



House of Commons
CANADA

Standing Committee on Government Operations and Estimates

OGGO • NUMBER 007 • 2nd SESSION • 40th PARLIAMENT

EVIDENCE

Tuesday, March 3, 2009

—
Chair

Mr. Derek Lee

Also available on the Parliament of Canada Web Site at the following address:

<http://www.parl.gc.ca>

Standing Committee on Government Operations and Estimates

Tuesday, March 3, 2009

• (1110)

[English]

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

We're continuing our short study of procurement, with the focus being principally on the Department of Public Works. As you will recall, today we want to look at the impacts of current procurement policies and any changes in process for small and medium-sized enterprises. We asked the Department of Foreign Affairs and International Trade to provide us with some information in that regard. We have a manufacturing sector representative as well, who has experience in both government procurement and changes in government procurement policy.

Having said that, I think today we'll let the Department of Public Works and Government Services lead off. I think they asked to lead off in the last meeting and we weren't able to let them.

From Public Works, we have Liliane saint pierre, who is assistant deputy minister, acquisitions; John Rath-Wilson, acting chief operating officer; Normand Masse, director general, services and specialized acquisitions. All of those titles come with additions, which I didn't read.

I'm going to ask Public Works, Madam saint pierre, to please start off.

[Translation]

Ms. Liliane saint pierre (Assistant Deputy Minister, Acquisitions Branch, Department of Public Works and Government Services): Good morning, everyone.

Thank you, Mr. Chair.

We are very grateful to you for allowing us to provide you with an overview of federal government procurement. The colleagues with me today are, to my right, Normand Masse, Director General of the Services and Specialized Acquisitions Management Sector, and John Rath-Wilson, Acting Chief Operating Officer, Information Technology Services Branch. Shereen Miller, Director General of the Small and Medium Enterprises Sector, is to my left.

Mr. Chair, in a moment, I will ask Mr. Masse to give you a brief overview of federal government procurement.

[English]

Before I give him the floor, I want to highlight some important facts. First, in 2007-08, 49% of the total value of business done by

PWGSC with Canadian suppliers went to SMEs. That is up from 34% in 2004-05.

Second, MERX, the government electronic tendering system, has been free of charge to access all government procurement opportunities since 2005. The PWGSC office of small and medium-sized enterprises offers free seminars on how to navigate MERX. Also, further to national consultations completed last summer, PWGSC has delivered improvements, such as the popular search feature, to make MERX more user-friendly.

About 11,000 transactions are carried out through MERX every year. All unsuccessful suppliers are entitled to debrief, as stated in the Government of Canada contracting policy.

[Translation]

Finally, with regard to shared information technology services and the Government Enterprise Network Services, no decision has been made. Our consultations did not end until February and the department is presently conducting its analysis. We will submit our plan to this committee as stipulated in the motion that was passed last June.

Mr. Chair, Mr. Masse will now take you through the presentation you have before you.

[English]

Mr. Normand Masse (Director General, Services and Specialized Acquisitions Management Sector, Acquisition Branch, Department of Public Works and Government Services): Mr. Chairman, thank you very much. I appreciate the opportunity to be able to address the committee on our procurement overview.

It is going to be a fairly quick overview. I believe you have all received the deck I'm going to use. It starts with the glossary of terms and contracting principles and objectives, and it leads up to the typical contracting process, which is the art of our professional expertise. My focus will be on that procurement process and the management control framework.

On slide 3 you will see a number of common terms we use in procurement. I would like to bring your attention to MERX. MERX is our Internet-based electronic tendering system. This is how we inform the industry of the Government of Canada's requirements. It is really the window into the government.

The advance contract award notice at the bottom is a notice used when the government intends to award a contract to a pre-identified supplier. We obviously want to be up front, and those ACANs foster competition by asking other suppliers to submit statements of capabilities if they think they meet our requirements. All of that is done before awarding a contract to that specified supplier.

If you move to the next slide on page four, public procurement is not just buying something at the lowest price possible. PWGSC is there to obtain the best value for the taxpayer. We often illustrate public procurement as a balancing act, and that is why we have these principles and objectives, with the first one being integrity. We ensure open, fair, and transparent activities for our procurement.

Client service is also important. We obviously make every reasonable effort to satisfy the operational requirements, but best value is the key we're trying to obtain.

You're probably all very familiar with national objectives. We have national socio-economic policies. We have international trade agreements, and I'll speak more about that later.

On competition, this is the first attempt and the first reaction we have when we deal with government requirements. We're trying to compete everywhere possible. Some exceptions are listed here. Intellectual property is one, and emergency situations is another one, etc.

Equal treatment is also something we're very proud of. We ensure suppliers are treated equally. That means we provide the same information and evaluate on the same basis in all our procurement activities.

I have some key facts and figures, to give you the magnitude of what we do. As you probably know, PWGSC is Canada's largest public purchaser of goods and services. We're responsible for more than 80% of the dollar value, but only 10% of the total number of contracts. It is important to understand that other entities in the Government of Canada are also doing procurement at the lower end of the spectrum, but they do 90% of the documents and we do 80% of the value.

We buy for over 100 departments and agencies and spend between \$11 billion and \$15 billion a year, and we manage approximately 60,000 contractual documents each year. That includes the original and amendments. For example, in 2007-08, small and medium businesses in Canada sold over \$4.8 billion worth of goods and services to the Government of Canada.

• (1115)

Slide 6 shows the four main players, although there are a lot more. Treasury Board sets the policies, limits on departmental authorities, oversight rules, etc., and also approves projects over limits that have been set for Public Works and other departments. The second are government departments and agencies. They are the ones that determine the requirement for goods and services. As I mentioned, they also contract for some goods and services within their limit. PWGSC is obviously a common service provider. We're there to ensure that contracting is fair, transparent, and accessible. We're there to make sure it complies with trade agreements, policies, etc. The suppliers obviously are important key players because they are delivering on our contracts, they are delivering goods and services.

They also contribute largely to the improvement of the procurement process through consultation. We've done a lot of consultation in the last four years to improve the supply chain.

Page 7 shows the main legislative and regulatory framework. This provides the legislative authority to our minister to procure on behalf of the Government of Canada. The statutes also come into play in that framework and basically control how all the tax dollars will be spent and give the authority to the Minister of Public Works to procure military requirements.

Slide 8 shows some of the treaty and trade agreements. I believe we're going to have a bit more on this later on from our colleagues in DFAIT. Each of those international and internal agreements has a set of terms and conditions. They all have different thresholds where they apply, and so on. It is really important to our contribution to those agreements to make sure we comply with them.

On slides 9 and 10 you're going to see the top client departments with their dollar value and the percentage of the dollar value. On slide 9 you will notice that the Department of National Defence represents 51% of the procurement done by Public Works. That's the largest single department we deal with.

The second one is our own department, but let me explain. Public Works also has standing offers and we're doing a lot of consolidation procurement instruments for other departments. This is why it shows as a huge number, but it's really through those standing offers, through our consolidated purchase for real property or IT, which is done on behalf of other departments.

Also, a point to note under "Canadian crown corporations" is that these are mostly managing foreign government sales. These are foreign governments that come to Canada to provide business to our Canadian firms.

Slide 10 shows the top commodities. You'll notice information processing and related telecom services is the largest one. The maintenance and repair for aircraft fleet is also an important one. And you have the top 10, the IT, etc. Under "Others", one has to understand that this includes hundreds of different categories. It includes things like furniture, research and development, vehicles, etc.

Slide 11 gives you an overview of the share between competitive and non-competitive contracting. This chart shows above \$25,000 only. The split is about 80-20, and there's a bit of an explanation there—competitive open bidding, competitive through the advance contract notice. We foster the competition through the ACAN, so it is considered a competitive requirement. Government-wide, it's 81%. The procurement managed by Public Works is 80%. Our first choice, as I mentioned, is always to compete. The procurement requirement dictates the procurement strategy, really.

•(1120)

Slide 12 really shows the arc of the procurement process. On that chart you have nine boxes that go from the beginning to the end of the procurement cycle. You will notice the segregation of responsibilities. Everything in the yellow boxes is the responsibility of the client department, the originator of the demand; the blue ones are the responsibility of Public Works; and the mixed colours are those with shared responsibilities, and I'll give you some examples.

So in the "requirement definition" box, the department defines its requirement, obtains project approval, obtains the funding, and basically asks Public Works to get involved in procuring what is required.

The procurement strategy is where we develop the way we're going to approach the procurement. This is where we decide or look at the trade agreements to see which will apply and which will not apply.

