I think it is important to emphasize that, within your department, work methods and contract arrangements were restructured, allowing you to save millions of dollars.

On the other hand, we have seen today that Industry Canada also assists small and medium enterprises. That department has its own website. The Business Development Bank, as well, helps small and medium enterprises. The same applies to MERX. Local Development Centres do the same, as do CFDCs. In fact, there are so many organizations out there providing assistance to SMEs that we need an Office of Small and Medium Enterprises. I should mention in passing that this office only deals with 28 percent of such businesses. Officially, it is there for 100 percent of the SMEs in Canada, but OSME representatives have told us that they work primarily in the regions and that only 28 percent of SMEs are actually located in the regions. I would just like to know whether there are not some savings to be made there as well.

I have nothing against Ms. Shereen Miller, but looking at the vast array of services available to SMEs, I am wondering whether it might be a good idea to help PWGSC to focus on the assistance provided to SMEs by Industry Canada.

In any case, I do have questions about the OSME. I expected Ms. Miller, in anticipation of such questions, to give us a nice deck explaining what the BDC does, what they do, what CFDCs do, and so on. That is both a comment and a question.

• (1150)

**Mrs. Shereen Miller:** Indeed, it would be helpful to give a more fulsome explanation of everything the government is doing for SMEs. I did not mean to insinuate that the OSME is not responsible for other funds, because it is. That is the case for MERX, for example. We are also responsible for MERX. That means there is an additional \$7 million there for MERX.

As well, we are responsible for the registration system known as "Supplier Registration Data", as well as other systems that are part of the portal we are in the process of developing. We will be working with our partners to ensure that this portal will be a gateway for all enterprises interested in government procurement, with all federal departments and Public Works clients.

I did not want to give the impression that all of this was not concentrated in our shop. Indeed, everything dealing with procurements goes through the Office of Small and Medium Enterprises.

[English]

So that is not dispersed across government.

[Translation]

**The Chair:** Thank you.

Mr. Gourde, for eight minutes.

**Mr. Jacques Gourde:** Thank you very much, Mr. Chairman.

My question is addressed to Ms. saint pierre.

It would seem that it is difficult for SMEs to deal with the federal government, often because of a lack of personnel or information. Is there something your department, Public Works and Government Services Canada, could do to assist these SMEs? In terms of calls for tenders, is there a structure in place to help them get through the process?

**Ms. Liliane saint pierre:** Thank you.

The answer to that question is yes. There is, in fact, a structure in place. There are a number of avenues open to small and medium enterprises. Of course, we always want to do more. We talked about the role and mandate of the Office of Small and Medium Enterprises, where staff are dedicated exclusively to assisting SMEs. That assistance and these points of contact are not only part of the procurement process. On the contrary, it is available right from the outset either in person, through the websites or at information sessions. The amount of contact with SMEs has grown considerably. In the last year, there were more than 18,000 separate interactions with SMEs, either individuals or several people together.

I also want to stress that, within our processes, we are making increasing use of letters of interest. We publish our statements of work in advance; we let SMEs know about our future requirements. This gives not only small and medium enterprises, but all businesses or individual suppliers an opportunity to ask questions. Because there are points of contact; they have direct access. They can get in touch with us verbally or in writing. Our goal is to be accessible to all businesses; however, at the same time, some of our initiatives are specifically aimed at SMEs.

•(1155)

**Mr. Jacques Gourde:** As I understand it, letters of intent are used primarily for services or goods that the government will be requiring in six months, a year or two years later. SMEs receiving these letters can then adjust their production or purchase certain equipment in order to be in a position to bid. Unless they do that subsequently. Is there is a time lag between the two?

**Ms. Liliane saint pierre:** Letters of interest indicate that the government is expecting to have certain requirements and that there are opportunities there. It allows businesses to decide, with respect to the specific product or service, that it might be a good idea to position themselves. In fact, if it is a very important product that a business can only partially provide, it may want to position itself with suppliers who are able to supply the complete product.

Let me give you an example. Recently, we issued a large long-term contract for the production of military clothing. The request was disseminated through the MERX system, but there are obviously not 200 companies in Canada that specialize in that line of business. In any case, it attracts their interest and gives businesses only able to provide some of the components an opportunity to get together with other companies to make a joint bid.

**Mr. Jacques Gourde:** That is very interesting. I believe the basic principle that Public Works operates on is openness, as you have just demonstrated with respect to the services and products the

government wants to purchase. Transparency and equity are also part of the equation.

After the process is completed, if a business feels that it has not been treated fairly in the tender process, can it go to court or ask the Canadian International Trade Tribunal to review it? Could you give us some statistics about the number of challenges in the 2007-08 fiscal year?

**Ms. Liliane saint pierre:** A business has a number of options when it believes there has been a glitch in the process. If the purchase is subject to the Free Trade Agreement — such as NAFTA and particularly the Agreement on Internal Trade here in Canada; those are the two that are best known — businesses can appeal or file an application with the Canadian Tribunal.

In recent years, the number of such cases has really been minimal. At the same time, we would obviously like for all processes to be perfect.

We carry out some 60,000 transactions each year, including 40,000 contracts. The others are amendments or simply other techniques. Of those 40,000 contracts, I unfortunately am not able to tell you exactly how many are subject to free trade agreements, but the vast majority of them are.

When we appeared the last time, we provided you with some statistics, including one that I would like to reiterate. In 2007-08—it may have been the calendar year—80 companies filed a complaint with the Canadian Tribunal. Fifty-nine complaints were not even considered at the outset. At the end of the process, eight were considered and four were deemed to be valid.

In statistical terms, that is a very low percentage. Even so, our goal is to have an open, fair and transparent process. The ultimate goal would be for there to be no complaints whatsoever.

•(1200)

**Mr. Jacques Gourde:** As you just said, the goals are commendable: transparency, equity and openness. In this whole process, do you have any structure in place to help businesses and provide them with the necessary support? You talked about trade, and so on. If businesses want to ask questions, is there a mechanism whereby they can do so?

