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

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**EVIDENCE**

**Thursday, April 23, 2009**

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**Chair**

**Mr. Derek Lee**

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## Standing Committee on Government Operations and Estimates

Thursday, April 23, 2009

• (1110)

[English]

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

Colleagues, we are here today with a number of witnesses from the private sector. We are, in a sense, continuing a review we are doing on the subject of federal government procurement, and in particular the access of SMEs to the federal government procurement process.

The witnesses in this part of the meeting will have different perspectives, different windows. We'll begin with them. This is the first of three hearings on this subject.

We have, from the Information Technology Association of Canada, Monsieur Louis Savoie, chair of the Public Sector Business Committee; Mr. Hicham Adra, member of the executive committee of the same organization; and Linda Oliver, vice-president.

Then, from the Association of Canadian Engineering Companies, we have John Gamble, president of Consulting Engineers of Ontario; and Andrew Steeves, vice-president, ADI Limited.

Thank you to the witnesses for appearing. I'm quite certain you'll have opening remarks. We'll follow the order in our agenda.

Linda Oliver, you may begin. We'd like to keep the presentation to less than 10 minutes. I think eight minutes is the window we look for, but keep that in mind as you present.

**Ms. Linda Oliver (Vice-President, Information Technology Association of Canada):** Thank you, Mr. Chairman, and thank you to the committee members for allowing ITAC to come and meet with you today. We think this issue is very important, so we're very pleased to have the opportunity. We expect to take about 10 to 15 minutes for the three of us to make our presentations, and we'll try to cut that down to meet the timeframe.

Just to give you an idea of what ITAC is, and I know there is a presentation being circulated and you will be able to read it, we are a national association of only ICT companies—information, communication, and technology companies. There are over 350 members. Seventy per cent of our membership are small and medium-sized businesses, and over 70% are Canadian-owned.

It may be of interest to know—it's a startling fact when you think about it—that there are some 600,000 people employed in ICT companies in Canada. That is 20% more than in the auto sector in its heyday. There are an additional 500,000 ICT specialists who work in

companies like banks, and even in the government and the rest of the economy.

We represent 5% of Canada's GDP, and 38% of Canadian R and D is done by our industry.

We cover computer hardware, software, microelectronics, services, systems integration, staff augmentation, consulting, and digital commerce.

ITAC's philosophy is that there is room for all businesses to do business with government, and we do advocate on behalf of all sizes of business—medium, small, and large.

We believe that government should be smart buyers and should buy value, results, and outcomes. We want them to leverage the private sector best practices, and we feel that at this time government should invest in ICT to stimulate the economy quickly. That will create jobs that are sustainable post-recession, and these efficiency gains will help to reduce operating costs and fiscal deficits.

Generally, that's who ITAC is. I'd be happy to answer further questions, but I'm going to allow the time now to go to Hicham Adra, who will speak to you about shared services.

**Mr. Hicham Adra (Member of the Executive Committee, Public Sector Business Committee, Information Technology Association of Canada):** Thank you, Linda.

*Merci* and thank you, Mr. Chair, and to the committee members for giving all of us this opportunity to speak to you today.

If I may introduce myself, my name is Hicham Adra. I've been with CGI for 21 years. I lead our operations here in the national capital region, so this is home for me, and I co-chair our public sector business globally for CGI, which is an important sector for us.

• (1115)

[Translation]

I had the privilege and the good fortune of being a part of CGI's growth.

[English]

Today CGI is a leader in information technology. We are a flagship in terms of Canada's IT industry. Given that we are the only remaining publicly traded headquartered company in Canada, I would like to take a couple of minutes to speak about CGI's own story of growth from an SME to a market and world leader in our industry.

Our company was founded by two entrepreneurs in Quebec City, Serge Godin and André Imbeau. We grew from those two people and modest beginnings as a small company to be, today, one with 25,000 employees across the world. So we have our own experience going from an SME to a company today that has close to \$4 billion in revenue.

Over 40% of our revenue comes from outside Canada, and we plan to increase that to 60% or more coming from outside Canada as we work to hopefully double the company in the next three to five years.

Our sector, as you know, is intensive in terms of labour and in terms of innovation. It's also important to the success of other parts of our economy and our country, be that in the public or private sector. We believe we have a unique opportunity to really continue to create high-quality jobs in Canada around the ICT sector. We have been doing that in our company. Over the last 33 years we've created 25,000 jobs in Canada and across the world.

Innovation and partnership are absolutely critical to our success. To give you an example, we've partnered with organizations to create centres of excellence in Halifax, P.E.I., Ontario, Ottawa, out west, and in Quebec. There are thousands of people working in centres of excellence for clients in North America or worldwide from right here in Canada. In this region alone we have over 1,000 employees and we have invested millions in our centres of excellence in the national capital region.

We continue to invest in innovation. We have over a hundred business solutions that we export.

[Translation]

We continue to develop and pursue exports through our investments.

[English]

There are obviously other great Canadian stories. I happen to know a bit more about CGI, being within CGI, but Research In Motion and Open Text are also great examples. I would just put to you that I don't believe that companies such as Open Text, such as RIM, such as CGI would be as successful today if they focused on staff augmentation and if their clients focused on staff augmentation. We would not be here today if our clients focused on staff augmentation as the way to build their success. We don't think as a country we can build an ICT sector based on staff augmentation.

We actually work with SMEs. We are part of an ecosystem. But I think it's important that we be clear about the distinction between staff augmentation, SMEs, and companies that are going to create value and growth for us in the country.

In terms of shared services, it is about intellectual property. It's about transformation. It's about managing risk. It's about creating value. Shared services is a concept that's been around for a long time. It's about achieving economies of scale, facilitating best practices, ensuring that there's adoption of standards, and improving efficiency and effectiveness. This is a trend in the public and private sectors. Experts will tell you that. It's well documented. Right here, the federal government has had shared services initiatives, well documented and under way, since 2003. They're part of budgets,

Treasury Board approvals, and departmental performance reports. This shared services opportunity is a great way to avoid duplication, saving potentially in the hundreds of millions per year. And these are savings that, frankly, can be reinvested in social services, defence, and health care in ways that improve the lives of Canadians. It's not about aggregation of buying. It's not about companies winning or losing. It is about implementing best practices and standards and about government acting as one and performing as one to achieve better outcomes.

There are a couple of more benefits of shared services. They allow citizens and businesses to have easier access to government services. They also reduce the number of access points. That means they reduce vulnerabilities and exposure, from a security point of view.

● (1120)

We believe and respectfully suggest that the government and this committee should be supporting the achievement of these objectives, which are good for all of us, and that we should be supporting organizations such as Public Works in achieving these objectives sooner rather than later.

I want to leave with you the thought that companies that can help achieve these objectives are companies that are willing to invest, that have IP, that have methodologies, that have created value, and that can continue to help their clients succeed and achieve these objectives. I don't believe and we don't believe that this can be achieved by just assembling contractors through a staff augmentation model.

I trust and hope that we can support the public servants in achieving success for all of us as we move forward.

Louis.

**Mr. Louis Savoie (Chair, Public Sector Business Committee, Information Technology Association of Canada):** Thank you, Hicham.

*Bonjour, mesdames et messieurs.* Good morning, ladies and gentlemen.

I'm Louis Savoie. For my day job I'm with Bell Canada. In my part-time job, I'm the chair of the Public Sector Business Committee for ITAC, representing our industry here in Ottawa.

I'll be speaking about government enterprise network services, which is essentially one of the shared services that Public Works is trying to get under way and concerning which I believe you've been asked to review, slow down, and possibly even stop the procurement from going forward. I want to make sure that you understand what it is and what benefits could derive from it to the Government of Canada.

Today the Government of Canada has 110 or 120 departments and thus that number of networks; everybody more or less builds their own. If I could compare it to your home, if you are a family of five, everybody at home has a car, but in a family of five you might not actually need five cars. You might only need three, and people would be able to share the pool of cars to get around. Networks are somewhat the same. The Government of Canada has bought 120 or so networks, and there's an opportunity to consolidate that infrastructure into a single enterprise-wide infrastructure.

We've seen this happen in other, provincial governments and we've seen it happen in the private sector over the last number of years. It is a very natural thing to do to try to achieve economies and deliver better service to your stakeholders.

Who delivers those services? Mainly you will see Bell Canada, Telus, Allstream, and Rogers delivering these services today. You're not seeing small and medium-sized business delivering networks today. It is a capital-intensive business.

Why should the government proceed with GENS? It's a cost-effective approach to delivering a common set of telecommunications networks. These networks enable collaboration within a department, collaboration between departments, and the elimination of duplication to which I've alluded. Because we're talking about one network, we're talking about an ability to more effectively secure the infrastructure.

When you secure a communications network, you also secure the information that travels on the network and the information that's at the end of the network. As you know, today cyber threats are increasing at an alarming rate.

From what we understand, the government's proposed procurement approach is value-based and outcomes-based rather than based on buying the parts piecemeal and building, integrating, and managing it yourself, which is what the ICT industry, generally speaking, supports the government doing.

You also have an opportunity to buy best practices. We serve many customers. We see a lot of other requirements and so are able to deliver the services and these best practices to you through the procurement approach of creating an integrated enterprise network.

What GENS is not is a staff augmentation project. We're not talking about just bringing people on to fill jobs. It's not a high-risk project. We deliver infrastructure projects of this nature to other customers—and to the government: we just do it 120 times, instead of doing it once, in perhaps a bigger way but a way that meets the requirements across government.

It will not reduce ICT jobs. Depending upon who wins, the jobs might move, but the jobs are required to deliver this. One of the things you should know is that in our business and in our industry generally speaking—not only Bell's and not only the telecommunications industry, but the ICT business, certainly among large businesses—we have an echo system of small and medium-sized business that we leverage to deliver our service on a pan-Canadian basis, and this won't reduce the volume of SME business.

The Government of Canada currently spends approximately \$5 billion on ICT, and all we're talking about is consolidating the telecommunications spending. What we're hoping is that you will reinvest in other ICT projects to improve the way government delivers services to citizens at large.

Let me leave you with a summary and a key message. ITAC represents most of the ICT business industry in Canada. We work closely in consultation with the Government of Canada. We support shared services. We also support a competitive and consultative procurement process to achieve benefits for the Canadian taxpayers.