Then we get to solicitation and its various types: competitive, one-stage, multi-stage, etc. There are differences between them. The multi-stage is where we prequalify the supplier before we invite them to prepare a submission. This reduces the costs to the industry, so it's very important.

And then we get to the evaluation box, which is a shared box. The technical evaluation is done by the client department, but not the financial kinds of submissions, as we do the financial and selection methodologies.

Then we have contract approval, and you should notice here that we have third party reviews to ensure that we're compliant with all trade agreements and that everything is legally sound and the required quality is there.

Then there are the contract award, contract administration, contract payment, and contract close-out boxes, all of which include a management framework.

So slide 12 really summarizes the whole process.

On slide 13, you will see the dispute resolution mechanisms. First of all, let me say that the majority of concerns or disputes are resolved by our procurement specialists and managers in Public Works. Now, the four levels that you see on the slide are also ways of resolving disputes. We have within Public Works two committees or boards that look at disputes: the contract claims resolution board and alternative dispute resolution. Again, we're talking of a minimal number of requirements that go through any one of these boxes. For example, within Public Works, perhaps 25 cases a year out of the 60,000 contracts that we award reach that first block on slide 13. I would say that 20 of them would be resolved through alternative dispute resolution and only five would go to contract claims resolution.

Now, another level is our Office of the Procurement Ombudsman, which came into effect in May 2008. Basically, they look at procurement practices and the complaints that are not covered by the next box, the Canadian International Trade Tribunal. Every time procurement is subject to one of the trade agreements, whether internal or international trade agreements, it is within the jurisdiction of the Canadian International Trade Tribunal to consider and address

complaints from suppliers. I have some interesting statistics on that on the next page.

The Federal Court is the last level. Suppliers can always go to the Federal Court in bringing their grievances forward. We normally have only about four or five cases a year reaching the Federal Court, again out of the 60,000.

Slide 14 shows that 80 challenges were presented to CITT in 2007-08, 54 of which were rejected by CITT for being outside their jurisdiction. If you look at the ones that were accepted, in fact only eight were valid; and out of the eight, only four, or approximately four, were upheld. So this really shows you the magnitude of those complaints or challenges, keeping in mind that we are awarding 60,000 contracts a year.

•(1125)

This really completes my presentation to you.

The Chair: Thank you very much.

That presentation was a lot longer than the normal presentation, colleagues, but I thought it would be useful for the public record, since it was an overview of the entire process.

Thank you very much for that.

Now we'll turn to the Department of Foreign Affairs and International Trade, and the director general for multilateral trade policy, Gilles Gauthier. He's joined by Dany Carriere, the deputy director of investment trade policy.

I think you have some information for us on how procurement relates both to our SMEs and our trade obligations. Go ahead.

•(1130)

[*Translation*]

Mr. Gilles Gauthier (Director General, Multilateral Trade Policy, Department of Foreign Affairs and International Trade): Thank you, Mr. Chair.

I am going to make a brief presentation. My thanks go to the committee for giving me the opportunity to provide these remarks.

Government procurement makes up a significant part of our economic activity. So it is not surprising that the topic generates so much interest in our trade agreements and remains an important matter in all trade negotiations. Canada has been subject to international obligations for procurement approximately since the early 1980s. Currently, there are three international trade agreements that include obligations on government procurement: NAFTA, especially chapter 10; the World Trade Organization agreement that specifically deals with government procurement, and the free trade agreement between Canada and Chile, to which a chapter on government procurement was added in 2008.

The basic objective of international agreements on government procurement is to commit the parties to establish transparent, open and fair procurement policies. However, the obligations apply only to the federal government. No obligations apply to provincial or municipal governments.

[English]

Government procurement chapters are essentially structured in two parts: the substantive rules and obligations and the market access commitments. The substantive obligations, or rules, are essentially the same in all of our three agreements. The rules centre on the key principle of non-discrimination, that is, foreign suppliers should be treated the same way as domestic suppliers. The prohibition would offset, for instance, minimum local content requirement, the transparency of procurement laws and regulations and policies, and the transparency of the procurement process itself.

The agreement also contains provisions on dispute settlement, including what is known as the bid challenge mechanism whereby a supplier can challenge before an impartial body, in our case the Canadian International Trade Tribunal, any aspect of the procurement process. In fact, Mr. Masse has elaborated a bit on this topic.

In terms of market access commitment, each agreement defines in a precise and detailed manner the scope and coverage in terms of the type of procurement, the goods, services, construction, the minimum dollar value threshold of a procurement that is covered, as well as the list of government entities for which the procurement is made. I believe we have a one-pager that outlines the different thresholds that are used in our various agreements, and you'll see that there are some differences among the three agreements for goods, services, and construction.

In terms of the entities covered, Canada's commitment extends to procurements made by or on the behalf of a very large number of federal departments and agencies. And in the case of NAFTA and the FTA with Chile, we also cover ten federal crown corporations. In terms of the types of procurement, generally all goods are covered, with the exception of defence-related goods. There are, however, some purchases of the Department of National Defence and of the Royal Canadian Mounted Police that are covered, such as office equipment, but the bulk of the purchases of these departments related to procurement of military equipment is not included.

In terms of the coverage of services, the coverage is generally more limited than goods. Some very significant purchases, such as those related to information and communication services, are not included in these agreements.

Finally, Canada includes all construction projects, with the exception of dredging and construction contracts tendered by or on behalf of Transport Canada. These are the broad parameters. In addition to the specific coverage, Canada has retained a number of specific exceptions in these agreements. The most notable exclusions or exceptions are procurements in respect to shipbuilding and repair, urban rail and urban transportation equipment system components and material incorporated therein, as well as project-related materials of iron and steel.

We also have included an exclusion for set-asides for small and minority businesses. These exceptions or exclusions are included in all our three agreements. With respect to the set-aside for small and minority businesses, Canada originally retained this exclusion to match the same exclusion taken by the United States during our negotiation of the NAFTA and of the WTO agreement.

At that time, Canada did not have a minority or small business set-aside program in place. Since then, however, Canada has implemented the procurement strategy for aboriginal businesses, a set-aside program for aboriginal businesses, and that program is administered by the Department of Indian and Northern Affairs. With respect to our trading partners, as I mentioned, the United States has a set-aside program for small and minority businesses. This is a long-standing program dating back to the 1950s. The U.S. set-aside program has historically been a difficult issue for Canadian businesses because of the lack of predictability in that program and the fact that such procurement would have otherwise been subject to the obligation of these agreements.

• (1135)

It's worth noting, however, that other important trading partners of Canada, such as the European Union, do not retain a set-aside exception for small and minority businesses. In fact, the European Union has been and continues to be a vocal opponent of any such programs.

In conclusion, international trade agreements play an important role in the development and implementation of government procurement policies and practices. They foster our domestic policy objective of transparent and competitive procurement processes, and internationally they ensure that Canadian suppliers have fair and non-discriminatory access to government procurement in our trading partners.

Thank you, Mr. Chair.

The Chair: Could I have just one clarification?

In your remarks, you refer to "small and minority businesses". That's a term that hasn't been used around the table here. We've used the term "small and medium-sized enterprises". Could you tell us what small and minority business is?

Mr. Gilles Gauthier: Thank you, Mr. Chairman.

There is no specific definition contained in our trade agreement.

The Chair: You'll have to give us your interpretation of it very quickly. What does it mean?

Mr. Gilles Gauthier: Well, in plain language, it is a program destined for a minority group, such as we have for aboriginals. The United States has one for blacks, for instance. And small business is a small business.

The Chair: Okay, I understand. Thank you for that clarification.

Now, the next presentation for us, colleagues, is from Mr. Greg Rapier. He's the co-chair of the Canadian Furniture Task Group of the Business and Institutional Furniture Manufacturer's Association, sometimes known as BIFMA.

Mr. Greg Rapier (Co-Chair, Canadian Furniture Task Group, Business and Institutional Furniture Manufacturer's Association (BIFMA)): It's much more often known as BIFMA, because that's a lot shorter.

I thank the committee for the opportunity to speak on behalf of the industry.

BIFMA's mission is to lead, advocate, inform, and develop standards for the North American office and institutional furniture industry. Our organization represents some 140 member manufacturers and service providers from around the world.

In 2006, the Canadian Furniture Task Group, a sub-organization of BIFMA, was formed to represent the industry in Canada. Our task group contains 111 individual members representing 75 companies in the manufacturer, distributor, and service provider element of our industry. Of these 75 companies, 50 would fall into the small and medium-sized enterprise category as defined by Industry Canada.