**Ms. Liliane saint pierre:** Yes, there is. I would like to ask Ms. Miller to provide additional details with respect to those activities. I must say that, in terms of structures, the Department of Public Works has an important role to play, but our colleagues in other organizations—and last year, you had a presentation from senior officials at the Canadian Tribunal—also have a structure in place to keep people informed, should problems arise. Because there are a number of players and various doors people can knock on, there are a number of people available to provide support, when needed.

Ms. Miller.

**Mrs. Shereen Miller:** It is important to remember, first of all, that we have a toll-free line that people can call to get answers that do not deal specifically with competitions. This is a way of helping people to navigate in the system and understand how to properly manage the process. After that, they can be briefed by procurement officers who have led the process, in order to find out why the result was what it was. As a general rule, successful bidders are not the ones that complain. Those that are unsuccessful are able to request a briefing.

[English]

On supplier debriefing, we at OSME, in cooperation with the Office of the Procurement Ombudsman, have recently posted on the website a reminder to all suppliers and procurement officers about the policy on supplier debrief. When a supplier seeks to have a supplier debriefing they can have one, and they are entitled to receive as much information as possible, given trade restrictions. But even if you can't give the specifics of certain elements, you can always give the gist. They need to know they are entitled to that.

**Mr. Jacques Gourde:** Thank you.

**The Chair:** The last opening round goes to Mr. Martin.

**Mr. Pat Martin (Winnipeg Centre, NDP):** Thank you, Mr. Chair.

Thank you, witnesses, and good morning.

I'm interesting in starting, Madam saint pierre, with some of your statistics. I'm interested and even kind of heartened to see you report that the \$4.8 billion worth of goods purchased from SMEs constitutes roughly 49% of the total value of business transacted.

You note that in 2005-06 it was at 43%. I've noted in our research that in 2006 the Minister for Public Works at the time, Senator Fortier, made a public announcement that from then on at least 40% of government procurement would be from SMEs, but you were already purchasing 43%. It strikes me as a little like taking credit for the sun coming up if you announce that you're going to strive to achieve what you're already doing.

I'm wondering what concrete steps Minister Fortier took to try to achieve what he was already achieving or what kinds of memos or directives took place. It seems like setting the bar kind of low to promise to achieve less than you're already achieving. Is there an inconsistency here or what?

**Mrs. Shereen Miller:** If I could answer that, Minister Fortier actually was relying on statistics related to the overall buy. To be very specific, the 49% is actually purchases by Public Works, as a common service provider, when you factor out foreign companies. It's the relative amount for total contract value related to—

**Mr. Pat Martin:** All Canadian companies.

**Mrs. Shereen Miller:** —companies located in Canada. Right. So that is an important distinction.

**Mr. Pat Martin:** It's a hugely important distinction.

**Mrs. Shereen Miller:** It's a little like comparing apples to oranges. When he made that announcement, actually, I think the overall was less than 37% at the time, so it was actually going to be a stretch to bring it up above 40%, but we have.

In a sense, on the 43%, 46%, and 49%, the reason we select that representation of the statistics is that it factors out a lot of other complicating factors when you factor in foreign companies, so over those three years, we were trying to compare like companies located in Canada. That's what the difference is. So he wasn't being cute.

• (1205)

**Mr. Pat Martin:** He wasn't being cute? Well, he may have been, but....

I'm also interested in this very helpful information that you brought in, Mr. Connell, regarding the state of the nation, as it were, for SMEs generally. You point out that the inability to find venture capital is a huge concern amongst the SMEs that you're in touch with. I note that the labour-sponsored investment funds were created with that hope in mind, and they've kind of tanked in a catastrophic way in most places around the country. I'm still sitting on...the only time I've ever waded into investing was out of some loyalty to labour funds and I got slaughtered like everybody else, so we're not too likely to do that.

The other thing I note is that the federal small business rate is at 11% for taxes. I think that's staggeringly high. It's no wonder small businesses are having such a terrible time if their federal government is dinging them for 11%.

I would point out to Mr. Anders that in the socialist paradise of Manitoba, with the NDP government there.... Do members know what the small business rate for taxes is there?

**A voice:** Tell me.

**Mr. Pat Martin:** Zero.

**A voice:** Oh my.

**Mr. Pat Martin:** When we took over from the Conservatives, it was at a crippling 11%, but year after year...there are now no taxes on small businesses in the socialist paradise of Manitoba.

Now that we're all socialists, you might want to take note of that, Mr. Anders.

**Voices:** Oh, oh!

**Mr. Pat Martin:** The “buy Canadian” and “buy American” thing is really getting to us. It's interesting, then, that you do break out and keep track of the amount of goods purchased from Canadian firms versus goods purchased from foreign firms. In the U.S., let's face it, they've gone protectionist, period. Their “buy American” policy, as much as they deny it, is alive and well and being acted on.

I'm interested in the crossover. Does allocating more procurement opportunities to SMEs have the consequence of buying Canadian? Are more SMEs likely to be Canadian in that context?

**Ms. Liliane saint pierre:** I can start. One of the fundamentals of the way we conduct procurement, one basis that we have to refer to, is the trade agreements. Canada is a signatory to a few trade agreements, one of which is NAFTA and the other one is AIT.

When you had an opportunity to have a presentation from the Small Business Administration in the States, they mentioned to you that within NAFTA these deals are set aside for small business. This brings the question of why we don't have a set-aside for small business, when I look at the percentage of small business in Canada. The answer comes with the AIT, the Agreement on Internal Trade, that we signed immediately after NAFTA.

We started with NAFTA in 1994, and then in 1995 we signed between the provinces and the government. Within the AIT there is no provision for a set-aside for small business. Actually, there is a provision to say that suppliers have the right to compete, so that is one of the challenges we have when we are asked why there is no set-aside for small business as such.

●(1210)

**Mr. Pat Martin:** One of the made-in-Canada provisions that I've cited at this committee before is this. To be able to prove that you've actually canvassed a competitive field in your tender, there have to be three Canadian bids in order to use the made-in-Canada provisions—to say that you've truly tested it.