•(1125)

We would request that you let GENS and shared services go forward. Our industry needs the government to continue investing in ICTP projects and infrastructure for itself to support our industry during these difficult economic times. These investments are not wasted. They will help you deliver better services to the Canadian taxpayers.

Thank you very much.

**The Chair:** Thank you.

Now we'll turn to the second group of witnesses, the Association of Canadian Engineering Companies.

Mr. Gamble.

**Mr. John Gamble (President, Consulting Engineers of Ontario, Association of Canadian Engineering Companies):** Good morning, Mr. Chairman and members of the committee. Thank you again for the opportunity to be here with you today.

As you know, my name is John Gamble. As president of the Consulting Engineers of Ontario, I represent the largest of 12 provincial and territorial associations that collectively make up the Association of Canadian Engineering Companies.

Mr. Steeves is here with me today. In addition to being vice-president of ADI Limited, he is also a past chair of ACEC. The two of us have spoken extensively across the country and internationally on business issues pertaining to our industry.

ACEC represents nearly 600 engineering companies across Canada. These firms range from very large firms like the SNC Lavalins and Stantecs right down to sole practitioners. In fact, I think it's important to point out that two-thirds of our member firms employ 50 or fewer employees. We run the whole range of firm size. The services delivered also run the full range, to both public and private clients. The services ultimately touch on almost every aspect of our social, economic, and environmental quality of life.

We recognize the federal government and the public sector as a very significant user of our services, and we applaud this committee for reviewing federal procurement practices. We have long been advocates for reviewing procurement and for continual improvement. There are new demands that make this review quite timely. There's a demand for greater value for money, sustainable and green procurement, and increased infrastructure investment. This is certainly the right time for such a review.

I'll start with our overarching recommendation, then Mr. Steeves will elaborate on it, and then we'll have a quick conclusion.

Many of you will recall the InfraGuide program, the national guide to sustainable municipal infrastructure. This was a collaboration of the National Research Council, the Federation of Canadian Municipalities, and Infrastructure Canada. Its purpose was to assist public agencies in delivering, planning, and managing their infrastructure. The idea was to share information experience and to create a series of best practices. Over a number of years they developed more than 50 such best practices that are widely respected within the industry. It was certainly a very sound investment for all the partners, both the federal government and the Federation of Canadian Municipalities.

As it happens, in 2006 InfraGuide published a best practice specifically on how to procure professional consulting services, focusing largely on engineering and architectural services, although it could be applied to a wide range of value-added professional services.

We are here today to recommend, since the federal government was a partner in this document, that the federal government in fact adopt this best practice for the procurement of engineering and architectural services. This document was developed by the public sector for use by the public sector, and of the many procurement best practices we have run across, this is one that, we are pleasantly surprised to find, addresses our needs in enabling us to provide valued services and receive a fair return on our investment from these projects. At the end of the day, I think it represents the best prospect for giving taxpayers the best value for their money.

I'll now turn it over to Mr. Steeves to elaborate.

• (1130)

**Mr. Andrew Steeves (Vice-President, ADI Limited, Association of Canadian Engineering Companies):** Thank you, John.

The InfraGuide, *Best Practice for Selecting Professional Consultants*, was produced by a group of independent experts. It recommended a procurement system based on qualifications-based selection, or QBS for short. The principle behind QBS is simple. Professional engineers, architects, environmental scientists—those services should be hired based on qualifications, experience, competencies, and backgrounds they bring to a project, not on the lowest price. This practice differs from the process used by most federal departments, where, unfortunately, price is usually the determining factor in selecting consultants.

Think about this. Think about hiring an employee. When you interview candidates for a job, you would rarely hire based on who would do the job for the lowest pay. You would hire based on who can do the best job based on the qualifications being sought. QBS exemplifies this selection process.

Let us be clear, however. QBS is not a blank cheque allowing consultants to charge whatever fee they want. Negotiating a fair fee agreement is a key step in the QBS process. As a matter of fact, it's probably the key step, but a fee agreement is based much more clearly on a defined scope of work and much better value for the client.

The concept of procuring professional services based on the QBS approach would be new to the Canadian federal government departments. However, it's widely used elsewhere. Many jurisdic-

tions have adopted this process. In the United States, for example, QBS has been legislated for federal procurement through the introduction of the Brooks Act in 1972. By this year, almost all the 50 United States have adopted this as well, or some variation thereof.

More recently, following a recommendation of the Johnson Commission in Quebec that investigated the collapse of the Laval overpass, the Government of Quebec last year passed legislation requiring a QBS approach for the procurement of professional architects, engineers, and environmental scientists. A number of Canadian municipalities have also followed suit.

Why should MPs, or Canadians for that matter, care about how engineers and architects are procured? Part of the answer to this question comes from a study conducted by the American Public Works Association that will be released this month. We hope to be able to forward this to you soon. The benefits to taxpayers and clients who use a QBS system include giving a greater emphasis to qualifications. Projects such as buildings, highways, and wharves can be designed in a much more sustainable fashion where the environmental footprint and life cycle cost is much lower.

Life cycle cost is an extremely important consideration when one considers that engineering and design on something like this building, a museum, a dam, or a road represent only 1% to 2% of the project's total life cycle cost, while operations and maintenance represent 80% to 93%. Bad design will increase that significantly. The APWA study proves that a QBS procurement system results in fewer change orders on projects, which lowers overall costs. It reduces litigation and delays. There is better schedule adherence. The study found that cost growth using a traditional price-based procurement method was 10% of the project on average, while in QBS it was 3%—big differences.

The APWA study also demonstrated that risk was lowered for both owner and consultant, particularly in more complex projects. QBS encourages greater innovation in design. Low price does not encourage innovation; it drives it out. It provides a better way of protecting intellectual property rights.

Given that the federal government directly procures billions of dollars worth of infrastructure and building services, it is in the best interest of the federal government to ensure maximum value, including life cycle value, for those dollars it spends. The evidence is unanimous, that the best way to do this is by procuring consultants using QBS.

As a side note, I must say that my firm is considered fairly small in the consulting engineering world. We're an employee-owned firm that recently passed 315 employees. Firms like ours and the smaller firms that John referenced support QBS because among the qualifications you can include are local content, local knowledge, local expertise.

John.

**Mr. John Gamble:** Thank you, Andrew.

What we're advocating here today is a procurement method that ensures your ability to get the right project and the right team for the project at the time so you can have the best possible outcome. And the fees should represent the level of effort and service.

I think the analogy Mr. Steeves made about being able to hire an employee is very appropriate. You state the job description and qualifications, advertise the opportunity, shortlist, and interview. You find out who's the best fit, who buys into your vision, and who's going to bring value to the organization. Then you negotiate terms. This is very analogous to how the best practices model works.

In summary, we have two recommendations. First is that the federal government and its agencies adopt the InfraGuide, *Best Practice for Selecting a Professional consultant*, as its method of procuring our services. Second is that the federal government introduce legislation or other appropriate instruments that would mandate the use of qualifications-based selection as the required procurement process on federally funded projects as well, so that those federal tax dollars could be effectively leveraged to the best possible outcome.

This has been done extensively and successfully across the United States. The Province of Quebec has introduced legislation to ensure that its provincial agencies do it. A number of municipalities, such as the City of Calgary and the City of London, also use the qualifications-based selection process. We hope that under the leadership of the current government we can move forward on this front so that we can provide better service to you and the taxpayers.

Thank you. We look forward to your questions and a productive discussion.

• (1135)

**The Chair:** Thank you for opening all of those issues—at least I think we're thankful.

I'll turn to Ms. Hall Findlay for the first round.

**Ms. Martha Hall Findlay (Willowdale, Lib.):** Thank you very much, Mr. Chair, and thanks very much to everybody for being here with us this morning.

No offence to the consulting engineers, but I'm going to be focusing on this group for the first round. I'm looking forward to having some other questions.

We are here today and have you folks here today because it's no secret that there's some controversy over GENS and what the government is doing in shared services.

Right off the bat, I think everybody wants to make sure that government conducts its affairs in the most efficient way possible, because we are responsible to taxpayers. On the other hand, the government is not the same thing as the private sector, and there are other dynamics the government has to keep in mind.

As a former businessperson, I am very much of the view that taxpayers are important, and we need to make sure we run our government and government services as efficiently and effectively as possible. That does not necessarily mean lower cost. I thought the example from Mr. Steeves that you don't hire the lowest-cost employee to do the best job was perfect.

We are waiting for a report from Public Works on GENS, the impetus for shared services, and some of the issues behind the drive to shared services. We don't have that report yet, so I would like to ask you a couple of things.

The controversy seems to be that if we go to a greater use of shared services, larger companies will automatically be used to do that work and SMEs will suffer—fewer SMEs will be used. We're also facing a bit of an uncertainty about whether an SME that provides staffing is the same as an SME that provides ICT work in the larger sense.

Mr. Lavoie, you mentioned that using a large company, such as any of the large telecommunications or ICT companies, would not reduce the number of SMEs involved in government work. This is a rather long introduction to the question, but I would like to hear you address this elephant in the room—the question of whether SMEs are going to suffer or not.

I leave it open to the other two witnesses to help us with this question.

**Mr. Louis Savoie:** Today, on the projects we do with the Government of Canada, we engage SMEs in the delivery of some of those solutions—the initial delivery, the regional rollout. We don't have staff right across the country who are able to deliver the service at the requested service level and maintain the infrastructure at all times.

So for us, whether it's 120 different contracts or one larger contract, we still have the same business framework. We still have the same requirements for delivering services from coast to coast to coast. Because of the footprint of some of the departments and the locations in which the Government of Canada operates, we have no choice but to leverage the small and medium businesses. It's part of how we do business, so there's no real change.

With regard to GENS as a particular project, the people who win the networking infrastructure contracts with the Government of Canada are the telecommunications companies in Canada. They're not the SMEs or the staffing organizations. They're not even the systems integrators, such as my colleague next to me in CGI. So we don't see how this project would affect the SMEs. Our business model is not going to change because of a project of this nature.

• (1140)

**Mr. Hicham Adra:** I would like to add, if I may, to what Louis has said. There were two parts to your question: the use of large firms and the SME staffing versus other ICT SMEs, and the underlying theme of shared services. I want to go back to my presentation on shared services. I covered the ground quickly. Shared services are things that used to be done in many parts of an organization that now will be done in one part of the organization. If we look at it from that perspective, it really doesn't have anything to do with large or small firms, SMEs, telcos, or IT.