BIFMA has many concerns regarding the recent procurement for the free-standing furniture request for standing offer that was concluded in the month of January and in early February. It starts with a perception from our industry that the Public Works philosophy has moved from a historically inclusive procurement process to a more exclusive process. This particular RFSO resulted in a reduction in contract awards in this category from 36 manufacturers to only five manufacturers. The end result is that competition has in fact been reduced within this category, with a real chance that the crown may see increased costs as opposed to decreased costs. In fact, in three of the four product categories that exist in this procurement, only two bidders were qualified and received standing offers.

Historically in the RFSO process, Public Works provided opportunities for bidders to clarify bids and submit additional information as required, but during this RFSO process, very few bidders received communication of any kind from Public Works and, again, received little, if any, opportunity to provide clarifications for their bid submissions. The end result was that some bidders were disqualified for simple typographical errors in their bid submissions and others for issues that easily could have been clarified had the opportunity been provided by Public Works.

The vast majority of the unsuccessful companies in this category fall under the SME classification, and each of these companies would have expended tens of thousands of dollars to test their products for compliancy and prepare and submit their bid. The end result? Some of these businesses, certainly those that rely very heavily on government procurement opportunities in light of the current economic scenario, could see their businesses at risk.

In addition to manufacturers who bid on the RFSO, our industry contains a very large number of distributor entities, dealerships, 95% of which would fall in the SME category, and they too suffer from the loss of the opportunity to pursue government business.

The successful small and medium entities in this category face real risks in managing their contracts related to annual volumes and the typical surge in government year-end buying. Unfortunately, in office furniture, procurement is not spread evenly throughout the course of the year. In some categories, 60% to 70% of procurement occurs in the 90-day window of the fourth quarter.

If you're a small business and you suddenly have to deal with a massive uptick in your business activity, you might find yourself having to exclude every other customer that you have from business while you service the federal government. The risk then falls on you. Should you in the future lose that federal government contract, you

would face the opportunity or the challenge of having to win back all the customers you've turned away.

As an industry, we also believe that service levels to crown clients will be at risk, as the small number of successful bidders trying to deal with the surge in year-end volume will experience extended lead times, making it very difficult to meet the delivery obligation that the goods must be received by the end of the fiscal year.

This procurement process failed despite the best efforts of our industry to collaborate with the crown through the Government Office Furniture Advisory Committee, also known as GOFAC. GOFAC was formed in 2007 as an advisory committee, bringing together Public Works, government user departments, and industry representatives due to a true commitment to collaboration focused on achieving positive results for all parties.

- (1140)

Since its formation in 2007, and as a result of significant changes in Public Works membership, GOFAC has again become perceived by the industry as an adversarial environment where industry and user input is selectively responded to. GOFAC advised Public Works of several potential pitfalls in the current procurement process, which were ignored to the detriment of the crown. This resulted in several bid requirements that were misaligned with the standard and common industry practices in the office furniture environment. Several mandatory requirements of the bid were not reviewed with GOFAC, preventing the kind of collaboration that would have improved the bid document and the procurement process. Just so you're aware, there are eight industry members on GOFAC, four of whom would fit in the SME category.

The resultant procurement process for the free-standing furniture RFSO was the most complex, costly, and challenging bid document our industry has ever seen. The bid contained several onerous mandatory requirements that added significant cost and opportunity for error. This included the need for an editable price list and complex product technical forms and documentation. There was also massive confusion and ambiguity about how the industry was to respond to several of the mandatory bid requirements, and the delay in receiving clear answers from Public Works created extensive costs due to rework and increased the opportunity for error.

The final significant amendment was published on November 18, a mere seven days prior to the original bid closing. A one-week extension did little to alleviate the time-related issues with the bid. The original bid timeline of 47 calendar days was insufficient to allow bidders to properly formulate their submissions. Only on the release of the RFSO was the final mandatory basket of goods and technical requirements provided to our industry. Only then could manufacturers determine if the efforts and costs expended to pretest the products were sufficient. If not, you had to develop a test plan, manufacture product, ship it to a test lab, and complete your testing. In the event that your product had any test failures, you would have to redesign, re-engineer a product, and repeat the entire process again.

At the same time, the number of manufacturers who had to go to the test labs for product testing left the bidders incapable of completing the mandatory product testing in time, because the test laboratories were not able to keep up with the capacity required.

The original timeline for this RFSO, as discussed in our GOFAC meetings, was intended for a July bid release with a fall closing. This would have provided four to five months, which would have been adequate had this schedule been met. Significant delays in the release saw the response time compressed so much that the industry struggled to adequately respond.

Our industry remains committed to working collaboratively with the crown to achieve procurement reform that is positive for all parties involved. We believe Public Works is not as committed to this process as we are and regularly blames the industry for issues in the procurement process. Comments have frequently been made regarding the poor quality of the bid responses, without regard to the concerns frequently raised about the complexity of a bid that does not seem to align with the standard industry approach to business.

Public Works has apparently confirmed the shortcomings in the free-standing process by extending the active bid for systems furniture by an additional four months to provide an adequate timeframe for the industry to provide quality responses. Had this procurement provided a similar timeline, many of the issues and challenges could have been overcome by the bidders.

The industry has made several suggestions to Public Works on how to simplify the bid process and reduce the costs associated with same. Given the move to what we describe as closed contract dates versus the previously open contract dates—where standing offers could be awarded at any time—many companies will expend tens, and in some categories, hundreds of thousands of dollars unsuccessfully bidding on government opportunities. Simple decisions could be made to delay some of the most costly requirements to apply only to successful bidders. Other decisions could be made to reduce the total cost of the bidding process, making it much easier for SMEs to pursue business opportunities and allowing all industry members to pass savings on to the crown.

●(1145)

Thank you.

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

We'll go right to questions. We spent a lot of time on the submissions.

I'll go to Ms. Hall Findlay.

Ms. Martha Hall Findlay (Willowdale, Lib.): Thank you very much, Mr. Chairman, and thank you very much to all the witnesses for your time today.

In a much earlier lifetime I had the pleasure, if you can call it that, as a lawyer, of working on government RFPs, and I have to say it doesn't sound like it's improved a whole lot since those days.

I have many questions. The first one relates, in fact, to the fair and transparent comments that we heard earlier. I do want to first say that the Information Commissioner's report commended PWGSC for improving on their performance last year—so credit where it's due. I

would urge you to do what you can to lobby internally for more resources. This is clearly a significant issue, and it's a theme that we hear throughout all of it, that there still remains a significant lack of transparency. Whether that's in the process itself or in obtaining records on the process is a continuing issue.

I want to focus now on the non-competitive part of the procurement process. I notice that this is a three-year average, going from 2005 to 2007. The non-competitive aspect, whether it's government-wide or PWGSC, is 19% to 20%. I want to ask about two aspects of this. One, although that's a three-year average, is that an increase or a decrease, historically?

I think, Monsieur Masse, that would be a question to you.

●(1150)

Mr. Normand Masse: Obviously we took a three-year average here. In the last few years we've seen a slight increase in the numbers, but over a longer period it's fairly stable. Again, on the window of three years, if you take the one before that—it would be 2004 to 2006—it was slightly lower than what you see here.

Ms. Martha Hall Findlay: Do you see a trend even between the three years that comprise this average? Has it gone up?

Mr. Normand Masse: There are slight trends of going up.

Ms. Martha Hall Findlay: Then my question is this. We're being asked by the current government to issue, in effect, a fairly significant blank cheque. We understand the need for money to flow into the economy from a stimulus perspective, but we are still very concerned about accountability and transparency—and up front as opposed to after-the-fact accountability. I would like to know, of the money that will end up flowing through PWGSC, and in light of my question about non-competitive contracts, whether you can speak to how the department plans to expedite expenditures. What effect will that have on the RFP process? And do you see that increasing, for example, the volume of non-competitive contracts?

Again going back to that earlier life, I do understand that the normal RFP process, although important from an accountability perspective, can be time-consuming. I would like to have some sense of what the department feels it will be doing to expedite these expenditures.

[Translation]

Ms. Liliane saint pierre: Thank you, Madam.

[English]

Thank you for your question.

Regarding the infrastructure program, you were privy to a presentation last week related to the contribution of the role of Public Works related to that program. As the contracting authority, we are committed to competition. We are committed to have an open, fair, and transparent process. This is our starting point. Of course, through the government contracting regulation there might be some exceptions when you're talking about extreme urgency. But having said that, we always start with that process. We are presently working very closely with our colleagues to develop concrete plans related to all the projects that are being lined up to be completed and to ensure that those pass the high standard of tests of quality.