In the example, an egregious example, of buses, there are only two Canadian bus manufacturers—one in Quebec, one in Winnipeg—so they went out and bought German buses.

Now, we make the best buses in the world in Canada. I think Winnipeg makes the best and Quebec makes the second-best buses in the world. Why would we buy Mercedes-Benz to carry our soldiers around? And the difference in price—get this—was \$500,000, on a \$50 million contract. It's less than the price of a set of tires on each of these buses, and we ended up buying German instead of made in Canada, made in Quebec. There's something terribly wrong with the made-in-Canada procurement provision if something like that can take place.

**Ms. Liliane saint pierre:** This is a very, very good example, to try to very quickly go through the considerations.

For military buses, the first question we ask ourselves is whether or not it's subject to a trade agreement. In this case, it could be subject to the AIT or not subject to the AIT. If it's not subject to it, the Canadian content policy applies.

**Mr. Pat Martin:** Right.

**Ms. Liliane saint pierre:** The Canadian content policy applies only when you can demonstrate that you have three. In this case, you had two and one.

**Mr. Pat Martin:** I know.

**Ms. Liliane saint pierre:** Therefore, we did take that to heart, because the requirement at first was to have one supplier, one contract.

Now, through the industry analysis, who can produce that in Canada and working in concert, when it comes time to re-procure this commodity—and there is a need—we will be in a position to propose a strategy, such as, why do you need only one contractor? If you need two contractors, then it could open the door to Canadian manufacturers, but fundamentally you have to first go back to the trade agreements and what is covered or not.

If it's covered under NAFTA, you have to open it to—

**Mr. Pat Martin:** To Germany?

**Ms. Liliane saint pierre:** You have to open it to the world, to the countries that are part of that.

**Mr. Pat Martin:** I know I'm out of time, but as a correction for the record, I said there was a \$500,000 difference to that contract. It was a \$60,000 difference, and I argue that the cost of sending Canadian military officers to Germany to supervise the construction of those buses will cost more than a \$60,000 difference. We were the low bidder, but we lost it I think because of real problems with the made-in-Canada procurement provisions. I'm not being critical; I'm just pointing that out as an example.

Thank you.

**Ms. Liliane saint pierre:** Our commitment is to take that into consideration, but again it's very important to know what our starting point is. We do have an obligation to comply with those trade agreements. If we don't, we'll be challenged.

**The Chair:** Thank you.

Ms. Foote, we're into five-minute rounds now.

**Ms. Judy Foote (Random—Burin—St. George's, Lib.):** Thank you, Mr. Chair, and thank you for this opportunity.

Thank you to the witnesses here today.

This is my first meeting. I'm new to the committee, so forgive me if some of my questions have been answered previously.

As a former minister of industry, I'm really interested in the whole business around small and medium enterprises, access to capital, and what we do to make it possible for them to access capital and procure contracts. No matter where you are—in a province, a territory, or the country—any small or medium-sized enterprise, or large enterprise for that matter, will look to governments as a wonderful opportunity for sourcing contracts. Governments tend to be around all the time, so there's no chance of that contract not proceeding.

I want to pick up on where my colleague Mr. Martin finished off in set-asides for small and medium enterprises.

Ms. saint pierre, is it your position that there should be set-asides for small and medium enterprises?

●(1215)

**Ms. Liliane saint pierre:** It's an interesting question, in the sense that in order to come up with a position on this we need to go through quite an analysis that leads to negotiations as part of the trade agreement.

I was involved in one type of set-aside—the aboriginal set-aside—and it has had some results, but you have to look at where they started from. When I look at the contract value that has been allocated directly to small business so far, there has been huge progress in the last few years without set-asides.

The other point I want to make is that you can make statistics tell a lot. When we report 49%, it is for direct contracts. It doesn't take into consideration all the subcontracting work that goes through those small businesses as part of those large contracts. If we had the data and could put the two together, the percentage would be much higher.

So we really need to think carefully in developing those strategies and negotiating set-asides.

**Ms. Judy Foote:** When you determine criteria for the purchase of products or services by the government or a government department, how do you go about doing that? Who do you involve in that process?

**Ms. Liliane saint pierre:** Because we are talking about small business mainly, my comments relate to commodities the government buys in large quantities.

To the question that Madame Bourgeois raised before, we mentioned that in *The Way Forward* initiative in procurement renewal we did focus on commodity management and trying to determine the best way to approach and to procure. More and more, as a result of the analysis of those buys, we involve both government departments and the industry to develop the standard requirements. I will give you an example that is just off the press.

The government announced today the award of 125 standing offers or supply arrangements, which is technical, to temporarily help firms in the national capital region. Of those 125 firms, more than 90% are small or medium-sized businesses. The requirement definition for that was done with industry and government departments. It's the result of 40 meetings that were held since 2006 with industry and those departments, the main users, in order to come up with the best requirement definition that could be open to all. In this case, it's very important, because what they are offering is temporary help services. That could range from an administrative service that you require one day to something much more specialized, but always on a short-term basis.

So more and more for standard commodities we develop the requirement with the involvement of the private sector and government departments.

For larger requirements, when we have a statement of work or requirement definition, if it cannot be developed with a specific sector of the industry, or even if it's being developed, we'll approach them through a letter of interest or through a draft statement of work and we'll invite the industry that is keen to bid on that, who has an interest, to provide comments, simply to make sure that those requirements are open and accessible and so that through a certain mandatory specification, you don't eliminate a very large group of people and so on. It's not targeted to only one supplier and one product.

• (1220)

**Mrs. Shereen Miller:** Perhaps I could also add that on top of the formal consultations, we work very closely with industry associations as well, so my colleague DGs in the Acquisitions Branch and I spend a lot of time actually with industry associations discussing the strategies and the processes that are going on in Public Works. That piece of it is very transparent.

**The Chair:** Thank you.

Ms. saint pierre, the area you've described pertaining to the recent announcement, that was in the temporary personnel sector, was it?

**Ms. Liliane saint pierre:** Yes.

**The Chair:** Okay, thank you.

Monsieur Roy, for five minutes.

