



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Government Operations and Estimates

OGGO • NUMBER 011 • 1st SESSION • 41st PARLIAMENT

EVIDENCE

Thursday, October 20, 2011

—
Chair

Mr. Pat Martin

Standing Committee on Government Operations and Estimates

Thursday, October 20, 2011

• (1530)

[English]

The Vice-Chair (Hon. John McCallum (Markham—Unionville, Lib.)): I would like to call this meeting to order, please.

Today we're continuing with our study of the effectiveness of the Office of Small and Medium Enterprises and the Canadian innovation commercialization program.

I would like to welcome our witnesses. We have representatives from four organizations: Amika Mobile Corporation; Canadian Business Information Technology Network; Sage Data Solutions Inc.; and the University of Sherbrooke.

I would like to ask each of the witnesses to give us an introduction for five to ten minutes. Then we will proceed to questions.

Sue Abu-Hakima is not here. I would ask Cathy McCallion of the Canadian Business Information Technology Network to take the floor. Welcome.

Ms. Cathy McCallion (Board Member, Canadian Business Information Technology Network): Thank you.

My colleague is going to begin.

Mr. Jeff Lynt (Former Chair, Canadian Business Information Technology Network): We have a two-part speech. It was designed for me to start, if you don't mind, Mr. Chair.

The Vice-Chair (Hon. John McCallum): That's very good.

Mr. Jeff Lynt: Good afternoon. My name is Jeff Lynt.

The Vice-Chair (Hon. John McCallum): I'm sorry. There is one procedural thing I forgot to mention. We have a motion by me on the agenda, but since I'm chairing, we'll defer consideration of that motion until next Tuesday.

Mr. Lynt, please proceed. I'm sorry about that.

Mr. Jeff Lynt: Thank you again, Mr. Chair.

Good afternoon. My name is Jeff Lynt. I'm the past president of the Canadian Business Information Technology Network, also called CABINET. With me is Cathy McCallion, also a fellow CABINET board member.

Our CABINET may be slightly less influential than the other one that meets here on Parliament Hill, but nonetheless, we're here to speak today.

We represent about 100 small and medium-sized businesses in the IT professional services sector. Most of the companies are based in Ottawa.

I own a small business in Ottawa, and we employ people, provide innovative solutions, and retain a very satisfied group of clients in the government and private sectors. A couple of years ago we were also named the fastest-growing IT business in Ottawa by *Ottawa Business Journal*.

CABINET is not here to criticize. We feel that there are a lot of things OSME is doing well. However, as with any organization, there are opportunities to improve, so we're here to present solutions to what we see are some issues with the way OSME presently functions.

There are many challenges SMEs face. Those that offer products and services to the government want something simple: fair access to government contracts. Let us compete, and we'll be happy. Let us have the chance to prove we can do the job, and we'll be satisfied. Give us an opportunity to help the government be more effective and save money, and we'll do so. Simply put, that is what we really need.

Let me be clear. We do not want set-asides for small companies. We do not want special deals. We're not looking for made-for-SME solutions. We want to compete with large companies. In most cases, SMEs win contracts against large companies based upon their lower prices, innovation, flexibility, and capacity to adapt. To do this, we have to be allowed to compete, and on occasion, contracts are bundled in order to stop SMEs from being able to compete.

There are other ways to exclude SMEs, such as the request for references going way beyond the level of the contract. A lot of excuses are used, but for the real fact, it is the intent to stop SMEs from competing, because some bureaucrats mistakenly believe that it is easier to deal with one organization than a few companies.

It doesn't hurt that hundreds of lobbyists representing large companies spend their time meeting with senior bureaucrats to convince them that only they can be part of the solution. We don't have these resources.

We need OSME to be more effective when it comes time to convince senior managers that SMEs can provide them innovative solutions at lower costs. We don't want it to be just an advocate for SMEs, or a public relations effort for the government. We want it to be a real proponent for SMEs. It should facilitate contacts. It should help us to be present when senior officials plan for large projects in order for us to provide them with information on how we can help. It should be more active. It should be independent from the procurement side of Public Works and Government Services Canada.

Big changes in government departments are happening today with the creation of Shared Services Canada. The plans are being drafted, actions are being taken, and large companies are jockeying for position.

We would like to see OSME facilitating meetings with SME associations and the leadership of Shared Services Canada in order to make sure that contracts are structured in a way that SMEs can provide their services to this new agency. We're not interested in a few token contracts, but rather, in the ability to provide real solutions to this great initiative. Again, we want it to be a fair, open, and transparent process for SMEs.

As for OSME'S role, we know they're trying, but they need to have a louder voice. When we talk to senior procurement officials and senior IT officials, they tell us OSME is not on their radar.