On the other process that we are putting in place, we are looking at very closely monitoring those contracts, the administration of the contracts, and the delivery of those projects.

Ms. Martha Hall Findlay: I will be a little bit more specific. All that sounds terrific. Developing concrete plans sounds great, but the reason we're being asked to approve this blank cheque is the speed with which we need an economic stimulus. So developing plans doesn't give one a lot of comfort at this point.

If I can be a bit more specific, do you see an increase in non-competitive contracts? I will point out that although competition is, in your words, of key importance, 20% of all contracts being sole-source or non-competitive is a significant number. And I am concerned that we're going to see corners being cut and a significant increase in the use of non-competitive contracts over the next little while to ensure that money flows fairly quickly.

Specifically, is it your expectation that we will see an increase in non-competitive contracts over the next little while?

• (1155)

Ms. Liliane saint pierre: *Monsieur le président, madame*, based on the information we have right now, I do not see any increase in sole-source contracting related to the infrastructure program with respect to, for example, real property.

There are two reasons. The first is that when you look at the nature of the work, it's an acceleration of the plans we already have in place for renovating buildings. Second, we have already in place some contracting instruments, such as standing offers and contracts, that we could use. They have competed to do that work.

Ms. Martha Hall Findlay: Thank you. That helped.

Do you have comfort, given that resources are stretched at the best of times, that if you are asked to ramp up very quickly you have the resources—the personnel and the other resources in the department—to significantly increase spending on a short-term basis?

Ms. Liliane saint pierre: *Monsieur le président, madame*, when I was referring to establishing plans, I was referring more specifically to identifying all the additional resources required based on the needs and requirements identified. We have already started to put those plans into effect. We are gearing up and bringing the right expertise. We are looking all across Canada to identify who is there and who is available. In addition, our deputy minister has struck a whole group that is specifically dedicated to dealing with the infrastructure program and the increase in spending it leads to.

Ms. Martha Hall Findlay: Right. Not to take away from the goodwill you are clearly showing in that regard, not too long ago we

heard examples of very, very long delays in getting people into the public service. We also know there are a number of other departments that will be competing for those resources.

Just for the record, we remain concerned, despite the goodwill. The whole point of being asked to grant a blank cheque is to get money out the door more quickly, and if it relies on resources that have in the past taken a great deal of time to bring in, we remain concerned.

We're done? I'll save the next one for the next round.

Merci beaucoup.

The Chair: That will wrap us up. Thank you very much.

Madame Bourgeois, *pour huit minutes.*

[*Translation*]

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

My first question goes to Mr. Rapier.

Although your association brings together 140 international organizations, I was wondering if you have recently had any dealings with the Office of Small and Medium Enterprises? Do you know that the office exists?

[*English*]

Mr. Greg Rapier: Our association specifically has not dealt with them, but many of the members have dealt with them, both in Quebec and in the industry as a whole.

[*Translation*]

Ms. Diane Bourgeois: You came to tell us that the way in which contracts are presented caused a problem, and that PWGSC has changed the way of presenting requests or tenders. Have the small and medium businesses that you represent been able to work with the Office of Small and Medium Enterprises to deal with those changes?

• (1200)

[*English*]

Mr. Greg Rapier: They've had the opportunity to work with them. Whether the individual companies have chosen to or not, I wouldn't know specifically. Certainly through the Office of Small and Medium Enterprise's participation in the GOFAC committee and BIFMA's communication to our industry, they are all aware of the office and the opportunity to make use of its services.

[*Translation*]

Ms. Diane Bourgeois: OK.

Ms. Miller, were you aware of Public Works' changes to contract offers?

Mrs. Shereen Miller (Director General, Small and Medium Enterprises Sector, Acquisitions Branch, Department of Public Works and Government Services):

Are you asking me if I am aware of the details?

Ms. Diane Bourgeois: Yes.

Mrs. Shereen Miller: The Office of Small and Medium Enterprises does not make procurement requests.

Ms. Diane Bourgeois: I know, but you are supposed to help small and medium businesses get more government contracts. When the government makes changes to its contracts or its tendering, you should be aware of that and pass it on to the small and medium businesses. Mr. Rapier has just told us that changes have been made to contracts in the furniture industry, in information technology and in biotechnology.

Were you aware of those changes?

Mrs. Shereen Miller: The changes were discussed at the Government Office Furniture Advisory Committee—or GOFAC—on which we have a representative. So we participate in the discussions between the industry and Public Works on procurement, but the purchasing process is not our responsibility. Our role is rather to help small and medium businesses to become involved with government procurement.

Ms. Diane Bourgeois: OK.

I am going to talk to Mr. Masse first and then to Ms. saint pierre.

Mr. Masse, page 14 of your document refers to challenges made to the Canadian International Trade Tribunal. Does PWGSC comply with the tribunal's decisions?

Mr. Normand Masse: Not many challenges have been upheld. When recommendations are made, the tribunal's decisions are considered, in most cases, and measures are taken to comply with the conditions.

Ms. Diane Bourgeois: You say “in most cases”. Under what circumstances would you not comply with tribunal decisions that go against you?

Mr. Normand Masse: If a contract has already been awarded and it is too far along, we could decide to negotiate a settlement rather than to terminate the contract and start the process all over again. Usually, if the contract is already being executed, the tribunal considers that. Possibly, a contract may have been put into operation quite quickly. If that is so, it might be said that it is impossible to fulfill the conditions.

Ms. Diane Bourgeois: OK.

Ms. saint pierre, thank you for being here.

Is there a policy of bundling contracts at Public Works? How about that for a good question?

Ms. Liliane saint pierre: Mr. Chair, Madam, when we are developing a procurement strategy, we consider a number of factors, the first being an analysis of federal government needs.

•(1205)

Ms. Diane Bourgeois: Excuse me, Ms. saint pierre, I am sorry to cut you off. But I just want to know if there is a policy of bundling contracts. There is a difference between consolidating purchases and bundling contracts.

Ms. Liliane saint pierre: I am not aware of any policy on consolidating purchases.

Ms. Diane Bourgeois: Fine. So if there is no policy on consolidating purchases, explain to me why, in two, or maybe three,

years, you have gone from 40 furniture suppliers to 5. In information technology, the number of suppliers has been significantly reduced. Explain that to me.

Ms. Liliane saint pierre: Mr. Chair, Madam, let me go back to your examples. You correctly mentioned that, for free-standing and office furniture, we once had 40 suppliers and the number has dropped. This is the reason. After analyzing the needs of the federal government, and having listened to representations from the private sector and the clients, we worked with industry to come up with an approach. The problem that we had previously was that any company seeking a tender, a deal with the government, could have access to that tender. As a result, we could receive 40 or 50 of them. It is not just furniture. It cost the bidders effort and money, and there was no need. Following that analysis, we proceeded to develop procurement methods with specific needs and specific analysis.

In the case we are discussing, with the 40 furniture suppliers, we did not limit the number of tenders, we limited the number of products. Ten companies qualified, five regular ones and five Aboriginal ones. When we made the *[Note to Editor: inaudible]* just beforehand, before the new approach, 20 companies qualified. After the competitive process, 18 companies qualified. So we did not limit the numbers as part of the procurement process, we evaluated them against required criteria.

[English]

The Chair: That would be time. *Merci.*

Mr. Warkentin, for eight minutes.

Mr. Chris Warkentin (Peace River, CPC): Thank you very much.

I want to get some clarification on some comments you made, Ms. saint pierre, in terms of the businesses that receive standing orders for furniture. My understanding, from the testimony I heard this morning, was that it moved from 36 to five. I think I just heard from you that it moved from 36 to ten.

Could I get some clarification on what we're looking at in terms of folks who were successful in their standing offers?

Ms. Liliane saint pierre: Regarding the free-standing furniture, in accordance with the numbers provided to me, in the past we had 27 standing offer orders. As a result of the competitive process, we awarded five standing offers to companies, plus five aboriginal standing offers, for a total of ten.

For your information, nine of the ten are Canadian firms, and eight of the ten are small and medium-sized businesses.

Mr. Chris Warkentin: Mr. Rapier, that testimony was a little bit different from what you provided to us this morning. Is there a clarification that you've received, or do you have a dispute with those numbers?

•(1210)

Mr. Greg Rapier: No, we don't have a dispute with the numbers. The aboriginal entities are only eligible for a standing offer contract if it's a complete mirror of the underlying manufacturer's contract.

Fundamentally, five manufacturing entities have been awarded contracts. Then in order to provide procurement opportunities under PSABA, five aboriginal entities hold a contract that is identical to the manufacturer's underlying contract just held by the aboriginal distributor.