We all used to do something, and we decided you will do this on my behalf, and we'll put the resources there and then you'll become an internal service provider within the greater organization or the group of organizations. What happens is that a department becomes an internal service provider to the others. I think we have to separate shared services from the issue of SMEs.

As to the second point about staff augmentation companies, in the end, companies work with each other. There will be a need for skilled resources and those people will work. Whether they work for you or me, they will work at the end of the day. It does not necessarily mean a reduction. Arguably, we should be reinvesting in ICT. We think this is critical. We think it's a productivity enabler. If you look at other countries that have achieved higher productivity, it's generally associated with higher investment in ICT. We have to make a distinction between companies that have IT and are investing to create a company versus an augmentation model that is really a fee based on a skilled resource that would be available anyway. That skilled resource already exists in the market.

**Ms. Martha Hall Findlay:** That all sounds wonderful and very rosy, but we still have people saying we're going to have SMEs shut out of the process, and there are concerns about that. How do you address that specifically?

We have different committee meetings and different people appearing. Obviously, you're aware of the concern. How would you address their concerns if they were here? Do the RFPs include a mandate to include a certain number of SMEs and subcontractors? Is that done? Is it something that should be considered, or are there other ways to accommodate some of these concerns? I'm really throwing it open to you, because it's a concern we're hearing. You're painting rosy pictures, but I'm not sure they're addressing the concerns.

**Mr. Louis Savoie:** Well, are the SMEs doing the work today? Is it something they're doing today that they wouldn't be doing tomorrow? In the network services business, other than a subcontractor to telecommunications companies, I believe the answer is no. So they wouldn't be losing part of a market that they would normally have access to. In fact, I think they would be gaining, because we would have a chance to invest in new technology and new infrastructure to meet the new demands of the Government of Canada. There are a whole bunch of ripple effects of projects going forward, whether small, medium, or large.

There was a second part to the question and I'm just trying to get my thoughts together.

**Ms. Martha Hall Findlay:** The second piece is how do they get included going forward specifically? I actually mentioned RFPs and—

• (1145)

**Mr. Louis Savoie:** The answer there is yes; we don't have a problem. The industry doesn't have a problem if the government has an alternate policy intent in its procurement. So if your policy intent is regional development, we'll adhere to the intent and make sure that however we structure the solution we deliver we're going to respect the intent. But you need to be aware that the more conditions of this nature you add to a procurement, the less efficient and less effective it will be, and the more costly it will be to the government.

So it's a balancing act, and we don't have a problem if the Government of Canada chose to add conditions of the nature that you've alluded to in its procurement, whether it's ICT or anything else, but you may create a situation where the industry would be less efficient in the way that it normally delivers those services to other customers.

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

Thank you, Mr. Chair.

**The Chair:** Madame Bourgeois, for eight minutes.

[*Translation*]

**Ms. Diane Bourgeois (Terrebonne—Blainville, BQ):** Ladies and gentlemen, good morning. I wish to thank you for being here today to discuss another facet of the problem we are examining.

My first question is for Ms. Oliver. In your opening presentation, you write that you represent more than 350 businesses, 70% of which are small companies. Nonetheless, at the end of your document, there is a list of active members; and I see the names of large corporations such as Bell Canada, CGI, Cogeco, Nortel, Hewlett Packard and IBM Canada. These are not small businesses. As far as you are concerned, what is your definition of a small or medium business?

[*English*]

**Ms. Linda Oliver:** Thank you very much for the question. Yes, there are a number of large organizations in our membership, but we also have a great number of small ones, and as I mentioned, 70% are small. I'll give you an example. We have Macadamian, we have Sandvine, we have Sequentia. We have companies like that, which are just brand new. Companies like RIM and Open Text started the same way. These are Canadian companies with intellectual property that started out, in the case of RIM, with a grant from the Government of Canada—which was paid back—to start and establish IP in Canada and to grow itself into a larger company. So a great number of our companies start out that way, and we do have a large number of small and medium-sized companies.

The ones you're focusing on, yes, they are large, but there is a great number also listed here, and if you look down you will see them. I've mentioned some of them. There are medium-sized companies like R3D Consulting, Pixelworks, Platform Computing. So there are a lot of them.

I'm not sure exactly what you wanted to ask me.

[*Translation*]

**Ms. Diane Bourgeois:** When I see an organization such as yours, I wonder if it is similar to others that I have been a member of. Members' annual fees are based on the company's size, I suppose, and not the number of employees within its workforce. I realize that generally speaking, the large corporations are the ones that are in a position to provide a significant contribution.

How is that organized within your company? Is a small business able to reach the same level of contribution as a large corporation?

[*English*]

**Ms. Linda Oliver:** The dues that are paid to ITAC are based upon the Canadian revenues, and for small companies—\$5 million would be a small company—they would be paying the smaller amount. As they grow into a larger company, they're charged according to the amount of revenue they have in Canada.



[Translation]

**Ms. Diane Bourgeois:** I simply would like to know who exactly you represent. Do you understand my question? This morning, you are accompanied by representatives from CGI and Bell Canada. Therefore, you represent major corporations. We are told that 70% of your members are small businesses, but when I go to the last pages of your presentation, I see only the names of large corporations.

I am not calling into question your honesty; rather, I have questions with respect to the companies you represent. If these are large corporations, tell us right away, because I do not see any small companies.

My own definition of a small business is one that employs 5, 10, 15 employees, and not 250 employees. Yet, I only see large businesses here. I would like to know who exactly you represent, Madam.

• (1150)

[English]

**Ms. Linda Oliver:** Thank you for that.

I brought the two folks who represent the two companies here today because we're talking about GENS and about shared services. Because of the issue you wanted to address, it seemed to me that you needed to hear from companies that have done these types of projects in other parts of the world and in parts of Canada.

[Translation]

**Ms. Diane Bourgeois:** I only see major corporations. Are you accompanied today by representatives from a small business?

[English]

**Ms. Linda Oliver:** We can bring representatives from small business, but the issue we were discussing today is not a small business issue. The issue is that some companies, some staff augmentation firms, have approached you and said to you that they will be shut out, and that therefore small businesses are shut out. In order for you to understand exactly what's happening in this industry, you needed to hear what the ecosystem is and how businesses work together. Is this really a small business issue? In my view, it is not. It's not a small business issue, because small businesses are indeed contracting with government.

If you look at the amount of money the government spends in professional services, you'll see that the majority of contracts are to staff augmentation firms; they are not to consulting firms. In this area we're pleased that the Government of Canada is looking at consolidation, at ways of using technology to be more effective, and at using that investment to be innovative.

That's the reason we thought it would be more beneficial for you to hear what these companies are, how they can operate, and how it impacts small business. Indeed, the two gentlemen have explained that they use small business to a great extent in their contracts.

[Translation]

**Ms. Diane Bourgeois:** Thank you, Madam.

**Mr. Louis Savoie:** Madam, allow me to add a comment to what Ms. Oliver has just mentioned. I am the President of the Public Sector Business Committee—whose French name I cannot recall

right now. The way this committee operates is completely transparent. When we have the opportunity to work with the federal government, all of our members are invited. We have a distribution list and relay everything that we do and discuss to our members. All members are invited to attend the meetings of the subcommittees to discuss shared services, the business communication network of the government, or any other subject, before ITAC tables its submission to the government.

Members of our association attend the meetings because they have an interest in the proceedings. If they do not participate, it is because they do not have any interest. I can assure you that all of our members are aware of our activities and are invited to all of our meetings. Our process is totally transparent. I have been involved with ITAC, as has my colleague Hicham. If there are representatives from major corporations who are with us today, it is because they can afford to invest their time and resources to support the association, whereas a small or medium business has fewer resources to do so.

**Ms. Diane Bourgeois:** I understand very well, sir, and I thank you for that reminder.

Specifically regarding CGI and Bell Canada, you say that you call on SMEs in the regions, and that small and medium businesses will not lose their share of the market if you obtain contracts from the government. On the other hand, you also state that you have a certain number of employees in the National Capital Region.

If you obtain large contracts, worth somewhere in the order of \$1 billion per year for the next 20 years, for a total of \$20 billion, you must hire additional employees. Yet, your employees are already very busy. I believe that CGI employs 1,000 people in the National Capital Region. If you are awarded a large contract, you will need to hire additional staff. Where will they come from exactly, will they come from small and medium businesses in the surrounding area?

• (1155)

[English]

**Mr. Hicham Adra:** *Merci, Madame.* If I may, I will answer in English.

We're proud of our success. I still believe that we are a company that still acts like a small company in many ways, being entrepreneurial. Entrepreneurship is one of our core values. We are still growing. We compete on an international scale. Some of our competitors are ten times our size, so on an international scale we're still that company that's working hard.

You asked me a good question in terms of the region and how we grow. We would obviously deliver the business in Canada, so it could be in the region or in other parts of Canada. Today, we are obviously a major provider to Government of Canada services. To my colleague Louis' earlier analogy, I may be already selling my client four or five cars. I may end up really selling my client two or three cars, if they spend less. I may gain or lose in terms of spending, because many of these departments today are already my clients directly. If they become a client of Public Works, and Public Works then subcontract some of that work to me or whatever, I may be getting less business or more business. The question, really, is whether it's still the right thing to do from a taxpayer perspective or from a government perspective.

To your question about how we manage resources, yes, we do leverage those centres of excellence. Those centres are built to deliver a service, so they're not necessarily always utilized to the maximum. We do act as a provider to many clients. Somebody may be 60% busy. We use 40% of that person's time to manage another client and so on, because that person could be working for multiple clients. That's how our clients get value and efficiency out of us.

We do work with small companies and large companies. That's how we grow and build. Again, we still believe there's room to grow those companies. However, if we do not do work and do projects as a country, those companies would not develop skills and capabilities that they can leverage. I don't think anyone would say that if you're going to go build a building, you would hire me personally with my own hammer to come and build a building. You would hire a general contractor, potentially, who would work with firms large and small, and that person would act as the integrator and would provide a service.

[Translation]

**The Chair:** Thank you.

Mr. Gourde, you have eight minutes.

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

Thank you, witnesses, for being here today. My question is addressed to all of the witnesses. You may take your turn in answering it.

