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Chair

Mr. Brent St. Denis

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Standing Committee on Industry, Natural Resources, Science and Technology

Monday, June 27, 2005

•(1530)

[English]

The Chair (Mr. Brent St. Denis (Algoma—Manitoulin—Kapuskasing, Lib.)): *Bonjour, tout le monde.* Good afternoon, everyone.

I'm pleased to call to order this meeting of the Standing Committee on Industry, Natural Resources, Science and Technology on Monday, June 27.

Before we welcome our witnesses and start a session on Technology Partnerships Canada, TPC, I would like to mention that if the House is still sitting as of 3:30 on Wednesday, we'll tackle our industrial strategy study. It will be an opportunity. If we are recessed by then and you want to show up, you can try, but I think you will be heading to the airport.

You have by e-mail the French and English versions of the first issues and options paper that Dan has done on foreign direct investment. It's available to you. Dan will do the other three over the summer. It is a guide for us as we pursue our report.

If we don't meet Wednesday, we'll have to do this by e-mail. We hope we have a chance to do it on Wednesday, but it's fifty-fifty.

Yes, Paul.

[Translation]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): I spoke last week about Bill C-19, the amendments to the Competition Act, and about the fact that some people had called for the retailers to send a copy of their testimony before appearing at the committee. Since then, people from that group have told me that they received telephone calls from the minister's office asking for the same thing.

I think that this is getting a bit out of hand. I would like us to confirm to these people that we will receive them as witnesses in the fall, before passing Bill C-19. The minister's office has made representations, and I was even told that the minister's chief of staff had called the retailers' association to put pressure on them to send the text that the association intended to present to the committee before it was submitted to the committee. If that is the case, it is unacceptable. I have no reason to doubt their word. To put an end to this issue, I would ask you to assure these people that we will have them here as witnesses before moving to clause-by-clause consideration of the bill in the fall.

[English]

The Chair: Thank you, Paul. I am aware of the same correspondence. We are all aware of that.

We had tried to have the retail council come either today or on Wednesday. In neither case was Professor Hogg or the chief spokesman, the president, available today or on Wednesday. We tried.

I spoke to Peter Woolford. He came to my office for a few minutes, along with the CEO, Diane Brisebois. I explained that the committee is the master of which witnesses come, but I felt that the committee would be agreeable to having them here when we come back in the fall. I think everything is on the rails. We can put the interesting correspondence behind us and look forward to their testimony in the fall.

We are pleased to have with us today Mary Ellen Cavett and Tom Wright, from Industry Canada.

We are responding to a motion adopted by the committee and put forward by Brian Masse, if I may characterize it generally, to have a look at TPC today, particularly from an audit perspective.

We'll remind members that it's fair to ask our witnesses questions about past audits, the results of past audits, and the terms of reference for any current work being done. But I don't think I could allow any questions about things that are being studied, on the basis that if they're incomplete, then any attempt to get answers would be inappropriate. I think I would excuse our witnesses if they could not answer.

James.

Mr. James Rajotte (Edmonton—Leduc, CPC): Can I get something clarified, Mr. Chairman? Mr. Masse's motion calls for the auditors to appear. On a clarification from you and the clerk, did you invite the auditors?

The Chair: For this very first session, James, given that we only had a short time to put it together, I said I would do the best I could, in conjunction with the clerk. On short notice, we could get some of the senior management in to talk about the methodology. I'm sure we're going to have more than one session on this. As we go forward, getting to the auditors will be something we can pursue.

There was no intention to divert from the topic. It was only an attempt to somehow get us started on short notice. The committee can take this where it wishes.

Mr. James Rajotte: They will be coming before the committee.

The Chair: As far as I'm concerned, they would be.

Go, ahead, Paul.

• (1535)

[Translation]

Mr. Paul Crête: Mr. Chairman, the second part of the motion reads as follows: "The committee will examine the role of lobbyists in the allocation of funds from Technology Partnerships Canada (TPC)." Because of that sentence, I thought that we would not be prevented from asking questions, not about the details of the investigation, but about how the program operates and how lobbyists would have come to violate... Without examining particular cases, we could gain a better understanding of the situation from today's meeting.

[English]

The Chair: We should be able to look at that in general. We'll just take it as it comes and feel our way along.

Mr. Wright, are you going to speak for five to seven minutes, by way of opening remarks?

Mr. Tom Wright (Executive Director, Technology Partnerships Canada, Department of Industry): Yes, Mr. Chairman, if the committee would permit that, I'd like to start with some opening comments.

The Chair: On our behalf, I invite you to do that, Mr. Wright. Thank you.

Mr. Tom Wright: Thank you very much.

[Translation]

Hello, my name is Tom Wright, and I am the Executive Director of Technology Partnerships Canada, or TPC, a position I have been in since September of last year.

Thank you for inviting me before the committee today to talk about our audit findings related to lobbyists.

To speak to this topic, I would like to provide a bit of background about TPC. I would like to talk a bit about why our clients seem to engage consultants and lobbyists. I would also like to discuss some recent audit activity and outline how we have responded to the findings of those audits.

To begin with, I think that it is important to note that TPC is the vehicle through which the government provides strategic assistance to private-sector R and D projects on a risk/reward-sharing basis.

We partner with firms on high-risk technology projects, and attract key R and D capacity and mandates to Canada. The program targets three sectors: first, environmental technologies; second, enabling technologies in the biotechnology, information and communications technology sectors, and advanced materials; third, the aerospace and defence sector. TPC shares in the cost of research, development and prototyping, up to the point of potential commercial feasibility.

[English]

Given the risks and competitive environment that companies face, many important ideas and innovations would not otherwise reach markets or be available for Canadians if it weren't for the successful partnerships that we embark upon. Just briefly, examples of some of those partnerships would be the B.C. company developing a hybrid electrical vehicle that will cut fuel consumption by 50%, or a Quebec

company that is developing medications to prevent the progression of Alzheimer's, or in Manitoba, a company developing gyros that are going to keep satellites fully accurate to improve the transmission of data. All of these things bring benefits back to Canada, as well as to the companies and their employees.

Taken at an overall level, TPC generates important benefits, and in fact, as of February 2005, we have committed in the order of \$2.8 billion for some 693 different projects, which in turn have leveraged approximately \$13 billion in research and development investment in Canada.

In 2003 there was a formative evaluation, and it came back suggesting that fully 85% of our projects would not have proceeded at all or they would have been highly unlikely to proceed without our TPC funding. More than 80% of them indicated that they had new, highly skilled jobs being created within their firm, and over 90% of them indicated that their technological capability had improved.

• (1540)

[Translation]

A key fact that many people do not realize about TPC is that the large majority of our projects are with small and medium enterprises. In fact, although only 37 per cent of our overall funding goes to SMEs, they represent 89 per cent of our projects. SMEs have a limited ability to dedicate resources to activities such as environmental scanning, strategic business planning, or technology road-mapping— all activities that can be a part of submitting TPC applications.

[English]

As companies realize the threats and the opportunities and seek to develop the next generation of R and D to make sure they are winners in an evolving market, they reach out to the consulting and the lobbying communities to help them undertake these non-routine tasks. Our experience is that when companies are submitting a major project, they usually hire these people to support them in the writing of reports, to work on application forms, and to schedule meetings.

TPC's interactions with the consultants and the lobbyists our client companies have engaged are guided by the Lobbyists Registration Act and by Treasury Board policies on transfer payments and on contracting. In particular, these policies indicate that any agreement we enter into with a company has to provide that any person lobbying on behalf of that company is registered under the Lobbyists Registration Act, that there is no payment of a contingency fee or a success fee predicated upon the execution of the contract, and thirdly, that none of the money would actually go to the payment of bills for lobbyists.

Here it's important that you know that TPC only provides funding to a company after we have received a detailed claim showing the actual costs a company has incurred for their R and D project.

How are these policies on lobbyists upheld? Well, we work with the companies in a number of fashions to ensure that this takes place. At the outset, as a group governed by legislation, the lobbyists themselves should be making sure their clients are aware of the relevant limitations on their activities. However, our staff within TPC are now increasingly communicating directly with the companies to ensure there is a full and open understanding of this. Thirdly, our contribution agreements themselves carry the appropriate clauses in regard to those requirements under the Lobbyists Registration Act and in regard to the Treasury Board policy on contingency fees. Beyond that, our normal audit process would examine conformity with all of these and other requirements.

In fact, it was through one of our routine TPC audits back in February of 2004 that we uncovered evidence of potential breaches to these contracts. How did we respond to this problem? Well, we did so in several ways. At the outset, TPC immediately contacted the department's audit evaluation branch as well as our legal counsel to review the situation. They in fact confirmed the results of our audits, and immediately a subcommittee of the department's audit and evaluation committee was convened to oversee a broader look at the issue.

It was at that point that the department engaged a firm by the name of Kroll Lindquist Avey to examine some five companies that had actually used the same lobbyist or been in the same business in the same area. When this audit confirmed that in fact there appeared to have been breaches in regard to contingency fees and in regard to registration under the Lobbyists Registration Act, it was subsequently decided that there should be a broader examination of TPC clients, and a sample of some 47 files are being looked at under a separate initiative through a firm by the name of Grant Thornton. I believe the minister recently indicated he will be reporting on this in late September.

Secondly, when we uncovered this issue we also informed the Office of the Auditor General as well as the Office of the Comptroller General as to the issue we were managing.

As the third step in this file, we actually informed the four companies that they had breached the provisions of their contract. We moved to rectify the default through the decreasing of our contribution in each of the contracts in an amount equal to the contingency fee the company had agreed to pay their lobbyist, and we moved on to recover those sums of money. In each of the cases, this represented some 15% of the support originally envisaged, and all of these amounts have been addressed.

Lastly, we've needed to increase our efforts to educate our client base and, frankly, to enhance our due diligence. There are a series of activities we have embarked upon internal to TPC.