Mr. Chris Warkentin: Anybody can answer this.

Am I to understand that the aboriginal contracts or the standing offers have not been offered to manufacturers but simply to retailers? Is that a correct analysis?

Mr. Greg Rapier: No, the standing offers initially must be awarded to the manufacturers of the goods, and only if a manufacturer's product qualifies can the aboriginal entity receive a standing offer, which must contain the same terms and conditions as the manufacturers'.

Mr. Chris Warkentin: I'm still not clear on this process, but let's move on and maybe some clarity will come.

I'm now questioning whether any of my numbers are correct. There were 36 standing offers in existence prior to this process. Is that correct?

Ms. Liliane saint pierre: The information I have is that there were 27.

Mr. Chris Warkentin: Okay, then, it was 27. We'll take your numbers because I don't know where I got my numbers from.

Let's say there were 26, and only five were successful in actually moving through this 200-plus-page application process. Then the aboriginal group was successful in a different way from moving through this application process. Is that correct information?

Ms. Liliane saint pierre: Part of the competitive process and the rules of this RFSO is that for manufacturers that qualified, because we did include an aboriginal set-aside as part of the rules, the aboriginal firms that were tied to those manufacturers also received a standing offer.

Mr. Chris Warkentin: Within Public Works, is there a sense that moving from 26 suppliers to 10 presents a problem in assuring that the supply of these products will be available? That's the first question.

Also, is there a sense that significantly limiting the number of standing offers available to these businesses through this process is a problem, and if so, are there efforts being made to rectify that problem?

I look at what's been brought forward today, and my sense is that there seems to be a problem. We may have a problem today in that we're not going to have sufficient capacity within the businesses that have been supplied standing offers to supply the federal government in a timely manner, especially when you consider the testimony, which we all know to be true, that so much of the purchasing of the federal government happens only in the fourth quarter. That's another issue that I think many people around this table have problems with.

We're also concerned about the long-term effects of this. Essentially mini-monopolies for government procurement for certain companies are being created, and possibilities for other companies to ever be competitive in that process are being limited. It's just the nature of the business that if you're not supplying, you get out of the

process of even competing for these contracts. The government then essentially creates a situation in which there are not nearly as many people who can move into this competitive process, thereby driving up the cost of procurement for the federal government.

Is that a concern for Public Works?

Ms. Liliane saint pierre: Mr. Chair, I'd like to make two points.

First of all, we are committed to a fair, open, and transparent process, and as such we have to also live with the results of that competitive process. If you look at both the cabinets and free-standing furniture, we did not limit the number of standing offers. That fair and open competitive process had the following results. First, for the cabinets, when we received 20 bids, the outcome was 18. Regarding the free-standing furniture, again we did not limit, and the outcome was 10, or five and five, as Greg explained.

The second point is that, as mentioned by Mr. Rapier, the last quarter is normally the busiest of the year. So far we haven't had any problems and we haven't heard of any problems related to complying with the demand.

● (1215)

Mr. Chris Warkentin: In terms of supply, that addresses one concern. How many applications were submitted for standing offers? How many companies were actually successful in completing the paperwork and submitting applications?

Ms. Liliane saint pierre: Based on memory, there were 33.

Mr. Chris Warkentin: My time has probably elapsed.

The Chair: You still have time. I happen to like your line of inquiry, so go ahead.

Mr. Chris Warkentin: I'd be the first one to congratulate Public Works for engaging in a transparent and open process. It was absolutely necessary for Public Works to move into this process. But the concern I think I share with the members around the table is that we're limiting the ability of small businesses to access these government contracts. In the long term it's going to be a problem for the federal government, in terms of driving up the cost of supplying its needs and demands.

I credit you for engaging in a process that I think elevates the transparency of the process, but somewhere along the way we've limited the number of suppliers. That obviously causes problems for the suppliers, but if we look at it in even a self-serving way, it's going to limit the ability of the government to get things in a cost-effective manner down the line. So I think we're setting ourselves up for a problem, and maybe if we can make changes today we can alleviate those stresses down the way.

Ms. Liliane saint pierre: Thanks for your comments.

One of our objectives is always to improve. Related to the latest competitive process for free-standing furniture, we will review. We have offered debriefings to all the firms that did not qualify. So far we have had only one request, but we are quite open to doing so. We'll do lessons-learned, and that will be shared within GOFAC and other industry associations.

I want to give you two statistics. First, there's been growth related to the percentage of business volume awarded to Canadian SMEs. We mentioned 49%, and what is interesting is that in the last three years it has always moved up. Last year it was 46% and now it's 49%. The second point is that when you look at all the contracts we issue, the percentage of the number of contracts awarded to SMEs is growing.

The Chair: Thank you, Mr. Warkentin.

Before I recognize Mr. Martin, I want to try to identify the gorilla in the room. Everyone is being fairly polite, but somebody in Public Works, a very well-meaning public servant, managed a process that reduced the number of suppliers of furniture from around 30-something to five, and then there were some piggyback add-ons. Not even the Japanese Imperial Army in the Second World War could have hoped to destroy a government supply chain to that extent.

There are all these furniture companies, with hundreds of employees in Canada and the U.S., and I couldn't imagine on my worst day that all these businesses could fail these little competency tests—200 pages. Out of 30-something, five of them passed the test. That comes from somebody's desk in Public Works. Public Works essentially took a wrecking ball to that supply chain.

I'm very unhappy with it, if for no other reason than that one of those suppliers is in my own riding. But there are probably furniture suppliers in a lot of ridings around this table. And we're only talking here about furniture supply, office furniture. There are hundreds of other categories of supply.

I am signalling, as one MP, that we have a problem. I don't like the look of it. I don't like the impact. There may be a very good explanation as to why Public Works is moving in a certain direction, but I don't like the look of this one.

I know you can't answer what I just said. I've identified the gorilla in the room, and I'm asking Public Works to deal with it. Other members may have similar lines of questioning.

I'll stop here and go to the person I should have recognized five minutes ago.

Mr. Martin.

• (1220)

Mr. Pat Martin (Winnipeg Centre, NDP): Thank you, Mr. Chair. That is exactly the point I want to raise. I don't understand how we've improved access for anyone. My numbers say 41 down to five.

But the numbers aren't important. There used to be a massive amount of people with these national master standing offers in this furniture supply chain, and one of the big ones has written to me. They're devastated. It's inconceivable that their government would do this to them at this point in time, in the middle of the worst economic downturn in decades. They say, "We are stunned that our own Federal Government would deliver such a devastating blow in the midst of this worst economic downturn", etc. And they say this sudden and unanticipated announcement has caught dealerships off guard. This company is the largest Canadian manufacturer of this type of free-standing furniture, with 2,000 employees in Quebec,

Ontario, Alberta—right across the country. If our own government won't buy the Canadian products we make, who will?

You've marginally improved Canadian content, I believe to 49%. I guess that's okay, but I want to use every dollar we can to buy Canadian. Put everything we do through a "buy Canadian" lens, within the limitations of our trade deals. I don't see how we're doing that.

Beyond furniture, I'd like to give one example and ask what could possibly have happened. It's relevant to my own riding.

DND needed troop carrier buses for the mission overseas. We make the best buses in the world in Winnipeg—Motor Coach Industries. We've been providing our military with troop carrier buses for decades. Yet they took the low bidder, which was the German product, at less than the cost of a set of tires per bus. We're saying to our NATO allies all over the world that if you want to buy a good troop carrier, buy German, because that's what we did. As our Canadian troops are ferried from the front line to their tents, they're in these German troop buses.

How could things like this, which make Canadians pull their hair out, slip through the cracks—the "buy Canadian" lens we expect from our own Canadian government?

Ms. Liliane saint pierre: Mr. Chair, as explained by my colleague from DFAIT, procurement is subject to trade agreements. There are some exclusions—

Mr. Pat Martin: Isn't there 7.5%?

Ms. Liliane saint pierre: —but most of our procurements are subject to trade agreements, and there are different trade agreements. Of course, today we are not also talking about the AIT, which is the Canadian trade agreement. A requirement such as buses is subject to that, so therefore we have to open the competition to other countries, and the result could be that a firm outside of Canada wins the process.

• (1225)

Mr. Pat Martin: Can I ask one question, then. Do you take into account the whole cost of the purchase? In this case the bus was \$5,000 cheaper on a \$500,000 bus, but now we have to set up a whole new parts system within the military because we have 200 buses of this kind and now 50 new German ones. Now we need mechanics trained, we need new diagnostic materials, we need new parts supplied. Do you factor in the whole cost of this kind of fundamental shift when you're buying a new product line?