Just how well does the Information Technology Association of Canada understand the current approach used by the Government of Canada in terms of shared information technology services and the government's enterprise network services? In your opinion, what role can the association play to help the government to push this initiative forward?

**Mr. Louis Savoie:** Good afternoon, sir. Thank you for your question.

The projects being discussed today have been in the planning for the last three years. Our association facilitates effective exchanges between industry and the government of Canada. We attempt to get a unified perspective from the industry, which is not always the case, but everyone has the right to be heard. We endeavour to make this unified perspective known to stakeholders from PWGSC, so as to foster the exchange of information and the identification of problems, potential solutions, and so on and so forth. In the weeks and months ahead, we will be pleased to continue collaborating with the various departments in order to advance these projects.

Ultimately, we believe that it is possible to improve the effectiveness of government operations, and that the chosen or discussed track is the right one, and that it will not have a significant impact. You are well aware that baby-boomers are preparing for retirement. Our association estimates an impending shortfall of 90,000 skilled IT workers in the near future. I have a hard time believing that there will be a lack of jobs or business opportunities for anyone in the industry.

We are anticipating this problem and believe that it is urgent to improve how things are done now in order to prevent a shortfall of

technology and systems workers in the years ahead. Our association worked with government and is ready and willing to make sure there is ongoing cooperation to meet needs, and find solutions to problems that are being experienced by SMEs, or others.

• (1200)

**Mr. Jacques Gourde:** To your mind, does the government consult industry effectively under these IT procurement initiatives?

[English]

**Ms. Linda Oliver:** *Merci, monsieur.*

Yes, we are very active with the federal government in terms of day-to-day consultations. We offer our views, either solicited or unsolicited, on all of the projects the government has, and indeed we have a program where we have been advocating for the last few years for a national ICT strategy.

We find that the government is now poised...I guess because all the members of government these days are somewhat younger and they know more about technology. They seem to be more interested and more focused on leveraging ICT in Canada as an enabler in terms of leadership and competition for competitiveness for Canada.

We are very involved in the consultation process. We take advantage every time the department has any type of offering, where they offer the private sector to consult. We've also worked on many of the projects for professional services for temporary help, by helping government to design the model.

We find that the people we work with in Public Works and Government Services are very open to dealing with the private sector. They have us in, they hear what we say; we don't always get what we want, but they're very fair and they listen to us. So we're happy about that, and we're hopeful that this will continue.

We do have key messages for the government in terms of an ICT strategy. Part of it is procurement, but also it's government as a model user and government being more efficient and using technology, particularly at a time when there is a downturn in the economy. This is the time to invest in ICT infrastructure in government so that when we come out of the recession, we are going to be more competitive. Other jurisdictions in the world are doing that.

This is the kind of advice we give when we're asked to consult.

[Translation]

**Mr. Louis Savoie:** To follow up on Linda's comments, I would say that the government has improved how it consults industry in the case of projects it wants to see move ahead. That is obvious. There has been a lot of improvement on that front, as well as increased transparency. We invited several experienced government managers to come and speak to our members and people from the industry about what they do and think, and what direction they will be going in. We are trying to set up that communication. It is a two-way street. I am increasingly satisfied in that respect.

I can tell you, nonetheless, that the industry hopes to see things improve. As I mentioned earlier, this project has been discussed for three years, but at some point, a decision has to be made to either go ahead, or to suspend it indefinitely.

Our company responded to three separate calls for expressions of interest, and calls for proposals. This takes up our resources, and things do not move forward. That is the real problem. It goes without saying that we want consultation. But be it regarding the Government Enterprise Network Services or any other project, we want to see the procurement process reach its conclusion, or the decision to not go ahead be taken. Either way, we want decisions to be taken more quickly.

**Mr. Jacques Gourde:** Do you believe that procurement instruments like the Task-Based Informatics Professional Services are meeting the needs of SMEs that provide information technology services?

• (1205)

**Mr. Louis Savoie:** Yes, absolutely. I do not have the statistics on hand, but during a past meeting of this very committee, I did hear that the volume of business between SMEs and the government continues to increase.

Of the procurement tools that have been implemented, I am aware of the TBITS, the Task-Based Informatics Professional Services, the Informatics Professional Services Prices Index, and another tool focused on solutions recently implemented. These tools simplify departmental procurement procedures and enable SMEs, as well as all other companies working in this field to answer the calls for proposals. In short, I believe that these tools help meet the needs of government and allow SMEs to help further government projects.

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

[English]

**The Chair:** Mr. Martin, for eight minutes.

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

If I could perhaps begin with the notion that Martha Hall Findlay introduced, which I think sets the tone for us quite well, she pointed out that we want the best value for taxpayers, etc., to accomplish the objective we have in mind. But government is not like the private sector; we may well have secondary objectives that we seek to achieve as well. So it's not quite as plain and simple as a client in the private sector. One of those objectives is to grow the IT sector, or whatever industry sector we're dealing with.

I note that CGI started out as a very small enterprise and is now something we're all very proud of, with 25,000 employees. But we want 10 more of those enterprises, and if we don't start feeding some of the work to the SMEs in that sector, they're never going to grow to become the international stories you are.

There is the Wal-Mart effect. When Wal-Mart comes into a community, all of the mom and pop shops close. That's not to our advantage, as monopolies lead to inefficiencies—not money savings. That's really the premise of why we're meeting here today, and you are our first witnesses, so you are getting the brunt of that tone.

But let me ask a question first of CGI. You have 25,000 employees in Canada and across the world. How many of them are actually in Canada?

**Mr. Hicham Adra:** Thank you for your question.

I do share your hope and objective of building more champions in Canada that could compete across the world.

I will directly answer your question about the number of employees. We have 16,000 employees in Canada, and in Ontario alone we have about 5,000 employees. The average salary is \$80,000, so these are significant jobs. You will see there's a good multiplier from the kind of work we do. StatsCan says the multiplier is .84 from ICT jobs, which is higher than other industries.

To your question about building companies, it's something I'm personally passionate about. I started with a small firm and we grew, but we did not grow because our clients did staff augmentation; we grew by doing projects. If I were a small company today in front of you, a true small company, I would ask you to do projects. Do not do staff augmentation. It does not build value; there is no IP, etc. That's how to do it, by doing projects.

**Mr. Pat Martin:** You made that point quite capably.

I'm looking at an article from the *Ottawa Citizen* in 2006 by Kathryn May—whose research you can always trust, because it's always accurate, and who is here with us today, in fact—which says that small businesses now have about 30% of the government procurement work. Mr. Fortier, the former Minister of Public Works promised the SME sector that it would be awarded 40% of government contracts.

The big companies already have 70% and the initiative of this government is to make that into 60%. I don't think anybody is contemplating shutting out the major players. They're simply trying to point a little bit more towards the little guys, so they can grow their businesses, hopefully into the big ones.

I have very little time and I'm just going to jump to another point. One of the points you made, Mr. Adra, is that a single network reduces access points, etc. But we've been seeing in the private sector that size doesn't guarantee security in any way.

What was that company that had the Winners stores?

• (1210)

**Mr. Hicham Adra:** TJX.

**Mr. Pat Martin:** Yes, TJX. That was a catastrophe. CIBC also suffered catastrophic breaches, which take place, no matter the size the network, I would just point out.

**Mr. Hicham Adra:** If I may comment on your question about the percentage shares, I don't know how those numbers are measured, whether they are measured in terms of direct business obtained by those companies or whether they also include revenues derived from the other firms. But I have to tell you—

**Mr. Pat Martin:** Right. That was a promise Michael Fortier made to the SME sector when this government was first created.

**Mr. Hicham Adra:** I can speak about our industry, though. We are a large employer of IT people in this country, but are second largest behind you as the Government of Canada. You employ many more people than we do. Again, if you do projects, that work will get out there, and small and big companies can do it. If that work does not happen and we don't invest and we don't...[*Technical difficulty—Editor*]...we will lose our position in the world, and then small and large companies will suffer.

**Mr. Pat Martin:** It reminds me of the point I was going to open with. Not all of us are convinced that contracting this work out is the best thing.

Yesterday we were reminded of the ridiculous spending in the private sector for the gun registry—\$1.2 billion to create a database that I can buy at Future Shop for \$169 off the shelf.

That was the private sector in a catastrophic waste of money that we could have done with our own talented in-house people for one one-hundredth of the cost.

I am no big fan of contracting out, period, but we are past that argument now. We are talking about how we are going to contract it out, not if.

How am I doing for time?

**The Chair:** You're doing great. Do you happen to have the telephone number of Future Shop?

You have a couple of minutes left.

**Mr. Louis Savoie:** Sir, perhaps I could respond to some of your comments, because I've been waiting for the questions to come through. You did start with a question and I want to get back to that.

When I speak to my colleagues in the industry, certainly the large businesses...30% to 40% of the actual contract work they win goes to small and medium-sized businesses that support them. We can't carry all the staff all the time on our payroll, pay the benefits, all that, for the next 25 to 30 years, because once they're an employee, you're committing for the long run.

So working with SMEs and working with other companies it has to be part of the formula of how we do business. We don't have an ongoing stream of contracts coming in to keep all these people busy all the time. So it is how we operate.

I don't think doing large projects cuts out small and medium-sized businesses at all.

To your issue of security and your concern about security and large breaches, absolutely they happen. If I can use an analogy of a bowl with one hole, and the hole is where the communication comes through, if you could protect that one hole at least you'll protect what's in the bowl.

But if you have multiple holes, which is how the government is connected today in some respects, there's a potential for more breaches to occur. You might have plugged this one and that one—10 of them—but there are still another 50 that are wide open to vulnerabilities and cyber threats.

So appreciate that they could always happen. The risk exists, but it is how you can mitigate those risks, and there is an opportunity to do so by simplifying the infrastructure and consolidating some of it.

I think that responds to most of that.

**Mr. Pat Martin:** Thank you. That's useful.

With the last few seconds I have, I am sorry...on the engineering industry. I am interested coming from a construction background myself.

But I take your point about low cost versus whole costs. I wonder if you run into difficulties making that case with the federal government sometimes when it is really pretty clear in most documents that the low cost will win the job.

Do you get that total life cycle? Do your clients, the government, get the argument for the "total life cycle of the building" arguments?

**Mr. John Gamble:** I think when we deal at a staff level at Public Works or at Defence Construction Canada, where they have the specific expertise, I think they are quite empathetic.