[*Translation*]

**Mr. Jean-Yves Roy (Haute-Gaspésie—La Mitis—Matane—Matapédia, BQ):** Thank you, Mr. Chairman. Before asking my questions, I would like to table the document referred to by Ms. Bourgeois and ask that it be appended to today's proceedings. It deals with the same subject that was addressed by another committee.

I would like to direct my questions to the other witnesses, who are not from Public Works and Government Services Canada. I would like to have them provide a little more information. For example, I would like to know what you consider to be a small and medium enterprise. In terms of the number of employees, based on what data does Industry Canada determine that a company is small or medium-sized? In your material, you say that 98 per cent of the 2.3 million business establishments in Canada are considered to be small enterprises, that 74 per cent of them have fewer than 10 employees and that 57 per cent have between one and four employees.

What is your definition of a small and medium enterprise in Canada?

**Mr. Denis Martel (Director, Research and Analysis, Small Business Policy Branch, Department of Industry):** Thank you, Mr. Roy.

The usual definition of a small business is one with 100 employees or less. These figures are based on that definition.

**Mr. Jean-Yves Roy:** Thank you, that answers my question. Public Works and Government Services Canada defines an SME as an enterprise with 500 employees or less. That is what you mentioned in your document, in the answer you provided. If foreign suppliers are removed, 98 percent of the business establishments in Canada which are small and medium enterprises with fewer than 100 employees receive 49 percent of the contracts.

In the table you provided, you say that SMEs are firms with 500 employees or less. That does not answer my question. For example, does that mean that 30 percent of these contracts are awarded to firms with 400 or 500 employees? That is my question. We have been told that 98 percent of Canadian businesses have fewer than 10 employees.

**Ms. Liliane saint pierre:** Mr. Roy, thank you for your question. Before giving Industry Canada officials an opportunity to respond, I think it is important to clarify that a small enterprise has fewer than 100 employees and that a medium enterprise has fewer than 500. The statistics we provided you include both. We could give you statistics on firms with fewer than 100 employees, in order to make the distinction between the two. However, because we have a group called « small and medium enterprises », that is the way we present the numbers. I believe the same applies to the Department of Industry.

**Mr. Jean-Yves Roy:** Your table does not really answer my question. If it is true that 98 percent of firms have 10 employees or less, are the 2 percent of firms with 100 employees or more being awarded 49 percent of the contracts? That is my question.

I have another question for Industry Canada. Small and medium enterprises are having trouble accessing the Department of Public Works. Let us talk only about small businesses for the time being; we will just forget about medium enterprises—the ones with no more than 500 employees. There is an access problem. There is also a problem accessing Industry Canada, particularly in the regions.

The complaint that we constantly hear from small and medium enterprises—and when I talk about small and medium enterprises, I am referring to those that have 100 employees or less, and not 500 employees or less—relates to how to access federal government services. There is not a single gateway. Ms. Bourgeois gave examples of this: CFDCs help businesses, the BDC help businesses, Economic Development Canada does so as well, as do the agencies and Industry Canada. A small business does not necessarily have all the necessary research tools to know which is the right door to knock on. There is no one-stop access point to reach the federal government.

Mr. Jordan, who talked about problems in the United States, referred to a single gateway for small and medium enterprises. For procurement, there is a single access point. Has consideration been given to creating a single gateway for small business?

• (1225)

**Mrs. Shereen Miller:** Yes. Of course, we have chosen Internet as the vehicle that is most accessible to everyone. We are currently developing a business portal. This will be a one-stop gateway. Even before building the portal, we already had a presence on the Internet—a very accessible presence. We have connected all the functions that you described by means of links. It is very easy to navigate from one to the next. Also, toll-free numbers are available for people who want a lot of information about other programs. We can steer people in the right direction. Those gateways are already very well organized in order to encourage...

**Mr. Jean-Yves Roy:** When you talk about a gateway, you are not talking only about Public Works and Government Services Canada. You are talking about all departments. Using the Internet, a small and medium enterprise could find all available information regarding all the other departments.

**Mrs. Shereen Miller:** We will be building it for Public Works and Government Services Canada. At that point, the departments that want to incorporate their own specific procurement projects will be in a position to do so. It will be open to them as well.

**Mr. Jean-Yves Roy:** That does not answer...

**Mrs. Shereen Miller:** We are the ones building it. The first step is to develop it, and when the single gateway is in place, people will be able to enter.

**Mr. Jean-Yves Roy:** If the other departments have a choice, ultimately that will not resolve the problem. When we talk about a single gateway, we are talking about an access portal to all information relating to small business. If you say that the other departments have a choice in this, then some will decide not to participate and we will have the same problem as before.

**Mrs. Shereen Miller:** Those are precisely the obstacles we are currently reviewing. We are working with our partners and looking at all the areas where there have been complaints, because the difficulties they are encountering relate to just about everything—from registration, to obtaining a number allowing you to deal with the federal government, to receiving information about tenders on MERX. The mandate of the Office of Small and Medium Enterprises is to facilitate access to the government. I cannot speak for the other departments, but I can tell you that our role is to facilitate access for small and medium enterprises.

**The Chair:** Thank you.

Mr. Warkentin.

[*English*]

**Mr. Chris Warkentin (Peace River, CPC):** Thank you, Mr. Chair. Thank you, witnesses, this morning—turning into this afternoon. We appreciate your testimony to us.

I want some clarification of the numbers. We had the opportunity to speak to our American friends with regard to their efforts to include small businesses in their government procurement numbers. My understanding is that the United States is seeking to suggest to their departments and agencies that they reach a number in the mid-20s; I think it was 23%.

Just to clarify the numbers again, my understanding from your testimony is that for contracting with the federal government in Canada, the percentage is in the high 40s, is it?

**Mrs. Shereen Miller:** For Public Works, as related to total value of contracts given to companies located in Canada, 49% has gone to small and medium enterprises in the recent year; previously it was 46%, and the year before that 43%.