Ms. Liliane saint pierre: When we look at the requirement, of course we do look—with the department in this case—at all the implications and what has to be included as part of the requirements. As example—

Mr. Pat Martin: The difference in cost was \$60,000 on a \$30 million purchase. Just having DND's officials fly over to Germany a couple of times to look at the product being made would have put the Canadian bidder above.

Ms. Liliane saint pierre: I cannot comment on that specific requirement because I do not have the details—

Mr. Pat Martin: No, I don't expect you to.

Ms. Liliane saint pierre: —but I can assure you that when the requirements are being defined, all aspects are being looked at. In this case when you buy trucks, you also have to take into consideration the servicing, the maintenance of those.

Mr. Pat Martin: Yes.

Ms. Liliane saint pierre: It could be also included in the requirement definition, and it could also be included in the resulting contract.

The other point I want to make is that for those large military requirements—and \$30 million is quite important—we also do have considerations that we call the industrial regional benefits, by which a company will commit to invest in Canada for every dollar that is being contracted for. There are other benefits that could be derived and are derived as a result of contracts that are being awarded to outside firms.

Mr. Pat Martin: That's a very convoluted way to offset the impact. We're not satisfied where I come from, obviously, and that happens from time to time.

Ms. Liliane saint pierre: You understand that we have to live with the trade agreements.

Mr. Pat Martin: Yes. We also know, though, that the trade agreements allow some margin of advantage to the domestic bid. I don't know that we're flexing enough muscle to buy Canadian to the greatest extent possible. I certainly don't understand...in this particular letter I have here from a frustrated furniture supply place, it doesn't sound as if they bid on something and lost it; it sounds as if they had the rug pulled out from under them.

I know we're here talking about SMEs, but this is an SME that's a group of companies, furniture systems, upholstery, etc., with outlets across the country. I don't know why they wouldn't be allowed to bid on or to have this national standing offer, why we wouldn't be allowed to purchase from a company like this.

I don't know, it's more of a question. I don't even know how to phrase the question.

Thank you, Mr. Chair.

The Chair: I just wanted to note that there's a minute left in Mr. Martin's time and I'm going to take it.

Many of these office furniture suppliers, Mr. Rapier, would be ISO certified, is that true?

Mr. Greg Rapier: Yes, the vast majority.

The Chair: And I know how difficult ISO certification can be. When you get there, the companies are all very proud of that. It allows them to sell around the world based on certain standards. So it's shocking to me that so many of these companies are ISO compliant, certified, and then when it comes to Public Works tests, the 200-page document shown by Mr. Warkentin, they are classed as “non-compliant”. They flunked the compliance test in Canada but they're ISO around the world. It just seems to be such a wrong-headed thing to do on such a massive scale.

Again, I'm tempting the gorilla to jump on somebody here, so I'm going to stop and we'll go to Mr. McTeague. I think we're into five-minute rounds now.

● (1230)

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): Still, Chair, is it eight minutes or five? I'm just trying to get three minutes back from you, Chair.

The Chair: Your chair knows.

Hon. Dan McTeague: Yes.

Witnesses, thank you for being here today. I have three very quick questions, given the shortness of time.

Perhaps I'll go to you, Mr. Rath-Wilson. The previous committee, so I'm led to believe here, had advocated and hoped there would be something along the lines of a transparent business plan from Public Works, particularly given the large nature of the purchases you anticipate making over the course of the next decade or so, or two. If that number is correct at about \$4 billion, it certainly is much weightier and more substantial than even the stimulus package itself. I'm wondering if you could enlighten the committee on what your progress is and if you in fact have a crisp, concrete business plan, as was suggested here earlier.

Mr. John Rath-Wilson (Acting Chief Operating Officer, ITSB - Office of the Chief Executive Officer, Department of Public Works and Government Services): Thank you for that question.

Mr. Chair, yes, we have been working, as you were aware from our previous appearance last week and previously, on a consultation with Industry around the GENS project, which is the government enterprise network services initiative. We concluded our consultations with Industry early in February, and we are currently analyzing those results. We will be bringing them forward with a business rationale for these services at the end of March or beginning of April.

Hon. Dan McTeague: It would be helpful if, now that we have seen that, a committee could actually be devoted to that. That's a substantial undertaking. I thank you for that.

[Translation]

Mr. Gauthier, can I ask you a very simple question? With the United States possibly putting a series of measures in place and with “Buy American” as their watchword, do you foresee any problems, any difficulties? What do you or your department feel are the difficulties, the challenges that small and medium businesses in particular could be facing?

Mr. Gilles Gauthier: Thank you for your question. When those suggestions first arose, the department, and specifically Minister Day, expressed a great deal of concern about them. We have been assured by the American administration that they are going to comply with their international obligations. We have every reason to believe that this will be the case. We will have to examine how the program is implemented case by case to make sure that those commitments are respected. When government procurement is governed by an international agreement like NAFTA or WTO, we have to make sure that Canadian suppliers have just as many rights as American suppliers in offering services.

[English]

Hon. Dan McTeague: *Merci.*

Mr. Rapier, I wanted to ask you more specifically about the concerns you have on RFPs. Can you furnish for this committee any specific examples of RFPs that are of concern to your organization, that have not met the challenges you've set out?

Mr. Greg Rapier: The most important one would be the free-standing national master standing offer that was just concluded. There were a number of things, and I think the results speak for themselves in terms of the number of manufacturers who were not able to complete the document to the point where they were eligible. And there's a couple of things that come into play. One is that when new requirements are put out without any advance notice to the industry, as happened on this procurement, and you have a very short window of time to pull your entire response together, there is major opportunity for errors in your submissions. And there were companies—one of our member companies—that were eliminated from the contract because of typographical errors in their bid submission, according to what they were told.

You also have a scenario where, as it relates to office furniture products, the Government of Canada has its own unique technical specifications that are outside the industry-accepted standards that have been developed by BIFMA in collaboration with ANSI, the American National Standards Institute. So this requires additional testing, over and above testing we're required to do as an industry, to provide our products to every other client organization in North America other than the Canadian federal government.

So you have unique requirements, additional costs for testing, and again in this procurement, because you really were not in a position to finalize your testing until the day the RFSO came out and you could see the entire mandatory product requirement, there was left little time for a company to complete the entire testing.

•(1235)

Hon. Dan McTeague: I have little time. I just want to make sure that if you have any specific examples.... You've given a few more generally, but more specific to actual companies, it would certainly help me get a better understanding of the significant challenges faced by some of your members.

But on that note, on the question of consultation, I know there has been a broad sense of consultation over the past couple of years. How successful have they been? Maybe I'm putting the cart before the horse, but obviously they've not. To what extent have these consultations yielded any positive outcome for you and your organization?

Mr. Greg Rapier: In the beginning, we felt there was positive outcome. The direction that was being considered, as it related to office furniture, did see a significant change from the initial concepts of "The Way Forward", which initially targeted sole-source procurement within the office furniture category. Our industry advocated open access and open competition.

The challenge has come in the last year of the consultations, where again our industry feels we are really being selectively listened to in areas Public Works decides they want to pay attention to. In a number of other areas where we raise repeated concerns in terms of timelines, when information is going to be published, and the challenge this is going to create for everyone in the industry, large and small, to respond effectively, those have not been listened to, and

in the free-standing procurement we see the result, which is the significant reduction in the number of qualified manufacturers.

The Chair: Thank you.

Monsieur Roy, pour cinq minutes.

[Translation]

Mr. Jean-Yves Roy (Haute-Gaspésie—La Mitis—Matane—Matapédia, BQ): Thank you, Mr. Chair.

Ms. saint pierre, I have a formal request for you, on behalf of myself and the other members of the committee. How many small and medium businesses were awarded a contract by Public Works and Government Services in the fiscal years 2004-2005, 2005-2006, 2006-2007 and 2007-2008? I would like you to provide us with those figures in the next few days. Thank you for doing that.

As well, I would like to know for how much Public Works and Government Services paid for goods and services in fiscal year 2007-2008. We do not really have precise figures. Perhaps Mr. Masse could give me an answer. You tell us that, depending on the year, it varies between \$11 billion and \$15 billion. What was it for the last fiscal year?

Mr. Normand Masse: Going by memory, I think it was \$12.5 billion.

Mr. Jean-Yves Roy: Very good. Thank you.