Her name escapes me, but there is an employee at Defence Construction Canada who, as part of her Ph.D. thesis, actually made a direct correlation that the higher the engineering quality the lower the operating and maintenance over the next 20 years.

I think they understand it, and this is not unique to the federal government, but the challenge we have is that those who can actually make the change to the procurement are inevitably the other department.

So we are hoping, by speaking to you, in the collective wisdom of this committee, that perhaps you can shake something loose so that we can have a meeting of the minds.

Procurement is becoming very complex. One of our concerns is sometimes that the procurement methodology is done in isolation of either the technical expertise to evaluate proposals or to scope the work or sometimes even outside the context of the ultimate end user, because we can do a better job if we have a little bit more context of what the desired outcome is.

There is a pressure in government to do everything empirically, to evaluate proposals empirically. I will quote Albert Einstein, who is a little brighter than I am; he said that "Not everything that can be counted counts, and not everything that counts can be counted." That is a very true statement.

There's a myth that as a private sector we want a completely objective process. We don't. We are professional services. We understand subjectivity, provided it is done fairly, transparently, and we understand the rules going in. We want to protect your right to hire those firms that are going to do the best job for you.

In that way, we can adjust our business cases accordingly. And your interest is, to change that business case, we want to raise our game and be a preferred service provider to the federal government.

•(1215)

**Mr. Pat Martin:** That was very well put. Thank you.

**The Chair:** Thank you.

At some point we have to go into a teleconference for a witness from British Columbia. I don't know whether colleagues want these witnesses to remain for that portion or not.

We can release the witnesses. They are welcome to stay, but I don't know how colleagues feel about that. My inclination is to release the witnesses and go into the teleconference.

We do have another five to ten minutes available for some quick questions.

Mr. Warkentin.

**Mr. Chris Warkentin (Peace River, CPC):** I'd like to continue to question ITAC especially. There are some points that we have to get to the bottom of.

**The Chair:** Do you want to do that during the teleconference?

**Mr. Chris Warkentin:** I don't know how we're going to facilitate this. We probably recognize we made a mistake in possibly scheduling too many people—I know that's hindsight.

I don't know how we can best facilitate this at this point.

**The Chair:** We need a solution.

Madame Bourgeois.

[*Translation*]

**Ms. Diane Bourgeois:** Mr. Chair, I would have liked to ask the engineers questions. I don't know how we could organize that. We could perhaps ask them to come back another time.

[*English*]

**The Chair:** All right.

The clerk informs me that we can go past 1 o'clock, and he believes we can postpone the teleconference until later. That might be a solution. I'll let him work with the witness in British Columbia.

We can continue, then. We would normally go to five-minute rounds. That may or may not serve the purpose, but we can start with that.

I would normally go to Mr. Bagnell, Mr. Roy and then Mr. Warkentin for three five-minute rounds.

Is that okay?

**Some hon. members:** Agreed.

**The Chair:** Okay.

Mr. Bagnell.

**Hon. Larry Bagnell (Yukon, Lib.):** Thank you.

I don't necessarily disagree with what you're saying, but I'll be the devil's advocate on a bunch of points.

The bandwidth is provided by large companies, but the rest is provided by SMEs, by and large. All of those are part of the GENS

system. And 70% of the non-bandwidth functions are currently provided by SMEs.

Why can't the large companies just continue to provide the bandwidth and the rest would be left open to competition for SMEs, anyone who wants to apply?

**Mr. Louis Savoie:** Certainly you could choose to structure the procurement however you see is most appropriate. I'm not sure about the statistics you've outlined. It's the first I've heard of them, so I'm a little caught off guard. I'm not sure if they're true.

You say bandwidth and non-bandwidth. I am going to interpret your statement as saying the wide area network is provided by the telecommunications service providers, and when you get inside the building, the network that connects, I'll call it "from the basement", where we might terminate our service going onto whatever floors the clients might be on, is normally provided by the client. Whether that's provided by SMEs or not.... In fact, my experience is that our customers would provide those components. So our customers would buy many of the networking components that are inside a building. Our customers would generally contract out the cabling of the building. Bell Canada does a lot of cabling for the Government of Canada in Ottawa. We subcontract that out to SMEs here in Ottawa.

Then the question is how you deliver service on an end-to-end basis. Your experience as the user of a computer, going to the Internet or accessing whatever application you're looking to access, is an end-to-end experience. You can't break it up into pieces. So the challenge is how you manage that, on an end-to-end basis, effectively and efficiently.

•(1220)

**Hon. Larry Bagnell:** To continue being the devil's advocate, with the big system you talked about the bowl with a bunch of wires coming in. I like to look at it more as a bunch of separate bowls. If the government has all its secrets in a bunch of separate bowls, if one of them is penetrated you only get a little part of it. If you have one big system, you have a bigger potential for a cyber effect getting through the entire government system, or a virus.

Also, if a big company is brought down by a lawsuit, for instance.... Once again, if you have the whole Government of Canada shut down, that is a pretty drastic type of thing, whereas if one department is shut down, another department could pick up the slack in that emergency.

**Mr. Louis Savoie:** Sure. For some of your statement here, I could say you're right, but we could design around all of these things. We could design diversity to make sure that it's a multi-carrier type of solution or that it has a diversity so that you wouldn't have the situation you've just enunciated. From a security standpoint, again, it's a design issue and a design question. You could protect different departments within—we'll call it—a virtual bowl, or virtual bowls within a big bowl. Everybody is sort of segregated and protected and has different layers of protection so that you don't experience the type of risk that you've just alluded to. I appreciate that it's possible, but these are things we can design around.

**Hon. Larry Bagnell:** Just so the engineers aren't left out, with regard to QBS, you're talking about the qualifications. I could see having qualifications and then having a competition for all the people who have the qualifications. It reminds me of the guy going for a job and every one he goes to says, "You don't have any experience". If we pick only the companies with experience, then, as Pat Martin says, we're not going to be growing in the industry. It will be harder to grow industry.

**Mr. Andrew Steeves:** That's a great question—I was waiting for it. To me, when we talk about qualifications, that could be exactly one of the qualifications you want to look for. You're trying to develop an industry, or you're trying to get local knowledge, or the position itself is for a junior person or a junior firm, if you will, a firm that you want to have built up. This happens a lot under QBS.

I know that in the province I come from, New Brunswick, there are several cities that follow QBS-type processes. Quite often for new firms starting out, maybe there are a couple of new graduates or a couple of young employees who have left a larger firm. They'll give that firm a couple of small projects just to cut their teeth on, to see how good they are—number one—but also to get them used to the processes used by that municipality. That can be, actually, a qualification. At times, what happens is the larger or more experienced firms are told, "Stand aside, because this really is an opportunity for a smaller firm."

This is a very important point. Canada is an advocate of our association in the international arena, with FIDIC, the International Federation of Consulting Engineers. Of course, you can imagine a lot of consultants from second and third world countries are quite concerned that these large firms from Europe or North America will come in with all the answers and overwhelm the local industry. No, once again, a qualification can be that you need to have local knowledge and local content, and that will address it. That can be a qualification in itself.

**The Chair:** Thank you.

**Mr. John Gamble:** If I may...?

• (1225)

**The Chair:** You'd better make it very quick. We're trying to keep it to five-minute rounds.

**Mr. John Gamble:** Expertise is not the domain solely of large firms. On the contrary, the key is getting the right project team for that particular project that's available at that particular time to serve your interests. The empirical processes we see in typical procurement are actually more effectively the barrier to small firms. One-third of my members have 15 or fewer employees, and they are behind this process.

As an anecdote, we just finished our awards jury in Ontario, and we're going to be giving out ten awards at the Château Laurier on June 2, if any of you are free. Five of the ten winning firms employ 100 or fewer employees.

We are the fourth largest exporter of engineering services in the world, and that's something we should be proud of. We have a lot of expertise, and we have a firm that can do almost any type of project in the right size and the right type. We have a very diverse and very strong industry across the board.

[*Translation*]

**The Chair:** Thank you.

Mr. Roy, you have five minutes.

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

My question is in keeping with what Mr. Bagnell said. I have a few questions. I fully understand the measures implemented to advance the InfraGuide; I served as a mayor of a municipality over several terms. I'm well informed regarding what you have been telling me. What I am hearing from large businesses is a problem for me.

A private business, especially a major corporation, has a fundamental goal of making money and sharing the profits with shareholders. Let us be clear: the less money that is spent on a contract, the higher the profits, and the higher the dividends paid out to shareholders.

However, you are presenting the opposite vision; you want to see the government get the best expertise possible. In fact, your vision is not totally opposite. You also suggest focusing in on a company's quality and ability to innovate, even if it is a young company, and that innovation in construction should also be fostered.

The fact of awarding this type of contract to a very large company, which will in turn seek subcontractors at the lowest price possible among small businesses... I am not implying that these small businesses are necessarily unqualified, but the underlying goal is to get the lowest bid, and certainly not the highest one. When a large company launches a call for tenders, it is seeking to get the lowest price. It comes down to a matter of cost and the capacity to provide the service, and does not go any further than that.

You state that we should favour competency and innovation in certain areas, but there lies the contradiction. Indeed, I, for one, believe that a private business is not a charity, and never will be.

When we learn that major companies like Rogers will be expanding regionally, this is a big problem for me because I come from a region. I would like to get your reactions to that.

[*English*]

**Mr. John Gamble:** If I can just clarify a couple of points, one is we did not write InfraGuide. The FCM and the National Research Council wrote InfraGuide, just to be clear on that point.

We are not contractors. We are professional service providers. We are licensed under provincial statutes, like doctors and lawyers and others, and we have an obligation. Our lifeblood is customer satisfaction. We're not looking for blank cheques. For projects to work we have to have our objectives aligned. That's the same for any professional service. You want to make sure you and your lawyer, you and your doctor, have the same outcome in mind. We work better under those circumstances. Our contention is that what we need to do at the very beginning of the procurement process, very early on, is to make sure our objectives are aligned, and then we can have fees that are both fair to the taxpayer but commercially viable to the firm. We're looking for sustainability in our industry. We're looking for a fair return on both our investment and the risk, because one of the motivations for the public sector to hire consulting engineering firms is to transfer risk. That's fine, as long as the return on investment is there.