• (1230)

**Mr. Chris Warkentin:** So the numbers are continuing to go up.

**Mrs. Shereen Miller:** That is the trend.

**Mr. Chris Warkentin:** That I think gets to the bottom of what we as a committee are trying to consider and get to the bottom of. Obviously, in any contract there are always people who don't receive the contract and people who are disappointed as a result of that.

There are also folks who are concerned every time there is a change by government, because government by its nature is big. It has a lot of large moving parts. When there's talk of changing the way the procurement exercises are undertaken, people get nervous. We understand that and we appreciate the concerns people have brought to our attention. I hope we as a committee come forward with some suggestions that might help resolve some of the concerns.

What came up in some of the most recent meetings—Ms. saint pierre, maybe I can just put you on the spot for a moment—is the whole issue of government by its nature not being prone to be interested in taking large risks. There was a sense that possibly—and I understand where the suggestion comes from—small companies by their nature sometimes, especially when it's a new technology or some type of innovation involved, present a risk to the purchaser.

I'd be happy to hear about this issue from any witnesses who have any input on it. Is there a plan to encourage government agencies and departments to take a risk? Government by its nature is risk-averse. Is there any type of initiative that will allow people within departments to take a risk, especially with some of the newer technologies or innovations that are being presented by new and small businesses? By their nature, small businesses are usually the ones who are the innovators.

**Ms. Liliane saint pierre:** This is quite a big question. It's twofold, because we could spend hours on risk and what it is. If you compare with a major crown project to build some frigates and all that's involved in that, the notion of risk is different from when you're talking about risk related to the government using new technology in that sense.

On the first point in those questions, about risk inherent in the performance of a contractor, a lot of discussions are taking place. The department is committed with key other departments to look at the risk-sharing in some of our major contracts and the cost of our always wanting to take as little risk as possible. By doing so, we put the burden on the contractor for the delivery of large projects, and there is a cost to that.

The fundamental question is how we determine the minimum acceptable risk related to those large projects, and there is work being done on that. The topic today is SMEs, but we have large firms that keep coming back, and we do benchmarking with other countries to see.

Now, related to innovation and technologies tied to SMEs, I keep reading and hearing and finding examples of our Canadian SMEs being leaders in developing innovative technologies, mainly in the area of environment and greening. As such, it's very important for them to have the government. If the government buys those innovations, that is very good marketing for them, to either export or to sell to other businesses that might require them.

My understanding is that as of now there is a whole group, a committee being led by Industry Canada, that is looking at innovative technologies and how we could help advance and promote them within the government and within the country. Unfortunately, I don't have much additional information on this.

• (1235)

**Mr. Chris Warkentin:** I really appreciate this. We've heard testimony of people who were concerned about these folks, Canadians who are building some very innovative and leading-edge technologies. The difficulty was that many times the RFPs coming out weren't asking for what their new technology was; they were asking for what the old technology was. There was possibly some disconnect there. We appreciate that this is something the government is working to address, because it is a concern we have heard around the table. I think we as a committee have been concerned to ensure that we as government were on the leading edge.

My sense is that we sometimes purchase in a reduced-risk atmosphere or in an effort to reduce the risk, because a flop of a technology or a flop of a project is obviously big news, whereas we never talk about and there's never a headline about the major success and the savings of dollars we incur as a result of adopting a new

technology. There is the relationship with the taxpayers, the people who entrust us with their money to get the job done. I know there's a challenge, and I'm not sure how we get entirely around that whole issue of the fact that in some cases projects will fail, if in fact we are an early adopter of new projects.

I appreciate your answer.

**The Chair:** Thank you for soft-landing those issues for us, Mr. Warkentin.

I go to Ms. Hall Findlay for five minutes.

**Ms. Martha Hall Findlay:** Thank you, Mr. Chair.

I wasn't sure if indeed I had any time left.

I have a question about the portal. I appreciate the value of it, but when you talk about a portal—and this is following on my colleague's earlier question—all well and good, in the description that you want a portal to come, one door to get into the room. It's all well and good, but if the room doesn't actually have all of the furniture you need, then the portal is not going to do you a whole lot of good.

I really would like to ask Mr. Connell—and I recognize that you might have a bit of a difficulty politically, but I don't want an answer that it's actually all okay. I've certainly heard the same complaint from small businesses, that there are different things in different places. What I would really like to hear from you, to the extent that you have the responsibility for helping small and medium-sized businesses, are any suggestions that you might have for how OSMI can work more effectively with you.

It's great to pick up the phone and talk to each other, but business isn't getting that sense. Can you provide some ideas, some thoughts that might in fact improve that? I don't mean just your two departments, but also Public Works' responsibility, OSMI's responsibility for small business, and indeed yours. I would suggest that it is not just with your department, but to the extent that small business operates with the rest of the government.

If you have time, I'd like to hear your recommendations on improving the BC environment, given that a number of provincial governments have made significant steps in the last few weeks.

**Mr. John Connell:** They have.

I have a couple of thoughts. The first is that as director general of small business responsibilities, it is a horizontal file. It's one of the most difficult in government to advance because you tend to look up the line to your particular ministerial priorities and ensure that what levers you're having as a department are working very well. You're on the hook to deliver on that, especially. So that's one thing. In my own area, for example, that is ensuring that the supply of financing through the BDC, through Canada small business financing, is working very well. Then we advocate influence horizontally out from that.

There are a lot of departments, a lot of agencies, that affect small business outcomes. So small business policy tends to be horizontal, including procurement policy, if you will, depending on the way you draw the line or your network. There's also tax policy—collaborating with the Department of Finance—and international trade policy and agriculture. Most departments will affect small businesses, so it's a matter of choosing where the highest incremental opportunity is to shape small business.

So we have two sets of files. One is where we have direct responsibility and the other is what I call push and prod. When a memorandum in the cabinet goes through and we have an opportunity to comment on it and influence outcomes in the interest of small business, then we will try to do that.

On procurement per se, we have had a relationship with Shereen, just kind of trying to understand the file, trying to be as helpful as we can.