Ms. saint pierre, you told us in your presentation that, in 2007-2008, 49% of the total value of Public Works and Government Services' transactions with Canadian suppliers went to small and medium businesses. In Mr. Masse's presentation, he told us that small and medium businesses received \$4.8 billion in contracts for goods and services out of a total of \$12.5 billion. But \$4.8 billion is not 49% of \$12.5 billion. Unless there is something that I do not understand, we are a long way from 49%. That would be about \$6 billion, not \$4.8 billion.

Ms. Liliane saint pierre: Thank you for those comments. Let us share with you the detailed data that led us to the figure of 49%.

I mentioned that the percentage was based on the business income generated by Canadian companies. So if you take \$12.6 billion, our amount, you have to subtract the portion that went to foreign companies. In 2007-2008, that figure from foreign suppliers was \$2.7 billion. So our calculation starts from a base of \$9.8 billion. If you do the math then, you get 49%.

Mr. Jean-Yves Roy: OK. That answers my question. I had a feeling that was it.

I was also listening carefully to what you said when Ms. Bourgeois asked you if there was a policy of bundling. You answered that there was none, as far as you knew. I have a different question. Would Public Works and Government Services like to bundle contracts? I am not talking about a policy; I am talking about a preference, which is very different.

Last week at the committee, we became aware of four or five companies, SNC-Lavalin among them, that had replaced 340 small and medium businesses in managing and maintaining federal buildings. For furniture and information technology, Public Works and Government Services also wants there to be only one huge contract. Of course, that company will use small and medium businesses as subcontractors.

My question is very specific. You say that there is no policy of bundling contracts at PWGSC, but we sense a preference along those lines. When I asked a senior PWGSC official last week, his answer was that it was significantly cheaper to deal with a single company, SNC-Lavalin in this case, than with 344 small and medium businesses. I want to know if PWGSC really does want to bundle contracts

• (1240)

Ms. Liliane saint pierre: Public Works and Government Services provides a procurement service to its departmental clients for goods and services. Consequently, our actions are governed by the requests we receive. I would like to clarify two points. First, we have implemented standing offers that are open to all departments. We have an increasing number of standing offers at the moment. In the last two years, we have established what we call commodity management. So, when departments have consistent on-going needs, we set up committees with them, we get to know the industry better and we develop global purchasing strategies for all products of that kind. We establish mechanisms that lead to a number of standing offers. However, we are moving away from standing offers because there are so many of them and because companies had no figures to provide about them. That is the first thing.

Mr. Jean-Yves Roy: I have no speaking time left. That is unfortunate because I would have liked to ask you for clarification on something.

[English]

The Chair: Thank you, Monsieur Roy.

If colleagues are in agreement, Ms. Gallant will take the next Conservative Party round.

Some hon. members: Agreed.

The Chair: Agreed.

Go ahead, Ms. Gallant.

Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC): Thank you, Mr. Chairman.

I would like to mention that my office did take advantage of the Public Works offer to hold a seminar for our local provider-suppliers on how to use MERX and how to navigate the system. It was received very well and the follow-up was good.

At about the same time as we had the seminar, there was this problem that was just emerging with the new master standing offers. I believe that's how they're referred to. It may be the same thing as Madam Bourgeois was speaking about when she called it grouping. Our people were calling it bundling.

Apparently this started as a consequence of the ad scam and was former Prime Minister Martin's solution to being more transparent.

It's something that's come from a previous administration. The idea was to bundle these contracts or standing offers to make it more efficient; you're processing fewer tenders and therefore it's supposedly less work.

The example I'm going to refer to is for the supply of hardware to government offices and agencies and military bases in Ontario. In this case, the stakeholders were not consulted and the so-called competitive process was highly flawed.

First, the existing suppliers throughout Ontario had been checking MERX towards the end of their contracts and found nothing. It had been the common practice when Public Works was busy with other tenders that they would just extend their contracts for another couple of months. They thought that was the case in this instance, but days before their actual contracts were to expire, they were told by the military bases themselves, by the officers who did the purchasing, that they could deal with them for only a few more days because their contracts would end, which came as a shock to all these suppliers because they thought they were going to be renewed for another couple of months.

There had been no notice whatsoever from Public Works prior to their being told by the purchasers that they weren't allowed to deal with them anymore and that they were going to this new master standing offer system. They had to go through several contacts in Public Works until they finally found the person who was responsible for the tender. They found that they were completely cut out of this round for the next year or so because the MERX process had already happened.

But when this master standing offer was posted on MERX, which in the usual way was done region by region, the local suppliers looked for their region, because they might be supplying a hub of a 100-mile radius, not all of Ontario, as they just don't have that distribution to supply all of Ontario, and they didn't see their regions listed. In this case, it just said "all of Ontario", and they didn't tune in that they had to apply there, so they were completely cut out of competing for their existing contracts.

The businesses were out of the tendering process there. It turned out that a company located in Concord won the tender. Before a year had passed, they got to the point where they could not fulfill the obligations, so there were some purchases being made at a local level.

What this demonstrates is that the bundling or the master contract system does not necessarily serve our government departments well, nor does it support our small and medium-sized businesses, which supply 95% of the jobs in Canada and are our incubators for the businesses of the future. Especially in this economic climate, when we see giant companies folding, if we put all our purchasing into just a few companies or one company, we stand to lose our entire supply chain. As Mr. Chairman mentioned, that's deadlier than any attack on supply chains during World War II. We've just set ourselves up for failure.

●(1245)

It wasn't just the furniture or the hardware. This also applies to auto parts. It applies to oil, looking at the same contract, and you can't convince anyone that to buy a doorknob from 500 miles away is more economical or timely—heaven forbid there has to be a return with buying it 500 miles away—as opposed to buying it from five kilometres down the road.

We want you to take this into consideration, that as a consequence of having to administer and adjudicate fewer tenders, one would think that the whole process was streamlined and that Public Works would start moving faster on tenders and needs. But we're finding out that there's not necessarily an increased movement.

The Chair: Ms. Gallant, could we allow Public Works to respond?

Mrs. Cheryl Gallant: How much more time do I—

The Chair: Regrettably, none. We've done the five minutes.

Mrs. Cheryl Gallant: Okay.

Ms. Liliane saint pierre: I'll start, and I think Shereen would like to make a few points.

First of all, there are more than 8,000 standing offers that have been issued by Public Works and Government Services. This is quite a large number. One of the objectives is to allow quick access by having firms already qualified so that when a government department has a need, it can have access very quickly. So that is the speed part. At the same time, for the firms that are qualified on those standing offers, it gives them an opportunity, a direct access, to business when there is a requirement coming up. So the standing offer in itself is really a tool to provide quick access.

Shereen, did you want to comment on MERX?

Mrs. Shereen Miller: First of all, thank you so much, Mr. Chair, for giving me the floor.

Thank you so much for the comment that the seminar was well received by your constituencies. Obviously that's good for us to know. It's also good for us to know what improvements we could make.

One of the improvements we've made with respect to MERX and the way in which people can access the information they need—I obviously don't know the exact case you're referring to—is that when you register for MERX, it is possible to request bid-matching services for a category, and that's without fees.

So it is distressing to me that people would not have been able to find the request for proposal that might have gone up on MERX for the area that they were particularly interested in, because we go to great lengths, actually, to try to ensure... Obviously we want to encourage suppliers to participate in the bidding process, and MERX is a vehicle through which we're doing it. So if there are improvements that could be made, we would certainly want to hear about them. Or if we could train people to use the tool better, that's also something, obviously, that would be of great interest to us, so that we'd have that give and take when things are posted as opportunities on MERX.

●(1250)

The Chair: Thank you.

Ms. Hall Findlay, for five minutes.

Ms. Martha Hall Findlay: Thank you, Mr. Chairman.

This question is for Mr. Rath-Wilson, and it relates to the other gorilla in the room, to use the chairman's expression. That is the contradiction that we are hearing about between the effort to encourage openness to SMEs and, in the ISIT area, in particular yours, the ITSB, the recurring concerns about the bundling, about a predisposition to bundling that would in fact exclude SMEs. I will just comment on the wonderful-sounding concept of equal treatment, but when the predisposition in a department or the conditions of an RFP lead to having large contracts, that treats equally only those who are capable of fulfilling the requirements of such a large contract.

I understand you've had your consultations, and we will be seeing the results. But a repeated concern in all of this has been that we need to understand the business case for this. We want to understand, if there is going to be a predisposition, what the business case is for it. Can you speak to that?

Is there in fact a predisposition in your department for large contracts, for bundling? Is there a recognition that in doing that we will be excluding SMEs? Can you comment on that generally, please?

Mr. John Rath-Wilson: Certainly. Chair, thank you for the question.