• (1545)

We have enhanced our website, which now highlights the rules around lobbyists and the issue of contingency fees. We have embarked upon a mandatory training program for all staff in TPC, and we now, as a matter of process, proactively advise companies at the very first contact as to the requirements of these laws and these policies. When we first contact them in writing, we will actually send information letters again reminding our client base of these obligations.

It doesn't stop there. It carries on. When they submit an investment outline, the companies are required to certify that they have not used an unregistered lobbyist or in any way contemplated a contingency fee. If they progress to the next stage, due diligence on investment proposal, again the company is invited to make this certification. A company that is successful in going through the full process and reaches the stage of a contract again will find that in the contribution agreement the appropriate clauses are there. Then we have them sign a letter acknowledging that they have read and understood the contract.

Mr. Chairman, it is safe to say that we have tried to put in place a whole host of issues that would ensure that these occasions don't reoccur.

Hopefully this has provided some background and context that the committee would find useful in getting into the discussion this afternoon.

Merci beaucoup.

The Chair: Thank you, Mr. Wright.

We'll start with James, please.

Mr. James Rajotte: Thank you, Mr. Chairman.

Mr. Wright, I want to clarify. You mentioned that in February 2004 an internal audit discovered some discrepancies. I want to clarify the audits here. Then you talked about a separate initiative, which is dealing with 47 companies.

Are there two audits now, or are they considered the same audit?

Mr. Tom Wright: I'm sorry for the confusion on that.

The original audit in February 2004 was part of TPC's annual audit plan in terms of recipient audits. As a matter of our management of the program, we would audit a selection of companies each year for their sales audits, and it is at that point in time that we uncovered the issue. That's the first audit.

The second audit was the forensic audit, and there is now a broader sample of 47 under way and not concluded.

Mr. James Rajotte: Is this annual audit plan public? Can we obtain a copy of that?

Mr. Tom Wright: I'd have to take some advice on which portions of it are eligible to be made public. Certainly, the audits that are done at the level of the department appear on the departmental website, but I would take advice on that.

Mr. James Rajotte: Mr. Chairman, I'd like to ask that the full audit be available to the committee, if I can make that request.

The Chair: Mr. Wright, if you can seek guidance on that, let us know if you can, and if not, why, and then we'll go from there.

Mr. James Rajotte: When did the forensic audit officially start? What was the start date of the forensic audit?

Mr. Tom Wright: I'd have to look up the precise date, if that's what you're asking for, but I believe it was in February that we uncovered this, and basically by March.... So it would have been approximately within one month that the forensic auditors were engaged. Again, I can get back to you with specific dates if that is required.

Mr. James Rajotte: It is a forensic audit. This was one of the confusions. The parliamentary secretary said it was not. The minister says it is. Is it in fact a forensic audit?

Mr. Tom Wright: Again, to clarify, there was a forensic audit of five firms, which resulted in the discovery of four companies being in breach of their contract. That work was through a forensic audit. That work was started in March of last year.

For the 47 companies that are currently under an audit, those are not forensic audits; those are compliance audits.

• (1550)

Mr. James Rajotte: The initial audit you said was of five firms, and there were contingencies fees in four of these companies. Is that correct?

Mr. Tom Wright: That is correct.

Mr. James Rajotte: That's a fairly high percentage to find in terms of contingency fees—80% of the firms you're auditing.

Mr. Tom Wright: I would hate to mislead you by leaving you with that impression.

The firms that were audited at the forensic audit were chosen because they all used the same consultant as had been identified with our original cost of sales audit.

Mr. James Rajotte: Just to get some clarification, is the forensic audit of the five firms completed?

Mr. Tom Wright: Yes.

Mr. James Rajotte: Can we also get a copy of that, Mr. Chairman?

Mr. Tom Wright: The minister has indicated that he hopes to have a summary report available by September. The forensic audits are being reviewed now for purposes of release.

Mr. James Rajotte: Why would we wait until September if the audit is complete now?

Mr. Tom Wright: Sorry, the forensic audits are being reviewed now for release.

Mr. James Rajotte: Okay, but it is June. Why would we review it for three months before releasing it?

Mr. Tom Wright: My understanding is that companies and individuals are afforded degrees of protection under the Privacy Act and the Access to Information Act. That review must take place prior to our ability to release these documents.

Mr. James Rajotte: I would submit, Mr. Chairman, that certainly parliamentarians have responsibility—there are companies at the table, there are privacy issues—but there's also the issue of allowing taxpayers to see how their money is being spent and misspent.

I would ask, Mr. Chairman, that you ask for any audits that are completed to be tabled with this committee immediately so that we can actually see what's going on here.

The Chair: I'll phrase it the same way I phrased the last request of yours—that is, if you could find out whether you can respond to Mr. Rajotte's request, and if not, why not. Then the committee can decide what to do from there. I think that would be the fair way to do it.

I can imagine that privacy concerns could be valid.

Mr. James Rajotte: I think the other thing we should ask for is a full explanation on paper as to all of the audits that are ongoing and all of the audits that are complete, frankly, even since 1996—every audit that's been completed, the entire process—so that we can fairly judge what's going on here.

The Chair: Can I ask, is there any idea of knowing how many audits that might be?

Mr. Tom Wright: In terms of the audits of the program in general, I believe they are on the website. Audit evaluations are on the website now. The audits that I suspect are not on the website would be what I would refer to as cost and sales audits. They're not on the website. Equally, the forensic audits I referred to, which are undergoing review right now, are not released.

The Chair: Maybe a summary, at least, of what—

Mr. James Rajotte: At the very least. My concern, Mr. Chairman, is that if it weren't for Simon Tuck of *The Globe and Mail* writing about it, the Canadian public would not be informed about this. If it's an access to information request—issues like 47 companies now being investigated and four companies finding contingency fees—these issues do not come to light of their own volition, either through Technology Partnerships Canada or the industry minister. We're just trying to get at some basic information. I think any type of information, certainly on an ongoing basis—audits or otherwise—should be tabled with this committee.

The Chair: Mr. Wright will seek counsel and find out what he can give us. If he can't, he'll explain it so that the committee as a whole can decide what to do from there.

Mr. James Rajotte: Can I ask as well—

The Chair: Mr. Wright, were you going to continue with this?

Mr. Tom Wright: Again, I didn't want to leave the impression that the information wasn't out there. I believe the results of the forensic audits were made public by the companies themselves in August of last year. There were some press releases that were put out by the companies themselves in the case of public—

•(1555)

Mr. James Rajotte: But this should be done through Technology Partnerships Canada and Industry Canada, certainly.

Just following up on some questions, can you explain how many companies in total are being covered by current audits, both the one that was done and also the one that was expanded? Is it 47 in total?

Mr. Tom Wright: Yes, I believe it's 47.

Mr. James Rajotte: What's the process by which you select these companies or the grants that go to these companies? In other words, do you do it by region, by size, or do you do it on a random basis?

Mr. Tom Wright: I'm sorry, you're asking about the selection of the companies for the 47 audit...?

Mr. James Rajotte: Yes.

Mr. Tom Wright: I believe the sample—and I'm saying "I believe" because it was done by our audit and evaluation people. This is being done independent of TPC itself. Our audit and evaluation branch, in working with the audit firm that was engaged, developed a sample, which was random in part, and the other part was skewed toward areas where they felt there could have been the potential use of lobbyists. In other words, TPC shared information with our audit and evaluation branch as to those files where we knew that lobbyists had been involved such that they could skew the sample in that direction.

Mr. James Rajotte: What percent of TPC contracts have a lobbyist who's involved with that contract?

Mr. Tom Wright: I honestly don't know the answer to that.

Mr. James Rajotte: Could you provide us with the information on the number of contracts in which a lobbyist is involved?

Mr. Tom Wright: We could try to search that, yes.

Mr. James Rajotte: Who at Technology Partnerships Canada and who at Industry Canada are supervising the audit? There have been reports that a special committee has been struck to supervise the results of this audit. Is this in fact true?

Mr. Tom Wright: Yes. In my opening remarks I mentioned that the audit and evaluation branch of Industry Canada is the group that is managing this, and it is under the oversight of a subcommittee of the department's audit and evaluation committee.

Mr. James Rajotte: Can you give us the membership of both of those committees then? You don't have to do it now, but can we get them?

Mr. Tom Wright: Yes.

Mr. James Rajotte: Okay.

How was the discovery made? You said the basic annual audit plan found some discrepancies, but how did you discover that there was trouble in terms of lobbyists receiving contingency fees? Was it the companies that made the complaint?

Mr. Tom Wright: My understanding is that it was during one of our cost and sales audits that the auditors uncovered the fact that this situation existed. As a result, we brought that back.

Mr. James Rajotte: How did they uncover it, though?

Mr. Tom Wright: In the process of working at the firm's location, and in verifying data on cost and sales, they came across evidence to suggest that there had been a contingency fee involved.

Mr. James Rajotte: You talked about how Technology Partnerships Canada is very strong on informing companies about, I believe, section 6. Was this an oversight on their part, or why did they contravene or breach that contract after having been strongly informed by Technology Partnerships Canada?

Mr. Tom Wright: I can't speculate as to the behaviour and the decisions of the company. What I tried to explain to you in my opening remarks were the steps that we have put in place, as an organization, since we have uncovered this.

Mr. James Rajotte: Did you within the course of the audit—or has anyone—ask the companies why they contravened exactly what was told to them in terms of following the contract they signed with Technology Partnerships Canada?

Mr. Tom Wright: I have not had any discussions of that nature myself. My understanding is that the energies have been involved in rectifying the breach of contract and in seeking the resolution we have achieved.

Mr. James Rajotte: Can we encourage either you or those conducting the audit to discover why companies are doing this? The question is how broad this problem of contingency fees is within this program. If you're providing the information to companies that they can absolutely not do this, and they end up doing this, then there's a problem there that needs to be rectified. The first step would be to ask these companies why they are breaching the contracts. Are they doing so unknowingly, or are they doing so knowingly but hoping they don't get caught?

•(1600)

The Chair: We have to wrap up, James. We'll come back to you.

Mr. James Rajotte: Mr. Wright, is this something you're going to follow up on?