The truth is we have a lot of case history in the United States. A report is being printed, literally as we speak, and it validates what the infrastructure or the InfraGuide committee has always suspected but couldn't quite put numbers around. We're seeing less price creep, less schedule creep. We're seeing better innovation. We're seeing better customer satisfaction and we're seeing a better business case for the firms, and I think that's a win all around, because then we can improve our capacity, we can provide better service, and we can grow as an industry, as you said.

You've talked about large firms, and, yes, we have very large firms, but again I want to emphasize that one-third of my members are firms that employ 15 or fewer employees. As I said earlier, as evidenced by awards juries and as real evidence on projects, they can deliver high-quality projects as well.

The industry is uniform. We like this document. We're surprised, because when a public agency says they're going to write a procurement document, we usually hide under the desk and hope it passes over, but we were quite pleasantly surprised by the outcome of this document because it was prepared by the public sector for the public sector. I probably shouldn't tell you this, but we had a contingency plan as to how we were going to discredit this document if it came up with an answer we didn't like, and lo and behold there it is.

We can live with this. There are other things we'd like, and unapologetically we want to be commercially successful, but this is a good proposition for us because it allows us to provide you and other clients with service we can be proud of with a fair and reasonable return, and I think that's the win all around.

•(1230)

**The Chair:** Mr. Warkentin, you have five minutes.

**Mr. Chris Warkentin:** Thank you, Mr. Chairman.

Thank you to all our witnesses coming today. We appreciate your testimonies and your discussions on things that are important to the issue of procurement.

I think we've probably got a broader topic today than we have any ability to decipher down, but I just want to focus in on ITAC for a number of minutes.

It's my sense we're going to have to take a couple of steps back here. We, as a committee, have not spent a lot of time understanding the reasons the government has been pursuing GENS or shared service initiatives. It's something I think we might have to take a step back from.

Now, my understanding is that right now there are 120, plus or minus, networks that government agencies and departments rely on. The idea, the thought, is that by moving to a single shared service network there would be quite significant efficiencies created within government, on the capital side and also in terms of the ability to facilitate the business of government. Right now there seems to be a significant amount of spending that's focused on things that are not necessarily supplying the core business of government or supplying the services government is responsible for. Instead there's a lot of money and a lot of time eaten up by government departments focusing on their systems.

Now, it's important for me to put things into layman's terms just for my own understanding. My understanding is that essentially what government is suggesting is they are going to replace 120 separate houses with a skyscraper that has the same square footage but is a single building. With that there are obviously a lot of tensions, because right now there are a number of different companies that are supplying a single repairman for every single one of those 120 houses. When there is a single building that will replace those 120 structures...obviously, to fix the windows on the 120th storey of a skyscraper is going to be quite a bit different from somebody from a local window supply store replacing a piece of glass in a single-floor building.

I know I'm dragging in an analogy that may or may not be appropriate, but I'm wondering if that's generally the initiative. I think it's important that we then understand why small businesses are concerned. Small businesses that may just be supplying a single individual to repair something on a smaller structure have no capacity to be involved in possibly putting on the 120th floor of a 120-storey skyscraper.

Have I convoluted the initiative even further, or are we getting to a point where that's possibly an analogy that works?

**Mr. Louis Savoie:** It's an interesting analogy. I think it's close, but it's not quite the right analogy.

Let me start by suggesting that, I think I'll say, although there are maybe 120, plus or minus, networks of varying sizes, depending on the size of the department, I don't kid myself in that I don't expect the Department of National Defence to be part of this or expect some of the departments that might not want to come onto the shared service. So the Government of Canada might end up having 20 networks as opposed to 120. It will be a smaller number. I don't think it will ever be one actual network.

I don't see it as one skyscraper; I see it as houses, five-storey buildings, and ten-storey buildings right across the country because of where the government operates. We're talking about infrastructure where the government operates, and the government doesn't operate in one location; it operates right across the country. You need people to cover that infrastructure in all those locations. So if I take a tall Government of Canada building here in Ottawa today—or it could be anywhere; it could be in Montreal or in Vancouver, but where there are multiple departments in that building that is being served today, the carriers are bringing multiple connections into that building, multiple separate connections into that building.

• (1235)

**Mr. Chris Warkentin:** And that's the important point, I think, that you draw a picture of what that looks like right now, because that helps us, as a committee, to understand the efficiencies that are being promoted by the single new system, the GENS system. Go further, but I want you to elaborate on that point a little bit.

**Mr. Louis Savoie:** As an example, if we as a carrier provided all those connections and every floor was a different department, and it was a different network connection, and each one sold at a different price, we would ultimately consolidate that onto our backbone network and bring the connections to where the department needs those communications to go.

In terms of us and you, if we brought in one higher-speed connection, separated it out, and virtually connected all those departments onto that single infrastructure, it would bring savings to you, but we would still have to serve all those floors and all those connections in that building, whatever the number. If your location is on one floor, one storey, with 10 people, chances are there is only one connection going in there and there will still need to be one connection going in there. The support required for that connection doesn't change.

There are some efficiencies in terms of delivery, especially in large buildings, and in the overall service management around that unified infrastructure, but you still need all those people to support that infrastructure, wherever it is we need to deliver it.

**Mr. Chris Warkentin:** Yet you've identified that there would be significant efficiencies resulting and significant savings for the government.

• (1240)

**Mr. Louis Savoie:** That's right.

**Mr. Chris Warkentin:** In your submission today there is a suggestion that there would be a saving of 15% to 20% of \$3 billion per year. Obviously 15% to 20% of \$3 billion is a big chunk of money. It then could be redirected into other initiatives or into other core businesses of government.

When the committee has brought struggling agencies or government departments before it, the number one necessity we've identified is to move towards more efficient high-tech systems. We see this in the payroll sector, and we've seen this—not so much now, but in prior months and years—in the Passport Canada sector. We saw that it was the number one issue in a number of other departments. They wanted to upgrade those programs so that they could more efficiently supply the real core business of government.

I see this, and I think we have a larger picture, but I have one concern.

I think we understand that a large company would be required to supply this new infrastructure or this replacement or whatever it is. My concern is that after the first contract expires, after, say, a duration of five or ten years, all of a sudden the government is committed to a single large company. I have the same concerns as my colleagues in this regard: we don't want to create golden handcuffs that require the government to continue to engage in business with one single large company because the government has already invested in an infrastructure, and replacing the provider would be much more costly than just continuing at an exorbitant rate that the large company might require to continue the service.

Is there some assurance you can provide to us? What should we, as members of Parliament, recommend the department do to ensure that after the first contract expires, somebody else would actually be able to come in and compete? My biggest concern is that we not have issues of intellectual property rights, or any of the other kinds of issues that limit the ability to have some competition down the road for that contract.

I'm running late, and I apologize, but please answer.

**Mr. Louis Savoie:** I think it's a fair concern. The same concern would be shared especially in the outsourcing industry, which involves companies or organizations turning part of their business out to another company to run more efficiently.

From a contracting perspective, there are ways to mitigate the risks you've just outlined in competing and migrating from one contractor to another. I've seen it happen a number of times successfully. I've seen it happen unsuccessfully, because people have not anticipated what would happen at the end of the contract and how long it would take to migrate and to consider an alternate service provider at some point in time, but I think it's feasible to address the issue you've raised through an appropriate contracting and tendering process.

**The Chair:** Thank you.

I have one question in relation to the GENS project.

In the construction of this concept, either in government or the private sector that would have been bidding or helping to design it, was there ever any reference to set-asides for SMEs, or a trickle-down concept for SMEs, built into the design of this project? That is a trickle-down of projects or set-asides for SMEs, not of personnel augmentation, to use Mr. Adra's term.

**Mr. Louis Savoie:** I don't recall it, and I can't say I've seen it in the draft documents that have been issued over the last few years. But there have been discussions about that as a possibility of inclusion in the tender process.



As I think I stated earlier today, we've said that if the government chose to add other conditions, whatever they are, to help respect other policy considerations you might have for the broader benefit of the Canadian economy, we'd be happy to support that in whatever manner. The expectation, of course, might be that the service providers bidding on that may have a situation where they're less effective or less efficient than they would be without those conditions. It would be an issue.

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

We have to take a break here. We're going to go to the Nanaimo Shipyard Group. I'll ask you to fasten your safety belts and get ready to go.

I want to thank the witnesses for being here. You're free to go at this time. There have been some significant issues raised. I thank the engineering group and the ITAC group. There may be need for further discussions, there may be other questions, and committee members are happy to engage in that and will be in touch with the clerk should something come up. I encourage you to do that.

Right now, I thank the witnesses. I will suspend the meeting.

- (1240) \_\_\_\_\_ (Pause) \_\_\_\_\_
- (1250)

**The Chair:** I call the meeting back to order.

We are now introducing ourselves to Mr. Ron van Wachem, who is the president of the Nanaimo Shipyard Group. He will be appearing as a witness on our federal government procurement study. We are looking at access by small and medium-sized enterprises to the federal government's procurement process.

Welcome, Mr. van Wachem. I presume you have an opening statement or a submission that you wish to present. So I'll turn the floor over to you now.

**Mr. Ron van Wachem (President, Nanaimo Shipyard Group):** Thank you very much.

You've received my past submission. I have further evidence in the document in front of me, which I will forward to the committee.

I would like to talk about some parts of this evidence, as I do not want to be long-winded, and I would like to entertain any concerns you may have about my past evidence and about what I am about to say.

SME shipyards are strategic to Canada's maritime defence, security, and life-saving capability, and they contribute to maintaining Canada's marine highways. Small businesses are the backbone of our economy, especially in small towns and cities, whether in Nanaimo, B.C., or Les Méchins, Québec.

In the past, and at the present time, the government has implemented procurement policies that favour large multinational companies in the shipyard and marine repair industry to the detriment of small and medium-sized companies. The chair of this committee expressed outrage at the fact that PWGSC destroyed an entire supply chain in the furniture industry. The fact is that PWGSC will soon have wiped out the small shipyards and marine repair companies in Canada.

When the economy slows down, things get tight. The problems in the forest, fishing, and other industries have had a negative impact on operations like mine. Government policies contribute to some of the problems we have. This is why we didn't expect the federal government to contribute to our woes in an unfair and uncompetitive manner by directing contracts to large multinationals and by ignoring SMEs. Especially in these times of economic turmoil, we need Canadian government contracts to be fairly tendered in order to compete. For us, this is a matter of survival.