On the portal, I would emphasize the Canada Business website that we do have. This goes back to 1993-94 when it was established. We have agreements with all provincial governments with respect to the website, the telephone service, and the walk-in service. We really do try to get as much information as we can within that particular program, and to make it seamless and easy for businesses to access.

Is it perfect yet? No. Is it transactional? No. Can we do better? Certainly, we can, and that is something that we are committed to do. It's an ongoing process of collaborating with our colleagues across the country, of ensuring that the content in that particular website is up-to-date. As I said, it's just a constant...you know, a link-over to procurement. I'd be happy to take you through the Canada Business website sometime.

• (1240)

**Ms. Martha Hall Findlay:** I have been there many times.

Could you speak very quickly on the VC piece?

**Mr. John Connell:** The most important way the federal government influences venture capitalists is through the Business Development Bank of Canada. There is the ongoing tax credit for LSVCCs, labour-sponsored venture capital corporations, but the BDC has been investing at a rate of \$110 million per annum. They have about 5% to 10% of the market.

**Ms. Martha Hall Findlay:** Sorry to interrupt, but specifically, a number of provincial governments lately in budgets have actually enhanced the tax credit for VC investment and augmented the limits. Is that something that you think would be helpful at a federal level?

**Mr. John Connell:** I think when we benchmark against some of the best venture industries in the world, we'll find that they're funded by institutional investors. They're naturals for investing for the long-term cycles required to realize venture capital investments. I think the question would be, how do you do more to incent teachers, OMERS, or other large pension funds in Canada to provide long-term commitment to venture?

The key to that is getting returns up. So it's kind of getting the ecosystem for venture capital, great entrepreneurs connected with financing, getting better results than we've had—not to say that there haven't been great companies in Canada, but ventures where they're

looking for a fairly high return, given the risks involved in the investment.

**Ms. Martha Hall Findlay:** Thank you very much.

**The Chair:** *Merci.*

Madame Bourgeois has a follow-up question.

[*Translation*]

**Ms. Diane Bourgeois:** Thank you, Mr. Chairman.

Ms. saint pierre, I have one final question for you.

When you appeared before the Committee on March 3, you were asked whether you had made a decision regarding contract bundling, and you answered that no decision had yet been made.

However, in the document you provided us last week, it says: "However, there have been a number of significant achievements through the initiative 'The Way Forward'. For example, a government-wide approach to managing goods and services in relation to federal procurement has been developed."

Ms. saint pierre, is it certain that a single procurement system for information technologies is going to be implemented? If so, will we have an opportunity to look at the management plan for that system? Otherwise, what can possibly be the meaning of the sentence where you state that you have made significant achievements in terms of a government-wide approach to managing goods and services?

• (1245)

**Ms. Liliane saint pierre:** That is a good question. We gave the example of temporary help. We deal with more than 100 departments, and they all have to make use of temporary help services. So, we developed a tool which allows them to access such services. We created a competitive process. As part of the government approach, we selected 125 companies that they can use. Any department that is interested can access these tools. That way, we are not continually starting the process over again, day after day, when a need arises. This is very helpful to small and medium enterprises, because they only qualify once. In addition, the ones that were unable to qualify have an opportunity to do so, because the information is updated every year. So, that is what we are talking about with respect to the government-wide tool.

As regards professional technology services, you have heard about the TBITS system on a number of occasions. It was implemented over the past couple of years and, in this case as well, companies are able to prequalify. Depending on their requirements, departments can avail themselves of these companies' services.

With respect to shared service initiatives, the federal government has an entire management system in place, as well as a series of network-related contracts. At the beginning of the meeting, we indicated that, as regards the first network-related initiative, we did hold consultations. The results of those consultations will soon be made available to you, as well as a number of recommendations affecting our procurement strategy.

**Ms. Diane Bourgeois:** I would like to come back to two points. Let's talk about the network strategy. We know that the 125 or 130 networks used by the different departments are managed. Management of those 125 networks is not a problem, but what happens to the small companies that are currently managing or helping you to manage those same networks, who were hired by the government and were given IT contracts to maintain those networks?

**Ms. Liliane saint pierre:** I am not able to discuss the results of the consultation. However, some of our observations have been that these small and medium enterprises are currently offering a lot of technology-related professional services and that they are asking that part of the professional services not be included in the procurement process. At the same time, it is obvious that we need to keep the telecoms hired to repair the network. As a result of these consultations, we will be recommending to the industry that it not include the major... There will be professional services, but not an entire range of professional services.

**Ms. Diane Bourgeois:** Unless I am mistaken, you are giving us a heads-up regarding something that may be problematic...

**Ms. Liliane saint pierre:** We will be making a recommendation. We have held consultations. When we hold consultations, we have to review the feedback. After we have done that, we will be making a recommendation.

**Ms. Diane Bourgeois:** I would just like to point out to you, by way of conclusion, that you referred to prequalification of firms who will replace public servants. I just wanted to let you know that the President of the Public Service Commission told the Committee that she had developed a website that can be consulted by every department in Canada, which costs \$7.2 million, and where it is also possible to find potential recruits. That is why we wondered about the Government of Canada's decision to recruit 100 or more outside firms to find qualified staff, when the President of the Commission has already set up a website.

• (1250)

**Ms. Liliane saint pierre:** It is very important to point out that for standing offers or temporary help agreements, there are very specific rules that apply. If a secretary or assistant is away one day, they have direct access, for set periods. This does not involve long-term replacements...

[English]

**The Chair:** I have two questions, and the first one is for Mr. Connell.

Based on the statistics we have here, the country is awash in SMEs. We have all kinds of healthy SMEs. You have a bird's-eye view. You've been in your present position for half a dozen years. In a general way, would you agree that federal government procurement is important, very important, extremely important, or not important at all to SMEs across the country?

I'm pretty sure my colleagues and I in the House take the view that it is really, really important. But I'd like your view from Industry Canada—and it doesn't have to be a political answer. I hope it'll be an answer from a professional looking across the whole thing. I'm looking at regional economic benefits and the economy itself. How important, generally, in a relative sense, is this field of procurement to our SMEs across the country?