Mr. Tom Wright: Certainly I don't want to leave you the impression that we haven't responded. Once we discovered that this situation existed, and I must say I can't speak for the companies as to why they got themselves into that situation—

Mr. James Rajotte: You can ask them why.

Mr. Tom Wright: —but we have put in place, very clearly, a series of steps, which I outlined, that should preclude any reoccurrence of this.

Mr. James Rajotte: When somebody does something wrong, the first thing is to ask them why they did something wrong, especially when you made a point, as in your presentation, of strongly informing them about this. When they do exactly the opposite of what you tell them they can do, the first step is to ask them why they did that.

Do you want to respond to that?

Mr. Tom Wright: I'm not sure what to say. Certainly we can ask companies that we find in contravention why they got themselves into contravention or breach of contract, but I'm not sure that would change the steps we would take in terms of trying to rectify the situation.

Again, I would say that we have put in place the steps to ensure that this does not reoccur.

The Chair: We'll come back to you, James. We'll make sure you get a little extra time, considering your interest in this.

Paul, go ahead, please.

[*Translation*]

Mr. Paul Crête: Good afternoon.

I would like to know whether or not the Technology Partnership Canada program is subject to an evaluation according to which the number of companies who have applied, the number of companies that have received some form of assistance, and the overall performance and spinoffs of the organization are assessed. Does such an evaluation exist? The evaluation could have been done last year, or two years ago. Do you undertake a real review of the entire program? I would like to understand the scope and the magnitude of the problem. You deal with hundreds of companies, it is not as though you dealt with only 25 or 50 companies.

I am not simply seeking an evaluation of the problems, but an evaluation of the program as a whole. Are you able to provide us with such an evaluation?

[*English*]

Mr. Tom Wright: Mr. Chairman, in the reports that are available, I believe there was a formative evaluation of the program that was done in 2003. In my opening remarks I tried to make some reference to its findings in regard to some of the benefits that have resulted, which concluded that a high proportion of these projects, 85% and 90%, would not have proceeded were it not for the role of TPC. The technologies were developed as a direct result of the interventions of TPC. Equally, I believe that an excess of two-thirds of those companies have suggested that their competitive position has been enhanced within their sector.

As to a more general statistical analysis of the numbers of contracts that the program has been involved in, at this point in time, a great deal of that information is available on our website.

In regard to the issue of the lobbyists, I believe the minister stated earlier this week or last week that he would have a summary report available in September, which would speak to the results of the 47 audits that are currently under way and which should give a proxy for the extent of any additional issue vis-à-vis the lobbyists.

In a roundabout way,

[*Translation*]

a whole host of information pertaining to the program and its achievements is now available. With respect to lobbyists, a summary report will be made available in September.

Mr. Paul Crête: Having the information made available on the website is one thing, but surely the department must have undertaken an evaluation of the relevancy of this program, its spinoffs, and

should be in a position to provide us with certain statistics. I would like to know if you presented the minister with a document recommending the program's renewal, if this is something you present every year, every two or five years, and if we can consider such a document to be not only an evaluation of the issue concerning lobbyists, but an evaluation of the entire program.

●(1605)

Mr. Tom Wright: The minister has pointed out on several occasions that he is reviewing marketing programs. He is still expected to propose changes to the program in the fall. It will be the result of...

Mr. Paul Crête: That is not my question, Mr. Wright. You are talking about efforts made to improve marketing. I understand that very well, but I would like to know if the department prepares an evaluation of the Technology Partnerships Canada program. This program has been running for eight or ten years now, has it not?

Mr. Tom Wright: Yes.

Mr. Paul Crête: Does there exist a fairly recent evaluation undertaken by the department, that would provide us with an overview of the entire program, and that you can make available to us, a document that contains more information than what is posted on the website? Surely there must be a way to provide us with something more substantial so that we can do a complete analysis of the situation.

Mr. Tom Wright: I believe the best report pertaining to that is the 2003 evaluation, from which I cited certain statistics. There is a lot of information contained in this report. I have no problem making it available to you. I will check. I thought that we had already shared it with you.

Mr. Paul Crête: I am not aware of this document. It would be interesting for us to have it.

I would also like to know if you are currently considering broadening the program to other industrial sectors. The program was created in the context of the new economy, in which Canada had to be newly positioned. Important changes have occurred in global markets since then. Are there new sectors which should be eligible, or do you believe that more traditional sectors such as the textile or furniture sector would be automatically eligible to this program?

Mr. Tom Wright: Obviously, the government would decide on the changes; however, Minister Emerson has said on several occasions that he would like to see the program be more open to (SMEs), to all sectors of the economy, and to all technologies that may give companies a competitive edge. The minister is quite open to this idea. Ultimately, the government would decide which direction it would head in.

With respect to the textile industry and other industries,

[*English*]

the current program embraces what are frequently called "enabling technologies". In some cases those sectors could successfully apply to and receive assistance from TPC through the enabling technologies part of the program.

[*Translation*]

Mr. Paul Crête: I don't quite understand. What are enabling technologies? What is considered an enabling technology?

Mr. Tom Wright: Enabling technologies include biotechnology, advanced materials, as well as advanced processes. In some cases, there's a strong element of technology in the processes. It is possible that changes that occur in industries such as the textile industry may be affected by the program.

Mr. Paul Crête: Pardon me for changing the subject. With respect to lobbyists, can you tell me what percentage of programs are applied to companies that do not do any business with lobbyists, companies which simply made an application that was sent by their own staff?

Mr. Tom Wright: It is very difficult for me to give you a percentage, especially now, if I fully understand the recent changes that have been made to the Lobbyists Registration Act. Some companies use their own staff, and employees can be considered as lobbyists. There are certain conditions. These people must devote at least 20 per cent or more of their time to this task. It is difficult to calculate the percentage, especially since the changes came into effect. A large number of companies resort to lobbyists, especially SMEs. As I explained in my presentation, SMEs often call upon outside services because none of their employees have the necessary qualifications to communicate with the government and to do what needs to be done to obtain a grant.

●(1610)

Mr. Paul Crête: Thank you.

[English]

The Chair: Merci, Paul.

Andy.

Mr. Andy Savoy (Tobique—Mactaquac, Lib.): Thank you, Mr. Chair, and thank you very much for coming today.

First off, in terms of the timelines, you had the internal audit, we had the forensic with our five cases, and now there are 47 to be investigated. When did the minister provide direction in that chronology, and what type of direction was it in fact?

Mr. Tom Wright: This file was well advanced and was being managed within the department, as I understand it. I am told that immediately upon his appointment, his first briefing would have involved a briefing on this particular situation, but the decision to move forward with the forensic audits and the broader audit of 47 companies was taken through the department's audit and evaluation subcommittee.

Mr. Andy Savoy: But what strategic direction did the minister provide?

Mr. Tom Wright: The minister has been contemplating a number of changes for the future. The directions he has been discussing with us have to do with the future directions of the program. He has indicated it's something he would like to see happen in the fall of this year.

Mr. Andy Savoy: I have a general question on TPC.

Much has been made of the payback of TPC, and of course we understand it is certainly a higher-risk program for technology development and process development.

Do you have any benchmarks for us from other countries or other programs within Canada, in terms of payback and job creation, so we can see how TPC stands up to other similar programs?

Mr. Tom Wright: It has not been a job creation program per se, so I have no comparison statistics of that nature. I've never really looked at trying to compare it with another program. I could look to see if there have been studies in that regard.

On repayments, the information is frequently discussed. It is important to understand that in the case of TPC, the arrangements are on the basis of sharing risk and sharing reward—that is, when we get into deals, we hope they will all succeed in the commercial world, but some will fail and some will succeed, so you have to take a look at the program.

It's not like a bank situation. When you go down to the bank and borrow \$100, two things happen—you walk out of the bank with \$100 and you start paying \$10 back on the first of each month. In the case of TPC, as I mentioned in my opening remarks, you only receive the money after you've incurred the costs. TPC then only receives the repayment after the research and development have been completed and it's been successful, it's found a place in the market, and hence has driven a revenue stream from which a royalty could occur.

In a number of cases this can take a huge amount of time. The R and D phase can be one to 10 years, and the benefits phase can be three to 30 years, so on average you're not going to be seeing the repayments start for about 10 years. In that respect, because we're playing in a high-risk end of the market, it's very difficult to find another program to compare ourselves to. I'd have a bit of difficulty in setting up the benchmarks, at least within Canada.

●(1615)

Mr. Andy Savoy: Obviously something broke down in the process. Would it be miscommunication, misinformation? Obviously, on the consulting side or the company side, you're looking at joint ventures, which would play a large role in TPC, as I understand it. That can also add some complications.

In looking at where the process broke down, would you say it was miscommunication to consultants or miscommunication to companies? What's your assessment in general of how the system, the process, broke down? I understand it was only one company, one consulting firm, in the five cases, but was it a miscommunication to that firm? Was there misinformation? What's your assessment of that?

Mr. Tom Wright: I am puzzled by the fact, ironically, because you would assume that the experts engaged by the companies would have the expertise to know their obligations under the laws and policies of the Government of Canada. It is somewhat puzzling that this has occurred. I would hesitate in trying to ascribe motive or trying to suggest that I actually know why it has happened. I can certainly see why companies reach out and search out the use of consultants and lobbyists. Even the Lobbyists Registration Act reminds us that it is a very legitimate piece of doing business with governments in a democratic society.

It is fine that those people should be engaged, but one always assumes—erroneously, it turns out—that these people would be expert in their areas and would know their obligations. It has turned out they didn't. For our part, at TPC, we have been contracting with the companies; we have not contracted with the lobbyist, and we don't have any authority to audit third-party relations between those companies and those with whom they work. We do, however, have in our contract the requirement that they be consistent with the requirements of the Lobbyists Registration Act if they are using lobbyists, and that they not pay contingency fees.

Mr. Andy Savoy: You mentioned, with respect to your corrective actions, staff training within TPC, and then you talked specifically about more due diligence by the companies themselves. Has anyone considered engaging consultants on a more proactive basis in terms of contingency and having more open and stronger communications?