Mr. Chair, some people may view this as an Ottawa-centric issue, with which they're tired of dealing. We heard that comment last time this committee met, while someone was getting coffee. At that time, one of the members of the committee mentioned that he was tired of dealing with this Ottawa-centric issue.

If all contracts are given to large integrators, then yes, Mr. Chair, this will become a very Ottawa-centric issue. There won't be any of us left to make presentations and no small companies to provide solutions to Service Canada offices in Winnipeg, which is the riding of the chair, who is not here today. The small businesses in his riding will not be successful in winning contracts, and in that riding, they won't be able to defend themselves either.

They may not be as vocal as we are, because they're far from Ottawa, but the impact on their operations will be as serious if contracts are bundled and OSME isn't there to make a strong case for SMEs.

• (1535)

We want to continue to employ people in all of your ridings. We want them to continue to be part of the regional economic development framework.

Thank you.

Ms. Cathy McCallion: Mr. Chair, my name is Cathy McCallion, and I also own a small business here in the Ottawa region. I also hope to have my company continue to grow, prosper, and do more for our country.

We are known for the quality of our work, and our team quickly gains respect from our clients when we win a new contract. We commend Shereen Benzvy Miller and her team at OSME for the work they do. This is not an attack on their office; however, their

mandate is too small, and they report to the wrong people to be effective.

In the brief we presented to this committee, we made several recommendations designed to strengthen OSME and make it more relevant.

OSME should be moved from Public Works and Government Services Canada and placed at Industry Canada so the head of OSME can report directly to the Minister of State for Small Business and Tourism.

The new OSME, as we see it, should be given real powers and tools to effect changes.

The new OSME should help the SMEs to foster relationships with senior government bureaucrats in the various branches of government to allow them to understand the role that SMEs can play.

OSME should be a real advocate, not only with PWGSC procurement officials, but also with the senior bureaucrats who work on the development of projects, to make sure they will include SMEs in their plans at the early stage.

We also believe that government should attempt to enhance the senior leadership at OSME by choosing individuals with a small business background.

Finally, OSME should attempt to build a group of advisers comprised of organizations representing only SMEs to help it shape its annual plan on activities and research.

OSME should not be a public relations agency. It should be a real agent of change. It should be a positive influence on the government decision-making process when it relates to SMEs.

Mr. Chair, we believe that OSME has a role to play—a greater role. At this point, it is not working for SMEs.

This week is Small Business Week. Small businesses are a powerful driver of our economy and employ millions of Canadians. Their contributions are more important than ever, given the fragile state of the global economy. This isn't me saying this. This is the Prime Minister saying this, on Sunday, October 16.

If SMEs are important to Canadians and to this government, let's make sure it proves that by making the necessary changes to strengthen the organization that it created to help these SMEs.

Thank you for your time.

• (1540)

The Vice-Chair (Hon. John McCallum): Thank you, Ms. McCallion and Mr. Lynt, for that very clear presentation.

I wonder if Ms. Abu-Hakima would like to make an opening statement of five to ten minutes.

Thank you.

Dr. Sue Abu-Hakima (Chief Executive Officer, Amika Mobile Corporation): My name is Sue Abu-Hakima. I am the CEO and co-founder of Amika Mobile Corporation. This company in its current form was founded in 2007. This is my second start-up, my second company, and my second SME. The first one was built up as a compliance company. It was acquired by Entrust and had 18 patents behind it.

My companies have contributed over \$18 million to the local economy in investments and revenues and have created approximately 200 high-tech jobs. According to OCRI, that resulted in four spin-off jobs per high-tech job for a total of 800 service jobs.

My current company is self-funded, funded by angel investment, and focuses on emergency mass notification. It has had approximately \$3 million worth of investment since its inception. Members of our current team are all angel investors, so our team are committed to the company. We are raising \$1.5 million in this poor investment climate and find that there is definitely an absent venture capital market. Only 4% of companies ever get venture capital, and female-led ventures get 0.1%. That's very little, but that's another story altogether.

We've had an excellent channel to market in the United States through the PSA Security Network, with over 300 system integrators in the United States focused on security, as well as our recent integration with the UTC-Chubb-Lenel folks and their OnGuard system for access control, fire panels, etc. That allows us to receive direct sensor input so we can save people's lives.

At a recent U.S. security trade show, over 80 customers came up to us, from a lot of blue-chip companies looking for our capability, and 120 channel partners have asked to sell our products. Of course, we can't deal with all of this, because after all, we're but an SME.

We've won 12 awards. We've won four for innovation in security over other international players. One was judged by FEMA and emergency management folks in the United States. IDC has named us one of their 10 companies to watch, and we're part of the Branham 300.

We have innovative and unique technology. With this company, we now have 12 patents. I'm happy to say that our second U.S. patent has been granted.