In the shared services world, which is where this initiative for government electronic networks comes from, it's our desire, I think, in order to deliver good value to taxpayers, to consolidate some of the infrastructure we have that delivers electronic networks, for example. There is only a handful of large companies that can provide the kind of infrastructure that we need across the country to deliver the networks, the telephone services, the Internet protocol, and the video conferencing at a reasonable cost. So to the extent that we are looking for the best value we can get through the consolidation of some of our infrastructure, we are looking at that through the proposal that we have on the table at the moment, called GENS.

From the services perspective, we have over the years reached out to industry and to small and medium-sized enterprises to provide us those professional services that we need to support the telecom side of our business, and we expect that, with or without GENS, we will continue to use the services of small and medium-sized enterprises to support us.

Ms. Martha Hall Findlay: Thank you.

I would just note your comment, even on the GENS side, that it's only large companies that can fulfill the requirements. Having a background in telecom, I understand where that might be coming from. But to say there is only a small number of large companies that can do it at a reasonable cost, does that not assume before the process is undertaken fully to establish whether in fact there are SMEs who can participate in that?

Mr. John Rath-Wilson: Not at all. In fact, when we go through the process of inviting companies to qualify for this initiative, organizations of any kind can of course apply through that process. There could be a combination of small and medium-sized enterprises. The problem is that the footprint for telecommunication services, as you know, is not even in the hands of any one large supplier in Canada. It's a combination of suppliers already.

• (1255)

Ms. Martha Hall Findlay: Yes.

Mr. John Rath-Wilson: Where I think we focus the SME discussion is that, in supporting that initiative, SMEs have access to the professional services to help us maintain and run those networks. That's what we intend to do with GENS.

Ms. Martha Hall Findlay: I expect my time is running out, but we very much look forward to seeing the results of the consultations and the proposals. I would just reinforce that we've heard many around the table emphasizing the need to see a really solid business case in light of the effort of parts of the department that are encouraging SMEs, not just because we want to be nice to SMEs but because of the view that in many cases it is in fact those smaller companies that can provide the best value to the taxpayer and to the government.

So we very much look forward to seeing the results and continuing the discussion when you're ready.

Mr. John Rath-Wilson: Thank you.

If I could just clarify, we will be bringing forward a business rationale, as I mentioned, at the end of March or the beginning of April. This will be a rationale that is based on the services we've provided over years through our tendering processes. Individual departments will look at specific business cases to acquire those services once they are available. It would be a business rationale that will explain why we've taken the direction we're taking.

Ms. Martha Hall Findlay: I understand.

Thank you very much.

[Translation]

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

Mr. Jacques Gourde (Lotbinière—Chutes-de-la-Chaudière, CPC): Thank you very much.

I would like to take advantage of the presence of our witnesses to ask a general question about MERX, that useful tool that the department uses to advertise its requests for goods and services. MERX operates internationally. In fact, when you look at its website, you see that a number of companies use the service, some of them American. So I would like to know if companies other than American ones submit bids for furniture. Let us use furniture for our discussion, given that we have a representative from the industry here today.

If American companies get PWGSC contracts, is there a mechanism to ensure that there are some economic benefits for Canada? Do our furniture companies benefit? I do not know if the Americans have an equivalent tool to MERX that allows small and medium Canadian businesses to submit bids for furnishing their public facilities. I would also like to know if MERX makes it

possible for the furniture industry as a whole to make a significant contribution to the economy.

Ms. Liliane saint pierre: Thank you for your question, Mr. Gourde. I will answer your first question on MERX. I will let Mr. Rapier answer your question about the impact on the furniture industry.

Yes, companies in America and elsewhere have access to MERX and the opportunities its system provides. We mentioned that there are over 11,000 per year, which is a huge number. Their companies are very active in that regard.

Second, as to the industrial impact within major proposals, they are part of the request for proposal. For example, in a military contract to provide equipment to the Canadian army worth \$30, \$40 or \$50 million, we will work with the Department of Industry to stipulate our need, our requirement for industrial impact, within the request for proposal. Most of the time, we require the impact to be 100%, the total value of the contract. This is subject to detailed review when companies submit their bids or their proposals to the federal government. The Department of Industry looks at that in detail.

• (1300)

Mr. Gilles Gauthier: Let me add one piece of information. The United States also has an electronic tendering service and it is open to Canadian suppliers.

When a particular purchase is subject to trade agreements, you cannot require local impact because that goes against the objective of opening the market to suppliers in countries that are party to the accord. When a purchase is not subject to international agreements, you can ask for conditions like industrial impact.

[English]

Mr. Greg Rapier: Specific to the office furniture, there are definitely a number of U.S.-headquartered companies that benefit from the various contracts over and above just the free-standing one we've discussed this morning. A high percentage of those U.S.-headquartered companies have significant manufacturing operations in Canada and employ thousands of Canadians in their Canadian operations.

When it comes to access of Canadian-based companies, in particular, to U.S. government contracts under the General Services Administration, there are no restrictions placed on Canadian companies. So long as they can meet the contracting requirements of GSA, they are eligible for contracts. A very large number of Canadian small and medium manufacturers hold contracts with the U.S. government, and there are no caps or limitations on the number of companies that can hold contracts with GSA.

[Translation]

The Chair: Thank you, Mr. Gourde.

Ms. Bourgeois, you have the floor for five minutes.

Ms. Diane Bourgeois: I have a quick question for Ms. saint pierre.

Ms. saint pierre, PWGSC is in its fourth year of program transformation, or, if you prefer, its activity transformation initiative. Could you give members of the committee a plan containing the costs that this activity transformation will involve, its implementation schedule, the risk management, which I imagine you analyzed four years ago before putting all these bundling programs in place, and any analysis you have done on the effect of the program on Canadian small and medium businesses?

[*English*]

The Chair: We've reached the end of the questioning.

The first thing I want to do is apologize to Ms. Shereen Miller because I didn't properly introduce her at the beginning of the meeting. She has been a very good witness for two meetings representing the office and SMEs. I'm sorry about that.

We can now allow the witnesses to withdraw.

I have three very small items for members.

First, the clerk advises he has available to any members who might wish to have it a binder of evidence that came in involving a company by the name of The Powell Group, TPG, involving SMEs and procurement. That is now available in either language to any member who wishes to obtain and use that.

Second, I'm going to ask the clerk to try to put together a steering committee meeting so we can deal with the issue of future business, and maybe we can reach consensus on an approach to the estimates and stimulus package, which we'll begin work on this Thursday. We haven't allocated meeting time beyond next week, but I think we would like to have a committee approach to that so we know where we're headed and how we'll deal with it, if for no other reason than that the stimulus package contains the first slice of stimulus money,

which has been allocated to Treasury Board, and the estimates at \$3 billion. I understand there's some intention to compress that \$3 billion amount so 11/12 become available very quickly. We could have a supply vote in the House much sooner than the normal supply vote in the middle of June. I'll ask the clerk to put together that meeting.

Third, the clerk and the researcher will be circulating a draft report on the appearance of the Public Service Commission that took place a couple of weeks ago. We can discuss that draft report at an appropriate time.

If members wish to present a report to the House we can.

I'll stop there.

Mr. Anders.

● (1305)

Mr. Rob Anders (Calgary West, CPC): I'll just state again that in terms of the steering committee issue, I'd prefer that we deal with it as time—

The Chair: You made that point before, and I appreciate that. I'm not going to debate it, if that's your point. I hear you.

Mr. Rob Anders: Mr. Chair, I don't see the necessity of it, but if you're insistent on having a steering committee, please make it later on a Tuesday or a Wednesday or earlier on a Thursday.

The Chair: We must have you there. We couldn't possibly proceed without you. In fact, we'll make the absolute maximum effort to ensure that it's at a time when you can be there.

Thank you very much.

Since I see no other business, we will adjourn.

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

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

**Also available on the Parliament of Canada Web Site at the following address:
Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante :
<http://www.parl.gc.ca>**

The Speaker of the House hereby grants permission to reproduce this document, in whole or in part, for use in schools and for other purposes such as private study, research, criticism, review or newspaper summary. Any commercial or other use or reproduction of this publication requires the express prior written authorization of the Speaker of the House of Commons.

Le Président de la Chambre des communes accorde, par la présente, l'autorisation de reproduire la totalité ou une partie de ce document à des fins éducatives et à des fins d'étude privée, de recherche, de critique, de compte rendu ou en vue d'en préparer un résumé de journal. Toute reproduction de ce document à des fins commerciales ou autres nécessite l'obtention au préalable d'une autorisation écrite du Président.