You said that initially you did talk to the lobbyist sector about that specifically, unless I misinterpreted your opening statements. Is there anything being done in terms of the corrective action you talked about? You talked about your staff. You talked about the companies. Are we doing anything on the lobbyist side?

Mr. Tom Wright: From TPC's perspective, no, we haven't embarked on our initiative to work with the lobbyists. There are a couple of reasons, frankly. One is that the lobbyists, per se, are not our clients.

Mr. Andy Savoy: Or your stakeholders—

Mr. Tom Wright: My key stakeholders and clients are the companies themselves. Second, there is a resource issue. TPC's overheads are limited to 3% of the budget. When it comes to deciding where to allocate our people and our time, I try to keep it focused. That's not to say it is not a good idea and something that should be looked at.

• (1620)

Mr. Andy Savoy: You mentioned that many SMEs in fact are not familiar with the application process and with TPC as a program. Do you have a rough percentage breakdown of the lobbyists used and whether they were used by SMEs or larger corporations? I know that 89% are SMEs. But do you have that type of breakdown? You seem to claim that SMEs had more lobbyists working for them. Is that the case?

Mr. Tom Wright: I don't have a comprehensive set of statistics right now on how many companies have used lobbyists. I'm not entirely sure I'm going to be able to get that comprehensive set of statistics. I've undertaken to try to look for it.

Certainly in our discussions with SMEs they are very open about their use of lobbyists and why they use them.

The other complicating feature, in terms of your inquiry, is the current definition of lobbyist, which now embraces in-house individuals, certainly in some of the larger corporations. So it's going to be difficult to answer the question.

Mr. Andy Savoy: Under the Lobbyists Registration Act, don't they have to disclose exactly when and who they're lobbying? It would not be difficult to compile, at least since the implementation of the LRA, a list of what projects have gone on and what lobbyists have been engaged.

Mr. Tom Wright: The correlation of those databases—

Mr. Andy Savoy: You could correlate the data and find out roughly what percentage of companies actually have used lobbyists since the implementation of the LRA.

Mr. Tom Wright: Yes, that could be done. We could go in that direction.

Mr. Andy Savoy: It might be very interesting to see how many companies actually use lobbyists in this program.

That's all. Thank you.

The Chair: Thank you, Andy.

I have Brian, then Werner, then Brad in a later round.

Brian.

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

That's an important question, because it literally outlines and goes back to what Mr. Rajotte was asking earlier about why companies are doing this. Is it because the program is very difficult to engage? Is that why lobbyists are sought by companies, to get through the wall—whether it's the perception or the reality?

I would like to start by asking for clarification to make sure I'm correct here. From the reports, it was a Mr. Neelam Makhija who was the consultant who was the recipient of four of the contracts the audit proved. Was the minister correct that he had received approximately \$3.7 million? That was in the minister's comments taken from CPW.

Mr. Tom Wright: The contracts had provided for that sum of money to be given to the consultant, but the individual payment had not been completed.

I may ask Mary Ellen to help me out here with some of the details. The \$3.7 million is certainly correct, but I'm not sure that was paid to Mr. Makhija.

Mrs. Mary Ellen Cavett (Senior Counsel and Coordinator, Legal Services, Department of Industry): In certain instances, the companies entered into memoranda of understanding with the consultant, and in some instances, the company had fully paid the moneys that were payable to the consultant under the agreement. In other instances, the full amount of money under those agreements had not yet been paid to the consultant at the time the forensic audit uncovered that there had been contingency payments.

Mr. Brian Masse: That was stumbled upon by one of your employees doing your other pre-audits for that.

He received probably millions of dollars. Has he paid those back? Are all those funds completely, 100%, recovered now?

Mrs. Mary Ellen Cavett: The funds were paid by the companies to the department, not by the lobbyist.

Mr. Brian Masse: So the lobbyist still is going to receive the funds through the company, through their own decision to pay him for that work and still participate in these programs. Doesn't that seem a little odd, that the company still has millions of dollars to afford to pay a lobbyist but at the same time cannot fulfill R and D and other initiatives that they need for their company to be successful?

Mr. Tom Wright: The relationship between the company and the lobbyist is not something we have the authority to audit. We're not privy to any actions that the company may take vis-à-vis the lobbyist to recover those funds. However, I would indicate that any and all claims against the program have to be supported by the appropriate receipts and are ultimately audited.

I'd also try to clarify that the level of support in the contribution agreement between the government and the company was decreased by that overall amount.

Mr. Brian Masse: You mentioned in your remarks that about 15% was decreased, but I'm not sure whether Canadians will see that much differently, though. The fact of the matter is, an individual is going to receive significant funds from these companies, I suppose. Would we not want to ask the companies whether or not they're going to...?

If we're looking at existing business relations that we're going to continue to pay, I'm assuming that the work....

I believe in sectoral strategy initiatives like TPC to make us competitive, but my concern is with the public perception. If the company doesn't have enough money for R and D, but they have to spend millions of dollars to retain a lobbyist to get that, it still doesn't look very good.

• (1625)

Mr. Tom Wright: Again, it's not at all clear that the consultant is getting the money. We don't know that to be the case.

It's also safe to say that the program and its complexity, its one-size-fits-all approach, is something the minister had identified as an issue in terms of wanting to try to make the program more accessible to SMEs in the future, and to try to make the program more accessible to all regions, all sectors, and all technologies. I think you're identifying an issue on that front in terms of the complexities of working with the program in the due diligence process.

Mr. Brian Masse: With regard to this particular person, do we know whether or not any other company that has accessed TPC is...?

We have four out of the five files and one consultant on that. That would seem to be a pattern of behaviour. Of the other 47 cases and beyond, do we know if this consultant has participated? Are we engaging ourselves to find out whether that is the case or not?

I have two questions. First, why would we not insist on pressing charges and what was it in this situation that we decided not to? Second, what penalties happen to the companies that engage in this behaviour that are not part of the regulations for access?

Mr. Tom Wright: At this point I can't confirm the details of the other 47 companies that are being audited.

On the question of penalties, if I understood the question correctly, the department has tried to rectify the breach of contract. The issue is

well and truly a breach of contract. There really isn't an authority built into the contract to impose a penalty beyond the rectification.

The alternative may be to cancel the contract, but then the net effect of that is one of depriving Canada and Canadians of the benefit of the technology. These are small companies, and by terminating the contract, conceivably you could put the future of the company at risk, and frankly, you could deprive yourself of what is a very good piece of technology and a piece of work, which we would like to see go forward and that is in the public interest.

The judgment that was applied in these cases is that we should ensure that taxpayer money is returned to the Crown, that those agreements are decreased by those amounts.

As to further proceedings, the reports were referred to the RCMP. They were given an opportunity to decide if there would be any further investigation with regard to the Lobbyists Registration Act, and they informed us that there would not be.

Mr. Brian Masse: Was that because the act didn't provide an avenue for it?

Mr. Tom Wright: I don't know. You'd have to ask the RCMP on that score.

Mr. Brian Masse: With regard to the audit that's happening right now, what is the cost of that?

The Chair: You have to be careful in this area, Brian. On what's going on now, be careful what you ask.

Mr. Brian Masse: What was the cost of our initial forensic audit that has been completed?

Mr. Tom Wright: I would have to report back to you on that. I must confess that I don't have that with me.

Mr. Brian Masse: The reason I'm asking it, Mr. Chair, is because I would congratulate the fact that it was done, but the cost is part of the cost of this program, and secondly, it's being borne by Canadians. The department should not be put down for that, but at the same time, we have to understand how much this is costing us for accountability.

• (1630)

Mr. Tom Wright: Absolutely.

Mr. Brian Masse: I want to ask about the payment back from the program. It has been discussed openly in the public quite a bit. Right now, what is the percentage of payment back, and has it been improving over the years from the contracts that have happened since 1996?

Mr. Tom Wright: The repayments are on a fairly constant growth, which on a compound basis is in the order of about 50%. So they're continuing to go up, and our forecast is that they will continue to go up.

When you're trying to denominate it as a percent, I'm not sure what you're using as a denominator and a numerator, because this can get hugely misleading. What I was trying to explain earlier is that these are not loans. These are not like bank loans where there is a fixed stream of payments coming at the first of each month. We are engaged in a sharing of the risk and the reward. So the money is going out over a period of years during the research stage. They then have to achieve success on the research and then success in the marketplace, and then the royalties would kick in. So if you look at the total portfolio, you're looking at, on average, your first payment kicking in, in the tenth year.

The program is only in its ninth year. So to get a good indicator, you'd have quite a challenge in terms of the appropriate denominator and numerator.

I believe repayments last year would have been in excess of \$30 million, and that would have been up 40% to 50% over the year prior to that. So it's on an exponential climb.

We annually engage in a review of the portfolio. Our business analysis unit had worked with Deloitte & Touche to develop a risk management system for the whole of the portfolio. So we annually do a review and readjust the risk assessment such that we can keep tabs on the ultimate value of the portfolio, and we do annual updates so that we can keep track of our cashflows.

As you know, the program takes back into revenue the repayments in the year after they're received by the government. So we have a vested interest in success on that front.

The Chair: I'll get you to wrap up, please, Brian.

Mr. Brian Masse: Yes.

Very quickly, I'll go to one specific question. I do want to return to the subject of the role of lobbyists. That was the primary driver of doing this, because it can create a cloud over the issue. In the future, is there any contemplation of being able to have access to third-party agreements?

On the flip side of what you're saying, you don't want to penalize a company that, for example, engages in this activity because it will be deprived of the technology and maybe an investment opportunity that's good for Canadians.

The other thing is that it puts at risk a program, then, if it is successful, because there have been improprieties taking place and we don't have access to find out whether or not the third parties that were engaged really are shovelling money back.

If they're not going to get it from here, they'll maybe adjust their contract accordingly, or whatever it might be, and the person may get a little bit less.