The recently announced federal shipbuilding and vessel life extension programs, which amount to many billions of dollars, are looked upon as increasingly important to small shipyards to fend off the effects of the current recession. The expectations of the SME shipyards were raised when they heard that shipbuilding repair would be part of the current economic stimulus package. They have heard of large projects and of some small boats to be built, but there is literally nothing in between.

The problem is that large projects often mean that there are many small vessels that SME shipyards could build, but the government likes to package them in bundles, as they believe this to be the answer. What this means is that small shipyards are shut out of every government shipbuilding project because of the cost of bidding and bonding or because the project size is beyond their financial resources.

This is not in the interest of Canada, because the skills of the SME shipyards are not maintained, and if only multinationals get to build small boats, Canada's strategic defence capability will suffer. Essentially, what it means is that multinational shipyards do all the work, both big and small.

The recent FELEX contract is an example, with all the work on the west coast going to one company via named price and all the work on the east coast going to one company via named price. Taxpayers are not getting any kind of bang for their buck.

For your information, I see a parallel in the IT industry, after reading earlier OCG evidence.

The result is that small shipyards do not get to carry out any contracts greater than approximately \$3 million to \$5 million. In addition, contracts seem to be getting larger rather than smaller, as the government believes that bundling contracts saves them money. It has, and will, kill the SMEs soon if nothing is done.

You've received information on some of the large contracts that have been awarded in the past on the west coast. It is obvious that these numbers pale in contrast to the contracts small business could carry out on an individual vessel basis. An SME shipyard could participate if it were done on an individual vessel basis.

This is a direct result of past tendering practices, which need to be fixed. We cannot afford to take the gamble to bid these contracts, as it would eat up a year's income or more. In addition, SMEs are shut out because they are told they have no experience, which is absolutely not the case. If what I've stated were the case, my only argument would be to ask you to intervene just because we are SMEs. The fact is that this is not the case. I'm asking you to intervene and help us to change this mindset at Public Works and Government Services because we are innovative, flexible, more effective, and less expensive. These are qualities that allow us to win contracts against large multinationals when we're not excluded from the bidding process.

In addition, the federal government has loaded their contracts with risks to the contractor by using design-build contracts, and so on. They should do the design, as they used to in the past, and tender it to the shipyards for a price to perform the work. The SME shipyards can't afford to carry the overhead of ship designers, so are left out of these opportunities. The multinational companies that can afford the overhead because of the volume of work they get use design-build to their advantage over small shipyards and SMEs.

• (1255)

Therefore, we talked to the federal government to see what could be done. OSME told us that this was not their file. They said it was up to Industry Canada. Industry Canada said they have no interest in seeing projects de-bundled.

OSME also said they do not set aside work for SMEs, yet PWGSC does it every day for the multinationals. In addition, PWGSC has a set-aside program for aboriginals. It is then logical—to me—that they could have a set-aside program for SMEs.

Not one department is acting in the interest of small business and the taxpayer. To me, it is obvious that the federal government needs to create separate SME policies inside the existing national shipbuilding policy framework.

I have given evidence here in the past about the SBA in the United States. Across our departments in the federal government there are many small business offices, such as Western Diversification; Industry Canada has a small business office; and we have OSME. These people should be absorbed into one area or one department that should have unyielding powers to change policies in tendering processes.

Contrary to what others have said about the IT industry, SMEs in the marine sector believe it is in the government's best interest to support them by awarding contracts directly—*now*. There is no way to restore competition and capability to the industry. We need immediate help, as their past practices have put us in a very tenuous position. At this point, the playing field is such an uphill climb for SMEs that they most likely will not survive.

Canada should pride itself on being one of the largest maritime nations in the world. There are many companies involved in this industry, with great technological innovations that are exported all over the world. Everything involving ships is produced in Canada and exported worldwide—except for ships. This is because of the importance other maritime nations place on their maritime industries.

Government likes supporting high-tech. High-tech is a buzzword. It exists in every industry sector. Some ships are more complex and high-tech than airplanes, yet the government doesn't seem to be able to wrap its mind around this; it calls it a traditional and sunset industry.

Travel to any coast, to the Arctic, etc., and you will see the importance of marine activity to our economy. We recently built ferries for British Columbia in Germany, a country with the highest labour rates in the world. A recent contract for a small ferry for the New Brunswick government was awarded to a Florida company.

The U.S. has a separate administration to deal with maritime issues, the Maritime Administration, known as MARAD. They award grants every year for small shipyards for infrastructure upgrade. The grants are used to help keep small shipyards competitive with large multinational companies. This year the amount was raised to \$98 million as part of the stimulus program. One of last year's grants went to Ketchikan shipyard in Alaska for a new, smaller dry dock. This dry dock will service some of BC Ferries' northern vessel fleet.

We need such an administration that assists SMEs. There should also be more R and D and export support for shipyard SMEs.

Incidentally, that BC Ferries work for the northern fleet is work that we do normally in our work every year. Has Canada's government decided that it should abandon the thousands of people directly and indirectly employed by our SMEs in the shipyard and marine repair industry? Is that what this procurement policy means?

I have also talked in past evidence about the federal government doing their own work. The navy has spent hundreds of millions of dollars on both coasts, putting money into their facilities. Why shouldn't they be giving money for me to improve my facilities, if that's the case? This is work that the private sector SMEs can do and should be doing. The number of personnel in the navy's own repair division on the west coast has grown by well over 200% in the last four years.

My conclusions are as follows. Due to government policies, small shipyards have closed, and more will close during this recession. The industry is becoming extremely rationalized. Canada is close to not having enough capacity for its maritime defence security and life-saving requirements. We are now to a point where it is highly doubtful that there will be near the capacity to carry out the future shipbuilding work the government has tabled. Now is the time for small shipyards to receive infrastructure and contractual support for this work so that they become competitive players in an industry dominated by the multinationals.

● (1300)

The government is quite capable of negotiating sole-source contracts with small shipyards. They do it every day with the multinationals. This is done in other countries to keep competitiveness alive in the industry. It is in the public interest to do so.

I thank you for your time. I would like to advise you that all of the SME shipyards that I have talked to are 100% behind what I am saying, and they are looking for immediate solutions. One of these shipyards is in Mr. Roy's riding. Many of our locations are in smaller cities and towns, and we are very important contributors to our local economies. If something is not done immediately, the industry and the smaller cities' and towns' economies will suffer enormously, and an already fragile supply chain will be destroyed.

Thank you.

**The Chair:** Thank you, Mr. van Wachem. All four federal parties in the House of Commons were present for your presentation here.

Ms. Hall Findlay.

**Ms. Martha Hall Findlay:** Thank you, Mr. van Wachem, and apologies from all of us for the delay in getting you on.

I'm quite struck by your commentary—what you said in your presentation and in your written submission. You cited the announcement by then Minister Fortier to support SMEs, but you said that since then there hasn't been much involvement. I'm noting in particular the comment that PWGSC held a procurement conference in Ottawa recently. You were in attendance but nobody from the OSME was there.

Clearly, there seems to be a disconnect between what you're saying and what we're hearing from the office, with respect to support for the SMEs. Can you give us some specific, hard-core recommendations, in point form, on what the OSME should be doing?

**Mr. Ron van Wachem:** I have read some of the evidence in the past that Shereen Miller has given. She talked about how a large percentage of contracts go to SMEs already. In the case of the shipbuilding and repair industry, I can tell you that on the west coast, one large multinational does about 80% of the work. That figure was before FELEX was announced and before the submarine program was announced. That figure will rise: 90% to 100% of the work will go to one multinational. OSME needs to have a mandate to look at where the government spends its money and where SMEs are missing out.

If you look at the west coast of Canada, or the east coast for that matter, there are large amounts of money spent in the defence

industry, specifically in the navy. That is where OSME should be looking at where the government spends its money. If it spends a large majority of its money in one area, then they should be looking at whether SMEs are well represented. They're not. They're certainly not well represented in the shipyard and marine repair industry.

● (1305)

**Ms. Martha Hall Findlay:** The recommendation that they look to see where SMEs are represented is valid. But here's what I'm looking for: once they find out where SMEs are underrepresented, what could they do to make some of the federal contracts more accessible for SMEs? That's the more hard-core recommendation I'm looking for from you.

**Mr. Ron van Wachem:** It's very complicated. I shouldn't say it's complicated for them to do; it's very easy for them to do. But I think that because of the dollar values of the contracts and because of what you see now, with between 90% and 100% of the marine work going to one company on the west coast and similarly on the east coast, you have such an unlevel playing field. That's what I mentioned earlier, that they really need to look at basically getting the SMEs involved in contracts as soon as possible. That may be directly awarding contracts to them and giving the SMEs work.

FELEX was an example of where they were given the work. They're giving the work to multinationals. They seem to have a problem with trying to give it to SMEs, yet they have a mandate that Minister Fortier mentioned of 40%. How are they going to reach that mandate? I don't see it, when they have 90% to 100% of it going to a multinational right now. It's impossible, unless they award work directly to SMEs. That might have to be done through the local offices, to get their input.

Also, if you look at the Small Business Administration in the United States, they have set-aside programs, where they say 25% of any large contract that's given out—for instance, if FELEX was given out, then 25% would have to be given out to SMEs. I can tell you that if the multinationals were forced to give out 25% of the work to SMEs, they would not give it to me. They would give it to somebody else and make sure that I didn't get one dime of that money. That's why a set-aside program has to be a program that would award contracts directly to SMEs or look at getting the three SMEs that have their own facilities on the west coast involved in working together to build and repair ships together. That is another possibility. That could happen on the east coast as well.

Another thing with the SBA in the United States is that the contracts are enacted in Congress, as is the size of an SME. When Shereen spoke of the size of a small company being 100 people or less and a medium-sized company being 500 or less, those numbers are actually enacted in Congress in the United States and defined by Congress. They are looked at every year, and they are done specifically for each industry. In other words, shipyards and marine repair companies in the United States have an actual number that is used. Actually, it's 1,000 there, as that's how big their small shipyards are because of the large support for them. That is a number enacted by Congress, and it's specifically done for each industry.

You can't just say that it's 100 for a small enterprise when you're not talking about what industry that might be. With 100 employees, that's actually a fairly big shipyard in Canada now because of what's happened with past tendering processes. What the SBA also does in the United States is they say that projects of  $x$  dollars and under have to go to SMEs. They define what an SME is for that industry, and then, for example, contracts of \$5 million, \$10 million, or \$20 million or less can only be awarded to SMEs and not to the large companies. That's another example of the way they do things.