**Mr. John Connell:** I would say it's important. Federal procurement is important, particularly to firms in certain sectors of the economy. You will find in aerospace defence that it is a lot more important than in some of the service sectors with which I'm familiar.

The other point I'd make is that we do considerable outreach to small businesses and monitor the work of the associations, the various chambers, the CFIB, and some of the ethnic-based business associations. We also monitor through the Business Development Bank of Canada. It is not an issue that comes up very often, in my outreach to small business.

Some of the issues I went through in the presentation, financing, access to human capital, particularly before the downturn in Alberta or anywhere—that was becoming the number one issue, just finding labour—exporting to some extent, always tax. But sometimes, as I say, in particular sector tables, the issue would be much more pronounced.

Heading over to the percentage of federal expenditures in respect of procurement, Denis was saying relative to total expenditures....

Denis, I don't know whether you have those numbers in mind.

**Mr. Denis Martel:** Well, based on the figures we heard from our colleagues at *Travaux publics*, it's \$5 billion, and the government expenditures are about \$200 billion, so... It's important to look at our own operations, which is partially the purpose of the committee, but in the overall picture it is a very small component.

**Mr. John Connell:** The only other point I'd add is international benchmarking, so that we stay in touch with peers in other OECD countries and with countries in Asia-Pacific Economic Cooperation. They have various study plans, supported by secretariats. Again, it's not an issue that's particularly coming up in those fora that are dedicated to supporting ministers responsible for small business policy. Ministers will gather from time to time, and I don't hear it in that context.

• (1255)

**The Chair:** Thank you.

Ms. saint pierre, over the last 10 or 20 years, our economy, and many of the developed economies around the world, have found ways to evolve their goods and services supply chains and package them into extremely efficient, well-financed, globalized supply chains. You can get a widget from the other side of the world here in seven and a half days. Much of it is extremely efficient. Some of us have called it the “Wal-Martization” of procurement. I'm sure your department is attracted to that model, because in many ways the business world—the economic world, the financial world—has produced these supply chains, and they're very efficient. But in terms of political representation in the House of Commons, almost every member of the House will be fighting for his or her constituency. So the Wal-Martization doesn't always fly in government procurement.

I know there'd be a propensity in the department to go for what we call the “bundling”, the big supply chain, but can you tell us that your department is, in some ways, resisting that? I know it sees the benefits of it, but is it also going to find ways to make room for small and medium-sized businesses? Tell me that when your department designs its procurement you will resist the tendency to turn everything into a Wal-Mart globalized procurement supply chain.

**Ms. Liliane saint pierre:** First of all, I think it's very, very important to keep in mind that we buy on behalf of all the departments, and departments are determining their needs. The strategy we have developed as a way forward in department renewal is that for all of what is commonly bought in large quantities, we are developing strategies, government-wide, on access that, if you look at the results right now, qualify as many firms as possible.

We could have looked at temporary help and said let's go with one or two firms—after all, it's just NCA. But that was not part of the strategy when you look at all the considerations we have. Public Works has a lot to say when it comes to common goods and services.

When you do move into what you call the supply chain...I will give you an example. When the Department of National Defence needs to look at maintenance for its large fleets, at that time you move the discussion to a different level, in the sense that you have to analyze with the department how you get the best value in order to ensure maintenance of the fleet. Then you could lead to a strategy that you have larger contracts related to that and that are more long term.

It is all related to what you buy, the quantity, and the timeframe: tied to social and economic benefits and other priorities of the government within the trade agreements.

**The Chair:** I just wanted to get some of those issues on the table.

As we wrap up this particular meeting, on behalf of colleagues, I want to thank all the witnesses who came today. Your evidence has been very helpful to us. It will be very useful as we try to put together a conclusion and a report on this.

**Ms. Liliane saint pierre:** I'd like to conclude by saying that we are looking forward to reading your report. We had an opportunity to review the transcripts, and there has been a lot of good value-added and innovation provided to the committee.

**The Chair:** The witnesses are now excused. Thank you again for attending.

Colleagues, we have some business to take care of, which I hope we can do quickly.

Mr. Warkentin, did you want to address your item first?

• (1300)

**Mr. Chris Warkentin:** Yes. I would like to proceed with a motion. I'm hoping I can have all members support for this.

I move:

That the 3rd Report of the Standing Committee on Government Operations and Estimates from the 39th Parliament, 2nd Session entitled "The Right Pay for Valuable Employees", be adopted as the Second Report of the committee in the current session of Parliament, that the Chair be authorized to table the report in the House, and that a Government Response be requested

**The Chair:** Mr. Warkentin, normally we need notice for a motion of this nature. We can only proceed if there's unanimous consent to deal with the motion.

Colleagues, is there consent to deal with it?

[*Translation*]

**Ms. Diane Bourgeois:** For the time being.

[*English*]

**The Chair:** I don't mean to pre-empt Mr. Warkentin, but this particular report of the committee was introduced into the House in the last Parliament.

I won't go through all the facts, but the House did dissolve for an election before the government was able to deliver its reply. The chair takes the view that technically the deadline for the reply did come, but the House dissolved shortly thereafter.

There's some suggestion that the best way to proceed is to simply reintroduce the report and ask the department to provide its reply. If colleagues are prepared to do that, we'll simply re-adopt the committee report as ours and reintroduce it into the House.

Does your motion—

**Mr. Chris Warkentin:** I should make the motion pursuant to Standing Order 109, if that's helpful, or necessary.

**The Chair:** It's the view of the chair that in introducing it we should not make any particular reference to timelines for reply. The government should be aware that this is not a fresh new report that has not been seen before.

If that's okay, we can put the motion.

(Motion agreed to)

**The Chair:** I'll introduce that next week, on Monday, I think.

What was the other item, future business?

Our next meeting on May 5 will be dealing with Bill C-18. That is a very modest, short pension reform bill. I think we should try to get that through the committee as quickly as we can and get it back into the House. I don't see any serious questioning or opposition to the bill. If it's okay with members, we'll begin the meeting with that. If we have time at the end of the meeting, we may be able to go in camera and provide some preliminary instructions to research on the procurement study.