In the future, is there the possibility that we could enter into an agreement that would give us access to those third parties to ensure that happens?

I think it stinks. It still stinks, because we don't know whether or not this person or this company is going to get a slice of the pie from the company to the same or lesser degree.

Mr. Tom Wright: I'm going to have to defer I think in part to my colleague here who is more *au courant* with the technicalities of that.

Mrs. Mary Ellen Cavett: The difficulty with your proposal is that there's no privity of a contract between the government and the lobbyist. The contract is between the government and the company receiving funding from TPC. One of the general conditions of those contracts is that there's the right to audit the books of the company. But there is, as I said, no contract between the company and the lobbyist, so we have no right of access to the books of the lobbyist, and the company could not agree on behalf of the lobbyists to give us access to the records of the lobbyist.

The Chair: Thank you, Brian.

We have Werner, then Jerry, then Paul.

Mr. Werner Schmidt (Kelowna—Lake Country, CPC): Thank you very much, Mr. Chairman. Thank you for appearing. I have a couple of questions. One is a follow-up on forensic audit. Is this the first forensic audit that has ever been conducted for TPC?

Mr. Tom Wright: To the best of my knowledge, yes, this would be the first.

•(1635)

Mr. Werner Schmidt: The second one is really a follow-up to Brian's question. If I understood your answer correctly, the recovery of funds was actually done through reducing the amount of grant that was given to the company. Is that correct? Is that how you recovered the money that was paid to the lobbyist?

Mr. Tom Wright: No, that's not the complete story. The overall amount of the contract that we have with the company is reduced by that amount. In cases where the company would have already received the full amount, the companies reimburse the crown with a cheque. Moneys were paid back.

Mr. Werner Schmidt: Specifically, had the four companies involved here received the money?

Mr. Tom Wright: Not all of them had received the money. Those who had have paid it back. Those who had not will not receive it.

Mr. Werner Schmidt: And do those companies that have paid it back still have a contract under TPC?

Mr. Tom Wright: Yes, they do.

Mr. Werner Schmidt: So the fact that they were in default, or actually breached the contract, did not in anyway jeopardize their contract with TPC?

Mr. Tom Wright: The contract, as I understand it in a technical sense, was declared to have been in breach. The situation was rectified, so a contractual arrangement carries on. The reason behind that is that these are SMEs. The technology and the projects were considered to be of value, so the companies carry on doing their research.

Mr. Werner Schmidt: Was all the money recovered?

Mr. Tom Wright: Yes. One hundred percent of the money was recovered.

Mr. Werner Schmidt: One hundred percent.

Moving to the other audits, how many audits and reviews have there been with the TPC program?

Mr. Tom Wright: In terms of lobbyists or audits overall?

Mr. Werner Schmidt: Audits overall.

Mr. Tom Wright: I'm not sure I've got a complete count, but I'm certainly aware of the Auditor General's office having looked at the program, I believe, in 1999 and again in 2001 as a follow-up. Ernst & Young did an audit in 2003. I must confess I would have to have someone do some research to find out what audits would have been done in the earlier years of the program.

Mr. Werner Schmidt: Is the committee to assume, then, that none of the previous audits in any way uncovered any payment for any contingencies to a lobbyist?

Mr. Tom Wright: I believe that to be correct.

Mr. Werner Schmidt: So in total how much money in fact has been repaid under this contingency of breaching of the contract?

Mr. Tom Wright: The total sum of the four is \$3.7 million.

Mr. Werner Schmidt: And all of that has been recovered?

Mr. Tom Wright: Yes.

Mr. Werner Schmidt: You have a broad audit that's going on now—and I realize I may be treading on an area that's a little delicate here.

The Chair: We'll listen carefully to your question.

Mr. Werner Schmidt: Yes, I'm sure you will, and that's fair.

I would like to know when this broader audit, which is going on now outside of the forensic audit that's been completed, started.

Mr. Tom Wright: September 2004.

Mr. Werner Schmidt: And is there an expectation of an end date for that audit?

Mr. Tom Wright: I don't have a confirmed date on that, although the minister clearly directed us to have a summary report available by the end of September.

Mr. Werner Schmidt: Would that be a progress report or a completion report?

Mr. Tom Wright: I suspect it will be a progress report. It's not clear to me that everything would be completed by then.

Mr. Werner Schmidt: I see. Will it be completed in 2005?

Mr. Tom Wright: I would certainly hope so.

Mr. Werner Schmidt: Mr. Chairman, I don't know exactly how to phrase this next question, but I do feel honour bound to ask this. Are the audits a regular thing or are they sporadic in application?

• (1640)

Mr. Tom Wright: I would say the audits are a regular event for TPC, and I say that in reference to the Auditor General's audits and our own departmental audits of the program. There's an ongoing regular set of audits.

As a matter of management of the program, within TPC we carry out a battery of audits every year on costs and sales to verify that in fact the costs that are coming in and are being reimbursed are accurate and complete. We want to verify that the royalties are paid on the basis of complete audited information. At this point, our internal cost and sales audits have covered in the order of 40% of the core program. There's a robust audit activity.

Mr. Werner Schmidt: You've answered part of my next question. I think you indicated something like 89% of the TPC applicants are

small business enterprises. Are there roughly 266 projects out there now?

Mr. Tom Wright: The total number of projects is in the order of 600-and-something.

Mr. Werner Schmidt: That's what I thought, but I wasn't sure. I thought I had heard 200, and I was going to ask you about that. So it's over 600.

Now 44 of them are in the broader audit, so that's less than 10%. Is it standard that you would do a formalized kind of audit on less than 10% of the programs?

Mr. Tom Wright: These 47 have been selected from what I would call the core TPC program. A large number of the projects were actually done through our IRAP organization and the TPC-IRAP. We haven't reached into that group yet.

Mr. Werner Schmidt: This is a really interesting statement. Of the 663, what portion of those are IRAP? IRAP is a partnership with NRC, is it not?

Mr. Tom Wright: Yes, that's correct.

Mr. Werner Schmidt: Okay. If it is, then where are they counted? Are they counted with you or are they counted with NRC, or do both of you count them?

Mr. Tom Wright: They would be counted with us.

Mr. Werner Schmidt: Not with NRC.

Mr. Tom Wright: No. We have an MOU with the NRC for the delivery of the TPC program in the regions. They have a network of technology advisers, and it is through the MOU with IRAP at the NRC that their technology advisers deliver the program. They would have delivered in the order of 400 projects out of the 600 or so.

Mr. Werner Schmidt: So the figure of 263 is reasonably accurate then.

Mr. Tom Wright: If you're talking about the core program, yes, that's accurate.

Mr. Werner Schmidt: Okay. So we are talking about 263 or thereabouts. Your audits that have been carried out by the department have been limited to the TPC, not to the IRAP at all. So the IRAP has not been audited at any time?

Mr. Tom Wright: IRAP would be managing their own audits at this juncture.

Mr. Werner Schmidt: The question really is to get into how sporadic or how irregular the audits are in fact.

When you do the audit itself, I understand fully your inability to get into the lobbyists' books. They are quite outside of your jurisdiction. When you look at the audits of companies that engage the lobbyists, how satisfied are you that the information is an exact description of what was actually paid to the lobbyist?

Mr. Tom Wright: In the case of the forensic audits, we're quite comfortable. We engaged a well-known national firm to do that work. My understanding from our audit and evaluation branch is that they're quite comfortable with what they returned.

Mr. Werner Schmidt: I can understand, because that's the nature of forensic audit. I'm talking more about the other audits that you're conducting as a department now.

Mr. Tom Wright: The 47 audits?

• (1645)

Mr. Werner Schmidt: Yes.

Mr. Tom Wright: Those are compliance audits as opposed to forensic audits, just to be clear. Again we are using a national firm with an excellent reputation. I have no reason to believe their information would be deficient or lacking in any way.

Mr. Werner Schmidt: You've had previous audits, so you are satisfied that none of those audits revealed any discrepancies or any suggestion, or hint, even, of contingency funds having been paid.

Mr. Tom Wright: No.

Mr. Werner Schmidt: Okay. Thank you, Mr. Chairman.

The Chair: Thank you, Werner.

Jerry, then Paul.

Hon. Jerry Pickard (Chatham-Kent—Essex, Lib.): Thank you very much, Mr. Chairman. I just want to go back through the process and look at the department's due diligence and the process they've put in place.

First, you have had two audits within the last seven years from the Auditor General, who has looked at various components within it. As well, you as a department have done some audits on your own internally, from department resources that you have. Third, you put contracts in place that clearly identified the responsibility of corporations with TPC not to pay contingency fees and said they must hire consultants who are registered. Those are all part and parcel of your process.

Mr. Tom Wright: That's correct.

Hon. Jerry Pickard: Then you discovered a breach, and when you discovered that breach you immediately searched out any contracts that consultant was involved with and did forensic audits to see if there was something beyond that you should be looking at in particular. Although 80% of the contracts was mentioned, it was good due diligence by the department that selected all the contracts this consultant was involved with. Is that accurate?

Mr. Tom Wright: Yes, and thank you very much for making that clarification. The forensic audits were very targeted, just as you have described. They are not in any way to be—

Hon. Jerry Pickard: So it's not random, and it doesn't show a general practice. It was dead on, on one consultant.

Mr. Tom Wright: Yes.

Hon. Jerry Pickard: The other one that was done was another audit where you thought there might be a high risk.

Mr. Tom Wright: Yes, the fifth company that was audited was geographically in a similar area and was in a similar sector. We wanted to ensure that if there had been communications or imitating practices, we would capture that as well.

Hon. Jerry Pickard: So you went after high risk, and that's the appropriate thing to do.

Mr. Tom Wright: Very much so.

Hon. Jerry Pickard: The next step is you completed the forensic audit. You couldn't speak of the forensic audit while it was going on because in reality it's a criminal type of audit. The RCMP involved

in it came back and said no further pursuit would be required in this case by the RCMP. That more or less said there's no further evidence of any wrongdoing, but we did by that process recover every penny that was spent inappropriately.