What we can do is automatically discover wired and wireless people. For example, we can discover your mobile devices in this facility without having your e-mail addresses. So if there is an emergency at the airport, a shopping centre, in a hospital, on a campus, etc., we can reach you and save your life.

Let's talk about government programs. We've benefited from government programs, of course, such as SR and ED, Precarn, and IRAP. IRAP has been a godsend. So has SR and ED.

We have supported universities and colleges through collaborative research funded through the Ontario Centres of Excellence and NSERC to help train students and make professional research more relevant. I'm on the boards of both. I'm actually the vice-chair of the board of directors of the Ontario Centres of Excellence, and I'm on

NSERC's private sector advisory board. I really don't have time, but I do this because I'm trying to help the community.

Over the last 12 years we've responded to at least 30 RFPs from the Government of Canada. We have not won a single one. Even in our first company, which was a compliance-based company with content analysis, our products were always selected as the top technical innovative products in an RFP. However, we were never awarded the contracts. The reason for it, I have to tell you, is that we're an SME. It's that simple.

Once Entrust acquired our compliance business, where we were selling a compliance server that can look through your e-mail and tell if your secrets are being sent out, the Government of Canada then bought the product and bought a site licence for over 250,000 government users for several million dollars. But they did not buy this product from us as an SME. The technology was obviously good enough for the government, but not from an SME.

Last year we found out about OSME—and thank you very much for setting it up—and we immediately signed up for their excellent training. They then announced the CICP. I've spent 13 years being an entrepreneur and, in my opinion, CICP is a fantastic idea. It is the natural next step in getting innovative technology into trials in government departments, especially for a company like ours that has leveraged IRAP, SR and ED, and other government grants.

While in trial with the testing departments at CRC, our product for emergency mass notification was able to successfully evacuate buildings in a haz-mat type of emergency at Shirley's Bay. There's no better proof that this is a good product. This product has given us our first customer and what would be considered our first significant revenues. It'll also give us feedback on the product so we can improve it for all these other customers who are asking for it.

•(1545)

The other thing about CICIP is that it has also really helped to us understand the PWGSC process for contracting, which in itself is a full-time job. I spent four months, full time, working on the CICIP contract. In any case, in round one, over 375 companies applied. Amika Mobile was chosen as one of the 26 that was awarded. With a pool of only \$4 million, this is a very small amount of money from a government procurement perspective when the government spends billions and billions of dollars annually on large companies like IBM and CGI.

The CIC program, which I understand is \$40 million over three years, should be expanded, in my humble opinion, to at least \$250 million. Canada has over one million SMEs, small and medium-sized enterprises of our size, that contribute a good chunk to the country's tax revenues, and they need to be better leveraged for Canada and the government departments to become more innovative.

CICIP at OSME should become the gateway program for innovative SMEs to enter the federal government and be guided to various departments that can procure their products.

Thank you very much.

The Vice-Chair (Hon. John McCallum): Thank you very much, Ms. Abu-Hakima.

Now we'll go to Mr. Rivenell, please.

[*Translation*]

Mr. John Rivenell (President, SageData Solutions Inc.): Good afternoon. My name is John Rivenell. I arrived in Canada at the age of 35. It is therefore difficult for me to speak to you in French, and it would be even more difficult for you to understand me. That is why I will speak in English. I apologize.

[*English*]

I'll introduce you to my company, a little bit to me, and to our experience with the CIC program, or CICIP. This will set the context for any questions you may have, so you can better understand our answers.

My company, SageData, which is my second company, has been in business for 20 years. We're based here in Ottawa. Up until some years ago, the majority of our clientele was with Nortel, Alcatel, JDS, and so forth. When they disappeared, it was a bit of a bump for us.

But we survived that and we're still here. Our major clients include pretty much every part of the federal government. In fact, the TVs in the corner have my bar codes on them; we're tracking your assets here. We have a couple of other projects going on with the House of Commons and the other place, as I believe you call it, which also uses our kit. DND, RCMP, and Atomic Energy of Canada use our systems.

What are our systems? We build on three base technologies: mobile hand-held computing, bar code technology, and radio frequency identification, i.e., the magic chips that tell you where you are. This business naturally leads to materiel management applications. Within the federal government, that would be IT

tracking. When Nortel was here, we had a bar code on every computer in the national capital region.

To move on, for the RCMP, we supported them through the Olympics and through the G-8 and G-20. As well, our systems are in Kandahar with the troops. We have a wide range of systems everywhere from Agriculture Canada through the alphabet to the Wheat Board, with hundreds of government installations. That's a little bit about the company.

The thing we found, especially with the high-tech sector disappearing, is that we're okay. We're a company that can survive and we're profitable. This year has actually been a good one for us.

But there's been a problem of breaking out. A lot of clients come to us with specific requirements, and we think that if only we had the time and the money, we could make some changes and sell to a wider audience. We're a small company and totally self-funded. I started the company on a cash advance from my VISA card some 20 years ago. It's difficult for us to find the time and money to move out. That's why this program is very attractive to us.