Mr. Martin, on Bill C-18.

**Mr. Pat Martin:** I only caution that it might not be quite as straightforward as you think. Dealing with the RCMP pension is going to be a bit of a hot button issue, or it certainly could be, given that in the last Parliament the head of the RCMP lost her job over RCMP pensions. There are hugely controversial abuse/misuse allegations.

I know this bill, you're saying, is a housekeeping bill, but two things have changed since this bill was introduced, or this notion of amending it. One thing is that huge controversy, where the woman was hauled up in contempt of Parliament and is now suing the Government of Canada for losing her job over this. Secondly, the B. C. Supreme Court has said that the RCMP should have the right to free collective bargaining. This just happened a couple of weeks ago.

So their compensation and their pension issues are very much controversial right now and in a state of flux, to where I don't think there's anything straightforward about dealing with RCMP super-annuation, and we may want to call witnesses to that effect.

**The Chair:** We'll definitely have a witness or two at the consideration of the bill before we do clause-by-clause, but, Mr. Martin, I hope you keep in mind that this is what I understand is a mathematical tweak to the pension calculations. It doesn't have to do with whether or not there is a superannuation plan or not.

It's a very minor administrative tweak, but you will stand advised as to what's relevant and what's not in terms of your knowledge of the envelope. It's the chair's view that there wouldn't be a lot of issues imported on this bill, but members will make their own decisions on that. That is scheduled for that day, and should something arise during that meeting, we'll deal with it as a committee.

As I say, if there is time at that meeting, members may want to take advantage of that window to provide some preliminary instructions—not final instructions—to research staff in the drafting of a report on the procurement study.

As you probably know, the Public Sector Integrity Commissioner, which is the office created by Bill C-2, the accountability act—it has been often referred to as the whistle-blower mechanism—has tabled her report. That is referred to our committee. In addition, her main estimates are before us. I think we should schedule a meeting to deal with all of those things, including our plans and priorities. If members feel otherwise, they should speak up now; otherwise, we'll build it into a future meeting.

**Some hon. members:** Agreed.

**The Chair:** I get a sense that we may not be ready to conclude our study on procurement. Do any of the members have any proposals for additional witnesses or information before we nail this?

I'll go to Ms. Hall Findlay first, and then to Mr. Warkentin.

• (1305)

**Ms. Martha Hall Findlay:** I would just repeat my concern that we still have not seen the report. I appreciate the commitment today that this report will be coming soon, but note that there still has not been a date. I do not feel that this committee can complete its job until it has seen that report, and at that point, it would have to make a decision about whether we do need additional witnesses.

**The Chair:** Okay.

Mr. Warkentin, and then Madam Bourgeois.

**Mr. Chris Warkentin:** I've suggested this before. I should speak with them, but I would just make our committee members aware that the Canadian federation of small businesses, the CFIB, is doing a study of their own, and they actually have some findings they may want to share with us to deal with this whole issue of procurement.

I spoke to them some time ago. They said they would have additional resources for us towards the end of our report. I don't know where they are in terms of their report, but I think they may have some helpful information in terms of their findings.

I just put that out there as a suggestion if committee members are pleased to...we have heard from them, but I think they may have some additional information for us.

**The Chair:** I'd better go to Madame Bourgeois. I think she was next.

Madame Bourgeois.

[Translation]

**Ms. Diane Bourgeois:** Thank you, Mr. Chairman.

In light of the information we received this morning from Industry Canada, we are now aware of the fact that there are a lot of portals or departments providing services to small and medium enterprises. I tried to draw a parallel but I did not go about it the right way; so, I missed an opportunity with my question.

The Office of Small and Medium Enterprises is providing a service which seems to be provided by many other different departments. For example, Industry Canada and the Business Development Bank of Canada provide services and are each supported with their own website. There is also MERX.

Would it be possible to be given a chart showing the different service offerings for small and medium enterprises? The Board of Trade and Industry in Thérèse-De Blainville tells me that there is no problem and that it, too, provides such service. So, there is clearly duplication of effort. I have nothing against the Office of Small and Medium Enterprises, but I do not feel that there is any real need for it.

However, Mr. Chairman, I would like the Committee to review that matter.

•(1310)

[English]

**Mr. Paul Calandra (Oak Ridges—Markham, CPC):** Mr. Chair, can we have a motion to adjourn? At every meeting we seem to go well past one o'clock. I'm on House duty, I have to eat lunch—

**The Chair:** I will personally allow the member to withdraw and get on to his other weighty responsibilities.

**Mr. Paul Calandra:** Well, could we somehow, in some way, find a way to end our meetings at one o'clock?

**The Chair:** It would be wonderful if we could.

**Mr. Paul Calandra:** It would be wonderful. If we ask the witnesses to remove themselves 15 minutes earlier—

**The Chair:** If you want to cut off Madame Bourgeois, Ms. Hall Findlay, and Mr. Warkentin, feel free to move the motion.

**Mr. Paul Calandra:** I would never like to cut off Madame Bourgeois—

**The Chair:** Ms. Hall Findlay, do you have something cogent you want to add to the record before we adjourn?

**Ms. Martha Hall Findlay:** Well, I guess cogency is in the eye of the listener—

**The Chair:** Yes, we have several here.

**Ms. Martha Hall Findlay:** First, I would actually like to concur with my colleague. In other committees, we do finish with the witnesses ahead of time so that we can deal with committee business before the end of the meeting. I agree.

I would ask Mr. Warkentin, if he's in contact with the CFIB, to ask them to produce what they have as quickly as possible so that we can actually do all of this together. I think that would be very helpful.

Thank you.

**The Chair:** Okay.

Lastly, I want to thank Mr. Warkentin for facilitating the appearance of Mr. Connell and Mr. Martel from Industry Canada. I'll thank him in advance for arranging the comprehensive response to the report, which we're just about to table.

Don't forget that we're meeting with the Pakistani delegation on May 13. All members are welcome.

Seeing no further business, we can adjourn. Thank you.

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