Mr. Tom Wright: Yes, that's correct; 100% of the funds have been recovered.

Hon. Jerry Pickard: Now, to further that due diligence, the department then trained employees about some contract breaches they've discovered. They talked to their clients and did what they could to inform the clients more directly, not expecting the consultants to do it.

Three, they made it very clear that the steps that are really moving at this point in time may indicate there may be some other higher-risk clients out there.

So you're auditing high-risk clients, and on the other hand you're doing some audits of general population just to make sure you're not missing anything. But the 47 audits are basically to make certain any difficulties within the department and with this program are being dealt with and rectified appropriately. And this process has basically been going on for a year and a half.

Mr. Tom Wright: Yes, that's correct. We're very much embarking on a risk-based management approach, and the process continues.

Hon. Jerry Pickard: It's also my understanding that with this process going on for a year and a half, it only comes to light now, when the RCMP have completed the forensic side of it and given clearance. The minister can now lay that information on the table when it's reviewed.

• (1650)

Mr. Tom Wright: My understanding is that when the RCMP have something before them, it's inappropriate for us to comment on it. The current audit activity—the 47 that are under way right now—has yet to conclude, but the minister has directed the department to provide a summary report by late September.

Hon. Jerry Pickard: By the way, I would also point out that in the House today the minister said he would release the forensic information as soon as possible. He didn't set a time, but it sounded like it may be before September. As soon as the review is done, he has committed to release that information. I believe that in his attempts the minister is trying to make all information as public as possible, as soon as possible.

There was another question that was raised, and I'm not sure if it was dealt with. Mr. Wright, you probably dealt with it a little earlier. It has to do with the payments that were raised in the House today. You clarified that all TPC repayments are on the website, but there has been an alteration of that website at this point in time. They're still posted but at a different site. Is that correct as well?

Mr. Tom Wright: Yes. That is correct.

I didn't hear the precise exchange in the House this afternoon, but I gather there was concern that some information had disappeared from the TPC website. That is not the case. At no time was any information on repayments taken off the website. The section on repayments was incorporated into a section on benefits. I believe this is something that occurred in February.

In the process of doing that, I understand there may have been a dead-end link, an Internet link address left on a page, but at no time was the information itself removed from the website. The website has been complete and continues to be complete.

Hon. Jerry Pickard: I see the department doing the due diligence steps. I see the department disclosing information as soon as possible, keeping the public as well-informed and in as timely a manner as possible. We look forward to seeing the results of the next step you've taken. Basically, in my mind, you've taken three steps that have really clarified this and have assured Canadian taxpayers that their dollars are being handled well.

Thank you.

If I have any time left, Denis has a question.

The Chair: I'll make sure Denis gets on the list later on, if he'd like.

Thank you, Jerry.

Paul.

[Translation]

Mr. Paul Crête: Do the four companies that were shut out know that this type of behaviour was unacceptable from the outset, at the time of their application? Were they informed of this?

[English]

Mr. Tom Wright: I can't speak to that. I wasn't involved with the program at the time they originally did the contracts with us. The situation has clearly occurred. I really can't second-guess as to why they got into that situation.

[Translation]

Mr. Paul Crête: Would you be able to check and tell us if these companies were informed? I would think that if these people knew of this condition and proceeded in such a manner regardless, the reimbursement of the sum owing to them is not a sufficient penalty. We cannot change the past, but do you not believe that in the future, certain companies should be prohibited from making applications for 10 or 20 years? Their behaviour gave them more chances to obtain a contract. They are told that they shouldn't have acted in such a way, but they were given the contract nonetheless because if a contract is not signed, the project is jeopardized. That is what I gathered. In your opinion, is the penalty imposed, the reimbursement of the sum owing, a sufficient amount to ensure a balance in the race to obtain funds from assistance programs? Where I come from, there is a company that did not deal with lobbyists, and that obtained contracts from Technology Partnerships Canada by focusing on substantive issues, ones that it was ready to defend at any moment. But there are perhaps other companies that did not receive contracts and would have been entitled to some had they resorted to the services of a lobbyist, even if it meant doing so unlawfully, as was the case for some. Do you understand my question?

•(1655)

Mr. Tom Wright: I believe I understand your question. However, I must say that it is not prohibited to use lobbyists.

Mr. Paul Crête: No.

Mr. Tom Wright: It is the way they are paid which is problematic.

Mr. Paul Crête: If from the outset people knew that it was forbidden to pay them in such a manner, and they did so nonetheless, then they gained a competitive edge that they didn't deserve.

Mr. Tom Wright: I do not see any link between how they are paid, and the chances of winning a contract.

Mr. Paul Crête: The risk is not so great for lobbyists, nor for the company. An agreement between a lobbyist and a company surely must take into account the chances of winning a contract. Another company may not enter into this type of agreement because it was not allowed to benefit from this advantage. The only penalty imposed on these companies is the reimbursement of the amount owing. They are still entitled to get back in the game with all of their team members. Not one single player is left behind. That doesn't seem very balanced.

Mr. Tom Wright: Despite all that, if there's authorization to do something, then such a penalty can be imposed. If I correctly understood my colleague's advice, we are dealing with the area of contractual relations, and we are not really entitled to impose a penalty. They must be registered. That is another aspect: the person concerned must be registered. Following that, it is the Lobbyists Registration Act that...

Mr. Paul Crête: In the contract that binds the industry department and the company, there may be a provision specifying the company's compliance to all of the provisions contained in the Lobbyists Registration Act. Does such a provision currently exist?

Mr. Tom Wright: Yes, it does exist.

Mr. Paul Crête: It exists. Therefore, companies are violating a provision in their contract. Since the only penalty imposed on them is the reimbursement of the amount owing, they would be practically tempted to do the same thing all over again. They can decide to go ahead and sign on to a contract and if they are caught, the only thing lost is income. I'm not saying that these companies are going to deliberately behave in such a way, but in the future, should there not be a much more restrictive provision?

Mr. Tom Wright: We can always seek advice in regards to that.

Mr. Paul Crête: Thank you.

The Chair: Thank you, Paul.

[English]

Brad, then Denis, and then James.

Mr. Bradley Trost (Saskatoon—Humboldt, CPC): Thank you.

With regard to the questions Brian raised earlier, and that now Paul has raised, about how it seems to be a case of no harm, no foul, the companies seem to have essentially had their fee deducted and have not had to pay, and that's according to the press releases of the companies. I just want to state for the record that this does seem to be somewhat of a curious result. You end up paying a lobbyist, getting the contract, and in the end you're punished by not paying the lobbyist, so you get the benefit without really having any new cost to it. I know you commented on that, but for the record, I think all the parties here on this side of the House do share that view.

You said something—and I'm not sure if I quite got this in earlier testimony—about the companies having released the forensic audits or portions of the forensic audits. All I have are essentially the press releases from the companies. What particularly did you mean by what they had released? Were you just referring to those press releases, or what specifically?

Mr. Tom Wright: Yes, you're quite correct, I was referring to those press releases.

Mr. Bradley Trost: All the press releases refer to is how the company essentially...the agreement they made with the industry department at the end. That's all you were referring to?

Mr. Tom Wright: That was my reference, yes. I'm sorry if there was confusion.

Mr. Bradley Trost: Okay, fair enough.

Ultimately, who made the decision that only the 15% would be deducted? Is that automatic in any breach of contract that's done? And you're not talking to a lawyer here. Is it automatic that it would automatically be rectified on that? Was there a departmental official who would have had to have been consulted in the negotiations? Would the responsibility ultimately have been the minister's to say, this is how we will rectify the situation? Where would the buck have stopped? Who would have been responsible for saying, this is how we rectify the situation with the four companies involved?

• (1700)

Mr. Tom Wright: I'll take some advice from my colleague here, but my understanding in this case is that the resolutions were reached through our loan insurance and recoveries directorate, which is part of the comptroller's office within the department. It was not a matter that was in the hands of TPC per se.

Mr. Bradley Trost: Am I accurate on that?

Mrs. Mary Ellen Cavett: That's correct, but it was also in consultation with the subcommittee of the departmental audit and evaluation committee.

Mr. Bradley Trost: So this would have been departmental officials who would have made the decision.

What criteria did they use when they were making those decisions on how to negotiate the settlement to arrange the breach of contract to be solved? What criteria in specific were they using to arrive at the punishment, the solving, of the breach of contract?

Mr. Tom Wright: I don't have the criteria with me. I was not a part of that; I can't speak to it.

Mr. Bradley Trost: Is there some way we, as the committee, could receive it? It helps us to judge and adjudicate whether or not it was a fair process, whether or not things need to be changed, what

sort of advice we need to give to the minister or to the government on how their policies need to be changed. Is that possible?

The Chair: That's probably a fair request. There would be a criterion for that.

Mr. Bradley Trost: Now, would the minister have had to have been informed about this? Would he have been briefed about the initial problem you stated earlier, but in particular, did he need to be briefed about how the problem would be solved? He would have been aware. Is that fair to say?

Mr. Tom Wright: Yes. I must say I wasn't involved with TPC at that particular juncture, when this took place. I joined some time after, so I don't have the precise dates of meetings with the minister.

But as I mentioned at the outset, as I understand it, his first briefing on the program, which would have been in July, would have covered the overall issue. I can't say for sure when he would have been briefed on the outcome of the resolution directive.

Mr. Bradley Trost: From the press releases I have, it would have been in August of 2004 for the companies I'm looking at, the end of August. Is that correct?

Mr. Tom Wright: Yes, the resolution would have been at the end of August.

Mr. Bradley Trost: It was at the end of August 2004. So he would have had to, in many ways, approve or give some authority to these deals. Ultimately, he's responsible for his department, correct?

Mr. Tom Wright: I'll have to take advice from my colleagues in terms of the minister's delegation. Those could be authorities that have been delegated, but the minister does have accountabilities, yes.

Mr. Bradley Trost: Could we have information returned to the committee on whether or not that was delegated or whether or not it was his directed decision?

Mr. Tom Wright: Certainly.