We also need infrastructure support.

• (1310)

**Ms. Martha Hall Findlay:** Mr. van Wachem, my particular time is up, but I thank you very much for your participation today.

**The Chair:** Thank you.

We'll now go to Madame Bourgeois for a round.

[Translation]

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

Mr. van Wachem, can you hear me well? I believe that you are listening to the interpretation.

[English]

**Mr. Ron van Wachem:** Yes, I do.

[Translation]

**Ms. Diane Bourgeois:** Thank you.

Firstly, allow me to congratulate you on your submission to this committee. It is thorough, very understandable, and very well done. Bravo!

[English]

**Mr. Ron van Wachem:** Thank you.

[Translation]

**Ms. Diane Bourgeois:** I wish to know how long you have been doing business with the Government of Canada.

[English]

**Mr. Ron van Wachem:** It's been 25 years.

[Translation]

**Ms. Diane Bourgeois:** Have you felt the effects of contract consolidation, or heard about this?

[English]

**Mr. Ron van Wachem:** This is a problem that has been going on for many years. Now that the government has decided to spend a lot

more money on defence, arctic offshore support, the coast guard, and those types of issues, it's becoming a much more important issue to me.

We are trying to survive right now. It's very hard for us to survive, given the local economy here with fishing and forestry. The government has shut down part of the salmon fishery on the west coast with the recent Pacific Salmon Treaty. That is also affecting us, and there was no consultation with the industry.

[Translation]

**Ms. Diane Bourgeois:** In October 2007, you were invited by Michael Fortier, who was then the Minister of Public Works, to attend a meeting about his very commendable objective of granting 40% of the dollar value of government contracts to SMEs. Since then, if I understand correctly, neither you nor other businesses you know have noted any marked increase in the number of contracts awarded to SMEs in western Canada.

[English]

**Mr. Ron van Wachem:** That is correct, and I would say the situation is similar in Quebec and on the east coast.

[Translation]

**Ms. Diane Bourgeois:** Do you know the reasons why?

[English]

**Mr. Ron van Wachem:** I do not know why. I believe it should be treated with the upmost importance, given the amount of money the government is spending on this industry and the amount of money they will be spending in the future.

[Translation]

**Ms. Diane Bourgeois:** Mr. van Wachem, you are quite critical of the Office of Small and Medium Enterprises. To your mind, how effective is the office? I'm not asking you to compare it to the U. S. Small Business Administration. Do you consider it of little or no effectiveness?

• (1315)

[English]

**Mr. Ron van Wachem:** I would say they are not efficient. They need to have a mandate. They were given a mandate, and I don't see how they are going to reach it, given what they have done in the past. In the last two years nothing has happened, I can tell you that.

[Translation]

**Ms. Diane Bourgeois:** Do you know of businesses in your sector that would have had any dealings with SMEs?

[English]

**Mr. Ron van Wachem:** Nobody in our sector who I've talked to, on either coast or in Quebec, has dealt with OSME or had any benefit from OSME.

[Translation]

**Ms. Diane Bourgeois:** All right. Would you be so kind as to table with this committee the names of businesses that would have liked to deal with the Office of Small and Medium Enterprises, if you are aware of any? Of these businesses, if any dealt with the office, were any of them dissatisfied with it, or did any not obtain concrete results? This would allow the committee to judge its effectiveness and relevance.

[English]

**Mr. Ron van Wachem:** I could give you the names of many businesses. There might be too many to list. I would say that some of those businesses do not even know that OSME exists. I know they exist because they made a presentation to a forum I was at, and I saw that Minister Fortier was coming. At the recent procurement conference, OSME wasn't there, so how would they know it even exists?

[Translation]

**Ms. Diane Bourgeois:** Mr. van Wachem, I'm eternally grateful.

[English]

**The Chair:** Thank you.

Mr. Gourde is next for a round.

[Translation]

**Mr. Jacques Gourde:** Good afternoon, Mr. van Wachem. I am a member from the Quebec region, from the south shore, near Lévis. In my family, we've worked in the shipyards. My father and some of my uncles worked for Davie Shipyards. My father is now 90 years old. I am therefore well aware of the peaks and valleys this sector has been through in the last 60 years.

What you are saying is very interesting. Through the use of reserved contracts, how could... What message would you have sent to Public Works or to the government to help SMEs obtain contracts?

Over the past 20 years, Canada seems to have had difficulty being competitive in the global shipbuilding markets, as regards certain ships. I believe that in the future, the sector will recover thanks to new technologies, the quality of our workforce, government support, and the abundant availability in Canada of raw materials such as steel, which is used in shipbuilding.

What can you do to help your sector?

• (1320)

[English]

**Mr. Ron van Wachem:** Thank you very much. I'm very glad to hear that your family was involved in this industry and it's in your blood. Sometimes it can get very difficult. It's in your blood, and that's why I'm here today.

We recently built ferries in Germany, as I mentioned in my evidence. BC Ferries spent close to \$1 billion in Germany. They had one company, which was a large multinational on the west coast, that wanted to build them. They tried to have BC Ferries build them here and they would not do it. They went to a company in Germany that has been heavily supported by the government over the last 20 years. Germany looked at rationalizing the industry 20 or 30 years ago, and

I think we're almost in that kind of a state now, or we're not going to have an industry at all.

Small and medium-sized enterprises are the innovators, and what we need, what we don't have, is this cooperation among everybody in the industry and in the government to try to create an industry here that is going to be here 30 years from now. Germany did that 20 to 30 years ago, and the result is that Canada is buying ferries from Germany. Canada is a maritime nation, with over 40 ferries in British Columbia alone, just in the B.C. ferry fleet. They also have highway ferries. New Brunswick, Nova Scotia, and Newfoundland all have ferries. You have ships plying the Great Lakes waters, yet we build not one of them.

Government procurement needs to be part of that solution, and we need to target those types of vessels that the government wants, and produce vessels, so that 30 years from now we have people working in this industry producing very high-value vessels to the international markets. We can do this. We have a large tug and barge industry on both coasts; we are producing tugs on the east coast for the world market.

With government assistance and with the government will to get this industry to sit down...as opposed to having small to medium-sized enterprises fighting with the multinationals, we should be cooperating to try to produce an industry. Government procurement, by giving the work to multinationals, is hampering our ability to compete worldwide. We need to look at the shipyard industry being supported from an infrastructure point of view, from a research and development point of view, and the government needs to look at this as creating an industry, as we are a large maritime nation. We need to realize that.

[Translation]

**Mr. Jacques Gourde:** Mr. van Wachem, does the global market for shipbuilding hold promise for the next 20 to 25 years? These days, Canada is a small player, but can it take a greater market share based on these new concepts? Because really, a ship fundamentally floats on water...

[English]

**Mr. Ron van Wachem:** I think we can get our share of specialized vessels that will be built. For instance, Japan and Korea pretty well kept their numbers up internationally by specializing in vessels like liquid natural gas vessels in Korea and specialized freighter-type vessels in Japan. Certainly you see China picking up part of those markets, but you need to look at what Germany did. Germany said, what do we build and what do we need? They need naval vessels and they need ferries in their local economy, so they became very good at that.

We can do that in this country. We can build certain types of navy vessels. We can look at the SMEs and the multinationals being involved together over the next 20 years, with the help of government procurement and with the help of government, and we will be able to compete internationally, yes.

•(1325)

[Translation]

**Mr. Jacques Gourde:** Thank you very much. I know that the committee will take note of all of your recommendations.

[English]

**The Chair:** Thank you.

I'll turn to Mr. Bagnell now.

**Hon. Larry Bagnell:** Thank you for coming.

I wonder if you could tell us if there's any difference or weaknesses in military procurement as opposed to regular procurement of boats or coast guard procurement of boats.

Just some background in relation to northern military boats, the government has been ordering or not ordering.... I guess it was a bit disconcerting when the Prime Minister said he was going to order three icebreakers and then cut it back to one; they said they were going to order ice-strengthened supply ships and then cancelled that order.

What about the northern patrol boats? Are you getting some of that business for the northern patrol fleets? I know they can only go through one meter of ice when there's six meters.

**Mr. Ron van Wachem:** No, we just can't bid on these contracts. They're far too large, and that's the issue. We should be benefiting from all these contracts. For the past contracts that were awarded, like the FELEX, the mid-life upgrade of the frigates, we should have received part of that work. That's \$400 million on the west coast. We've already got 80% going to multinational. Why should it now be more? What do they want it to be, 100%? That's what's happening. The submarines are getting worked on out here. A \$1.5 billion in-service support contract was just awarded. I'm not going to get a dime of that.

For some reason there's no interest in Public Works to be looking at the playing field they've created and how they're going to fix it, because it's so unlevel right now.

**Hon. Larry Bagnell:** Do any of the recent free trade agreements, or the ones under negotiation right now, have any affect on you?

**Mr. Ron van Wachem:** Yes, they will, I believe. At some point, I think we'll see oil and gas, the exploration at least, or seismic activity, happen on the west coast. I'm worried that if there's something signed with Norway, we may have Norwegian vessels being built and sent to Canada, especially when our small and medium-sized enterprises have been so hurt on the west coast because of government procurement. It's one of the only building programs we see on the west coast right now due to the local forestry. There are no tugs or barges being built here right now. It is very disconcerting that we might have Korean or Norwegian vessels coming into Canada when oil and gas picks up on the west coast. We're hoping that doesn't happen, and we would like to see the government talk about those types of issues with us.

**The Chair:** Thank you, Mr. Bagnell.

Seeing no further questions, I'm going to thank you, Mr. van Wachem, for the candour and thoroughness of your brief. It's great to hear the perspective of the west coast on this.

I've taken note of the likely recent completion of a study by Industry Canada on west coast shipbuilding and repair with reference to SMEs. And there was a lot of interest around the table; I can say that as well. In the House of Commons there was definitely an appetite for shipbuilding issues right around the country.

I want to thank you very much. I'm sorry we were a little delayed in getting to you, but your submissions are very helpful to us, and we thank you again.

**Mr. Ron van Wachem:** Thank you very much. I appreciate your taking the time.

**The Chair:** Looking around the table, I think we can wrap up. Thank you.

The meeting is adjourned.

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