Mr. Bradley Trost: Now, there's one other thing that I think could be noted. The gentleman involved, who lobbied on behalf of these firms, denied being a lobbyist in one of the newspaper articles I was reading. I'd be curious as to the criteria. A lot of people come up and talk to me on the Hill. Some of them say they're lobbyists and some of them don't. I've got the article here in my file. Yes, it's from a story in *The Globe and Mail* from April 5, 2004, where he denied being a lobbyist.

How is one to determine who is and who is not a lobbyist? One could have paid consultants on staff, particularly if you're a larger company, not a small or medium enterprise. How is the department determining what was lobbying and what was merely, as you said earlier, writing of reports, setting up meetings? It sounded like clerical work, honestly, when you described it the first time. What criteria was the department using to distinguish between the two?

Mr. Tom Wright: The Lobbyists Registration Act provides the guidance on that.

Mr. Bradley Trost: So the criteria used were directly from the act.

Now, the minister stated in the House that he was restructuring TPC. What specifically does he mean by that? Is he talking about restructuring the grants of the program or what we're specifically interested here, in this meeting, restructuring the applications? Is he talking about the auditing, about the penalties for breach of contract? What, in specifics, is he talking about, as far as restructuring the program goes?

• (1705)

Mr. Tom Wright: At this point, I don't believe the minister has concluded on all of the points that he wants to see restructured. He's been quite open in talking about wanting greater outreach to SMEs in all regions of the country, and he's been very open on wanting to embrace all technologies.

He's equally been very open on wanting a higher degree of transparency around the operations of the program. I've heard the minister state rather clearly that he wants to see far more information going out on the arrangements the program might have made with companies, so I would expect that we would see changes like that in the future.

Mr. Bradley Trost: Has the minister set any deadlines or targets for when he will achieve those goals and then report back?

Mr. Tom Wright: I believe last week he indicated he was hoping to achieve some of this in the fall of this year.

Mr. Bradley Trost: I might suggest, Mr. Chair, that when he does achieve this restructuring of the program, we as a committee consider having him.... It would possibly be quite a good idea.

My final question is this. Most of these audits seem to target small and medium-sized enterprises. I was somewhat curious. Have any audits been done of larger firms? To a certain degree, this goes back to my question of what is a lobbyist and what is not. If you have a paid staffer versus someone on commission, they could be doing exactly the same work, except in one situation the company is assuming all of the risk and in the other situation, where they're hiring the lobbyist on the contingency fee, the lobbyist is assuming all the risk.

I'm curious to know if there have been audits done to discover if there's been lobbying done, because it's unfair; large companies are allowed to lobby and small ones are not. So have they been done of other industries and larger firms?

The Chair: The lobbying part is not the problem; the contingency fee payment is the problem.

Mr. Bradley Trost: Understandably so, but I would like to know, because there's a certain degree of appearance of fairness, even if there is a technical argument under law that one is legal and one is not. It's not just what's legal and what's not; it's what's fair and what's not, for future policy purposes.

Mr. Tom Wright: A portion of the 47 that are currently under way have been randomly selected, so I believe it is safe to assume that larger firms would be captured under that as well.

The Chair: Thank you, Brad.

I will split the time among the four remaining questioners, starting with Denis.

[*Translation*]

Hon. Denis Coderre (Bourassa, Lib.): Thank you, Mr. Chairman.

Before beginning, I should mention that had my friends from the Bloc Québécois and the Conservative Party not boycotted the meeting with the minister on budget votes, my friend Brad would probably have been able to address these questions on Technology Partnerships Canada to Minister Emerson. They missed a good opportunity to ask such questions to the minister.

Let us come back to the Technology Partnerships Canada program. We are mixing up several things. The fact of the matter is that a person who worked on behalf of the company was not registered as a lobbyist. That is where the breach of contract occurred. Is that correct?

Mr. Tom Wright: Yes. In addition, this person was paid according to the results obtained.

Hon. Denis Coderre: Very well. The goal of TPC was therefore to claw back money, because a breach of contract occurred, and that is what you did, was it not?

Mr. Tom Wright: Yes.

Hon. Denis Coderre: If there had been a crime committed or otherwise, the RCMP would have been able to lay charges and legal proceedings would have been launched following the audit that you had undertaken at the time, correct?

• (1710)

Mr. Tom Wright: Yes.

Hon. Denis Coderre: Therefore, that is what we must understand. If there had been a criminal offence, there would have certainly been a police investigation.

Mr. Tom Wright: That is correct.

Hon. Denis Coderre: I am also of the understanding that when the Auditor General tabled his reports in 1999 and in 2001, he praised the management and operation of TPC, as well as the good value obtained by the client and the government. Is this correct, Mr. Wright?

Mr. Tom Wright: Yes, that is precisely it.

Hon. Denis Coderre: I believe that it is important to mention this. Am I also correct in assuming that the other audit will afford us a much more comprehensive evaluation of the situation, not in terms of the specifics concerning the four companies, but in terms of the operation and evaluation of this program in its current form? Is that the goal of the investigation underway?

Mr. Tom Wright: The investigation underway pertains to two populations.

[*English*]

One is in part a random sample, and the other is biased as to where we think there may be risk, but these audits are targeting very much these clauses in regard to the use of contingency fees and whether or not lobbyists were registered.

Hon. Denis Coderre: I think it would be important for the record to put the emphasis on the word “partnership”. You mention that it's not a bank loan. It is important to say that there is some risk, but there are also some rewards regarding that program. And if we want to invest in R and D and remain competitive in some specific regions, it is essential that we have this kind of partnership. So competitiveness is also an issue we should focus on regarding TPC. Is that right?

Mr. Tom Wright: Very much so, and particularly the minister has spoken of this in terms of where he would like to go with the program. He would like to see the program embracing technologies and projects that are fundamentally transformative for the companies, that will in fact enhance their competitiveness. It's important now, and it will become even more important.

Hon. Denis Coderre: I understand that the first forensic audit was from departmental...but afterwards it was because of the openness of the minister and the vision of the minister of the importance of going a little bit further on TPC. That's why, since you already had some ongoing audits anyway... This is a very sensitive and important program, and you have to be very clear that it's not just a matter of being, but also of looking...perception is very important. That's the reason why within Industry Canada, and with the vision of the minister, you're proceeding that way right now.

Mr. Tom Wright: The minister is very clear. He wants us to exercise all due diligence and he wants us to be as open as possible in pursuing this.

Hon. Denis Coderre: So due diligence and risk management are the two essential keys of the vision of Industry Canada, and its minister wants to promote them. Is that right?

[Translation]

I disagree with Paul slightly. I know where he is coming from, but I was a bit worried about the trend. When we talk about lobbyists, we must not forget that it is important that there be people who are aware of how to comply with the Lobbyist Registration Act. Companies may receive assistance with the help of these duly recognized professionals.

Paul said that this money was paid back, but that there was a problem with respect to advantages. Other companies would have been able to benefit, whereas they did not. It was not clear. I am not sure of what he was getting at. I think it is too hot to go fishing.

Mr. Paul Crête: Point of order, Mr. Chairman.

Hon. Denis Coderre: Can you clarify that?

Mr. Paul Crête: The company that behaved in such a way may have one of the contracts because that was its behaviour right from the outset, whereas the other company that did not adopt such behaviour was not able to benefit from it.

Hon. Denis Coderre: The problem is the following.

[English]

The Chair: If you could wrap up....

Hon. Denis Coderre: Yes. I'm on a roll; it's fun.

The issue is this. There's a difference between somebody who breaches a contract because he was not registered and the way you're funded, the contingency, and the fact that you can still have a

lobbyist, no matter what, who's recognized professionally, who's able to facilitate the path to get those contracts. Isn't that right? I don't see the difference or that advantage there.

So keep up the good work. Thank you.

The Chair: Thank you, Denis.

James.

Mr. James Rajotte: Thank you, Mr. Chairman.

I want to return to a point that Brian and Brad were making. I want to understand.

A certain company applies to TPC. It has a lobbyist to help with this. TPC grants them a repayable loan. One of the conditions is clearly no contingency fee within the contract. The contract is signed. This company then does R and D. It submits receipts to that effect. Then it utilizes these funds from the TPC loan. Out of those funds the company, at least in the cases we're talking about, paid a contingency fee to a lobbyist. This is discovered by TPC or Industry Canada during an audit. Then they contact the company to get the money back, which is \$3.7 million in contingency fees, which clearly breached the contract. The company then repays back to TPC—one example is TIR Systems—the 15% that was decided went to this lobbyist. So there's a breach of contract with no penalty whatsoever because the existing contract continues. There's no incentive to actually obey the contract or to not do this.

I want to ask a very simple question or two. Why does money continue to flow to a company that has clearly broken a contract with the Government of Canada? Why would the Government of Canada continue to honour a contract that a company has clearly violated? Why would money continue to flow to a company that has clearly broken the contract, which, as you point out, Mr. Wright, was explained to them, and they've signed off on it and everything?

• (1715)

Mr. Tom Wright: My understanding is that the breach of the contract was rectified, the moneys were recovered, and the underlying project the government had partnered on with the company still had merit and benefit and was in the public interest, so the decision was taken that the work should carry on.

Mr. James Rajotte: But there's no deterrent whatsoever for misbehaviour. These companies have in fact breached a contract with the Government of Canada, and there's no disincentive whatsoever or deterrent for other companies to do that in the future. That's one of the major problems here.

I would just leave that. It astounds me that this is the process in place.

I do want to talk about repayments. Someone mentioned a high degree of transparency. I'd just like to know, why are the repayments not currently on the website? Why were they removed from the website?

Mr. Tom Wright: I was trying to explain that earlier. They were not removed from the website. The website underwent some redesign in February of this past year. The information on repayments, I'm told, is under a section entitled “Benefits”. The information that was there prior to the redesign, I'm told, is there after the redesign.

There was, however—just so I'm clear—apparently until just recently what I believe they call a dead-end web address or a dangling address, which was captured and just rectified within the week.

Mr. James Rajotte: We used to be able to go to the TPC website and get information on repayments—

Mr. Tom Wright: And you still can.

Mr. James Rajotte: Under which section?

Mr. Tom Wright: Benefits.

Mr. James Rajotte: It's not on the site map here.

Well, we'll check it, because on the TPC site we have here the "Repayments" goes to a page that cannot be found. After this was done, we went recently, under "Media Room"... "Repayments" was moved completely.

I would just say, if the issue here is greater transparency, I would like to see "Repayments" highlighted on here. We'll certainly check under "Benefits", but "Benefits" is not listed on the site.

The Chair: Possibly we could arrange for clarification of what appears, at least, to be a misunderstanding of how you get what from what place.

Mr. James Rajotte: Mr. Wright, you talked about repayment schedules. You say this is on a sort of 10- to 20-year period. Why did a former industry minister in fact say it would take three to five years for TPC loans to get repaid?

Mr. Tom Wright: Part of the confusion here, perhaps, is the use of the word "loans". As I tried to explain some time ago, these aren't like bank loans. There is not a fixed string of repayments. It's dependent upon the success of the R and D; it's dependent upon the success of the resulting product in the marketplace. The repayments are going to be a feature of the conditions in the marketplace.

The high-tech industry had a meltdown. That affected the ability of companies to market. There were the events of 9/11. That affected the ability of the aerospace industry to carry on doing their sales.

The market reality plays a huge role in the rate at which repayments will occur back to the program. It is not like a bank loan, which has a fixed stream of repayments and where you pay back \$10 on the first of each month. This is far more like equity markets in that it depends on market reality.

• (1720)

Mr. James Rajotte: I understand that, but I'm actually not referring to statements we made. I'm referring to statements former industry ministers have made in the House, saying it takes between three and five years for these investments to produce returns. I think the government should be consistent. This was made by former industry minister Allan Rock. One of the things we would like to get is a list of the companies, the repayable loans, the amount that's been utilized, and the amount that's been repaid, so we can actually view this list.

The third thing I want to talk about is this. You stated very specifically that's it's not a job creation program, and in fact TPC does not list jobs created on their website. Is that correct, that it's not a job creation program?

Mr. Tom Wright: Job creation is not the primary objective, but I would indicate that jobs are in fact created. The jobs that are created are very high-tech jobs, such as for engineers and technologists, and other jobs. We do monitor that information through our annual information updates with the companies. The program has a variety of objectives, in terms of economic development and in terms of R and D.

Mr. James Rajotte: Can I ask, then, what is your figure in terms of the number of jobs that have been created?

In a letter to the chairman of this committee in September 2003, it says, "It is expected that 41,467 jobs will be created or maintained by TPC's strategic investments announced to date." So I'd like to know officially the number of jobs created or maintained through TPC's strategic investments announced to date.

Mr. Tom Wright: I don't have those numbers with me right now, but we could report back on what the current forecasts are for jobs to be created over the life of the portfolio.

Mr. James Rajotte: Could we get that by company as well?

Mr. Tom Wright: There may be confidentiality issues on that. We'll have to be governed by the privacy—

Mr. James Rajotte: That was provided to us before as a committee. In the same letter from the industry minister, all of that was provided in 2003, but that information has been removed from the website, unfortunately.

The Chair: Just report what you can, and then on whatever you can't, the committee will go from there.

Denis and James, thank you very much.

We have a few extra minutes with the interpreters, fortunately, so we'll go to Brian and then Michael.

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

With regard to the 15% repayment to Mr. Makhija—

The Chair: That name is in the public domain, right?

Mr. Brian Masse: Yes. It has been in news reports, and it has been talked about here already today.

The 15% doesn't cover the costs of the audits we had to do. That's just the 15% that we're trusting either from their own financial reports or what the company said.

Mr. Tom Wright: That's correct. That does not cover the cost of our audits.

Mr. Brian Masse: Okay. So we have to eat that, and then on top of that, we have to go by the word of the company and their financial audits to determine what the actual fee was to the third party, because we don't know or have privilege to that third party.

How do we determine that it's exactly 15%?

Mr. Tom Wright: That would have been information that would have come from the forensic audit.

Mr. Brian Masse: Okay, and that's related in news articles to financial reports—

Mr. Tom Wright: Yes.

Mr. Brian Masse: But we don't actually have the third-party agreements.

Mr. Tom Wright: I certainly haven't seen them.

Mrs. Mary Ellen Cavett: The forensic audits have full access to the documents of each of the companies that were being audited.

Mr. Brian Masse: Walk me through this in terms of this particular individual.

I want to clarify something, because the minister said, and this is a quote from a news story:

Mr. Emerson also said that the government should have done more to ensure that it was clear to TPC clients that lobbyists were not to be used. The program has been under review since the fall.

It said lobbyists should not be used. I know this individual claimed in one story that he had very close relations with a senior official in your department. Is that true or not true, and why wouldn't somebody in the department flag that this person keeps coming to meetings with different clients out of their own benefit? Didn't that raise a signal?

This company seemed to be pretty comfortable charging 15% to him to get access to him for you.

• (1725)

Mr. Tom Wright: There are two things.

As a result of all of this, I listed the steps we have taken in the program to ensure this doesn't occur again.

In terms of this lobbyist having acquaintances in the department, I can tell you that there has been an internal review that has involved our senior counsel and our head of human resources. So we have looked into that issue, and we've determined that there is no disciplinary action that would come as a result. So we haven't ignored it. We have followed it up.

Mr. Brian Masse: Okay, but doesn't it concern you that at a certain point in time several companies felt confident enough to charge 15% through the system you have there, and if no disciplinary action was taken on this individual, then you'd have this other...? This person is not even a lobbyist. So do you not ask, when this person comes with a company, "Do you work for the company, or are you a lobbyist?" This person wasn't even a lobbyist. Shouldn't that have been flagged somewhere along the—

Mr. Tom Wright: I can't speak authoritatively as to precisely what was done at that point in time. I can't change what was done, but I certainly can change what we do on a go-forward position, and I think we've put into place a set of steps that will preclude this from happening again.

I had a meeting with a roomful of companies earlier this afternoon and explained to them that they're going to be sick of the number of times they are going to have to certify to us that they have not

engaged an unregistered lobbyist or made contingency fees. Every step of the way they will be certifying this.

Mr. Brian Masse: That's fair enough. I accept that answer.

What I would ask is that consideration at least be given to a cost-recovery process for the internal-external audits of those companies that are abusing the public trust and the system. I have residents in my community who are literally hounded like dogs on the street for overpayments of employment insurance; meanwhile, this individual is just walking free and clear. It is the same with the companies.

It is a great disincentive. There doesn't even seem to be any public embarrassment about the fact that this happened. At the very least, if Canadians are going to be investing in these types of things, they shouldn't pay for the audits for activity that's improper and unethical. That should be done immediately, in my opinion.

I appreciate your answers.

The Chair: Thank you, Brian.

The last bat is to Michael, please.

Mr. Michael Chong (Wellington—Halton Hills, CPC): Thank you, Mr. Chair.

I have questions for Mr. Wright.

Did you ever meet with Neelam Makhija?

Mr. Tom Wright: No, I did not.

Mr. Michael Chong: With regard to the process for approving these TPC loans, either currently or in the past, did part of the process include going to either the minister or other elected officials for their advice or their review of these loans?

Mr. Tom Wright: The process that is in place now includes a series of steps in terms of due diligence.

An outline of the proposal is submitted to the department and is reviewed by a committee, which includes people beyond the department—technological experts and others. If it is thought that the outline has merit, the company is then invited to submit a detailed proposal. It is a two-step process because the detailed proposal is a very lengthy document, and frankly, it is very costly to prepare. It is then submitted for an in-depth due diligence analysis, where, again, technological experts examine the technology, the capacity of the company to implement the proposed technological change, its management ability, and the financial strength of the company. All of that results in a recommendation.

The recommendation is then reviewed internally at TPC through a management board. It is then submitted to a departmental committee—our program and services board—which brings to bear yet another level of verification that all the terms and conditions of the program have been met. After that, it goes into the final stages of approval.

If it is a project of, say, \$20 million or more, it has to go through cabinet and Treasury Board for final approval. If it is \$10 million or more, it has to go to Treasury Board, and so go the authorities. The minister signs for projects above a certain level. He has delegated to the deputy minister projects below a certain level. I can get you those precise figures.

The due diligence process does not necessarily involve a consultation with elected officials, no.

• (1730)

Mr. Michael Chong: Do any elected officials sit on this management board and on the other review body, the departmental committee?

Mr. Tom Wright: No, they do not.

Mr. Michael Chong: Were there cases where the MP or an MP was notified, or where cabinet ministers or their staffs were notified before final approval of these loans?

Mr. Tom Wright: Do you mean in advance of a decision?

Mr. Michael Chong: Yes. For example, you've indicated that the decision for loans of \$20 million or more is reviewed by cabinet and Treasury Board and those of \$10 million or more are simply done by Treasury Board. But for loans of lesser amounts, did MPs find out? Were loan applications submitted to them for their review or comments?

Mr. Allen Wright: No, they were not.

Mr. Michael Chong: Okay.

The Chair: Thank you, Michael.

With that, I'd like to thank you very much, Ms. Cavett and Mr. Wright, for being here.

Mr. Werner Schmidt: Before you adjourn the meeting, are you going to—

The Chair: I wanted to mention this. Is anybody going to be here on July 25, 26 or 27? If you are, a delegation of Australian parliamentarians will be in town.

I want to thank both of you very much for helping us out today. We will continue to pursue this matter when we come back in September, or in July or whenever. Thank you very much. You are dismissed, with our thanks.

Werner, did you want to raise something?

Mr. Werner Schmidt: Yes. I only wanted assurance that we'll have the auditors appearing before the committee as well. It's no problem. That's all.

The Chair: Oh, yes, we will. This was only the first meeting.

Mr. Werner Schmidt: Okay.

The Chair: We are adjourned.

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