I'll tell you little bit about me. I would be a professional engineer in Canada, but I was educated in the U.K., so I'm a chartered engineer. I'm also a member of the Institute of Quality Assurance. In addition, we're members of the Institute of Asset Management. In fact, I'm a contributor to their national magazine. That's a U.K., European, and Australian concept that has not yet come to Canada. I think it's coming. My background covers all of those areas. I guess my prime job is running the company and making sure we have the funds for the new projects.

Let me turn to CICIP. GTEC was yesterday, as we've come straight from GTEC. Our first contact with the CIC program was about one year ago. The big-picture story is that I'm quite happy. I think this is a good program. It's excellent. We found out about it one year ago. We had to move quickly, because we found out about it a little too late, so we moved very quickly to get our application in. I think we first heard about the program in October and put in an application in November. We got a verbal say-so around January or February, or maybe in February or March, and I think the final documentation was cleared by July.

So yes, there's a lot of paperwork, and yes, it was kind of a horrendous process. If I'd had to do it, I think I wouldn't have done it, but I have someone in my company who enjoys doing this sort of work, so he ran with this project and ran it through. We've had excellent support from the small business office, from the folk on the other side of the wall, and a lot of conversations with PWGSC. I think there were some bugs in the process, but first time around, that's to be expected, so I have no criticism. We also have very good feedback, in that people are asking us to tell them how it went and what they can do better next time.

So kudos to the people who are running the program. I think it's very good.

Where are we now? Our first test department, as it's called under this program, is the Correctional Service of Canada. I'm going to jail next Thursday, I believe, to install one of our systems there. We'll make sure that all the folk who are our guests—is it still “guests of Her Majesty”?—are served food that is safe. That's part of the program.

● (1550)

Where do I think it's going? I'm very pleased about this because it does give us the opportunity to break away from the sort of hand-to-mouth existence a lot of small companies have, and it gives us a little bit of strength to plan for the future and to make some investment.

What practical difference does it make on the ground? I have more people working for me today, I am paying wages, and I guess you guys are taxing these folks, so you get a little bit of money back as well. That's all working well. We look forward to good things in the future from the program.

In listening to this today, there was one extra thought that occurred to me after I arrived. With regard to government funding of business, I would not be here were it not for the Canadian government's attitude towards business and its support. I worked for a British multinational. We had a vendor in Ottawa that was in trouble. We came across... We didn't know whether to pull the plug and walk away or quite what to do.

We had the Foreign Investment Review Agency, which some of you may remember, and without wishing to poke fun, I had two meetings, one in the morning when the Foreign Investment Review Agency said, “We're not going to let you support this company because you're foreigners and we don't want your money”, so I was ready to go back to England. But in the meeting in the afternoon, Industry Canada said, “If you don't save them, no one else will, so here's a quarter of a million dollars”. If Industry Canada hadn't coughed up, we wouldn't have saved that company. We saved 30 jobs. And as for what was supposed to be a three-day business trip... you still have me here all these years later. I would not be here today if it were not for government support for industry.

Thank you.

That might not be a good thing, of course.

Voices: Oh, oh!

The Vice-Chair (Hon. John McCallum): No, you're most welcome here.

Thank you, Mr. Rivenell.

Last but not least, I have Professor Hanel, please.

[*Translation*]

Mr. Petr Hanel (Associate Professor, Département of Economics, University of Sherbrooke): Mr. Chairman, ladies and gentlemen, allow me to begin by thanking you for inviting me to take part in the work of this committee.

I will begin by introducing myself. I have a combined background in engineering and economics. I have been teaching economics at the University of Sherbrooke since 1971. I am currently retired, but I am still active in the area of research, which I supervise and which is carried out by my students.

I am a regular member of the Interuniversity Research Centre on Science and Technology, which goes by the acronym CIRST. I was a member of the Advisory Committee on Science and Technology Statistics at Statistics Canada from 1992 to 1999, that is, for a period of seven years. Since 2006, I sit on a similar committee at the Institut de la statistique du Québec.

As a professional, my main area of interest in research is the economy of technological change, focused more specifically on two interconnected subjects: the evaluation of the economic repercussions of research and development, innovation and the dissemination of new technologies, and the evaluation of public support for research and development and innovation. I imagine this is why I have been invited to appear before the committee today. Again, thank you very much for having invited me and for the confidence you have expressed in me.

Before answering your questions, I cannot resist the temptation to yield to my instinct as a professor, and to say a few words which, I hope, will help put the Canadian Innovation Commercialization Program into the context of a policy supporting the creation and dissemination of new technologies.

From an economic point of view, the main justification for public support for the creation and dissemination of technological change is based on the fact that if left to market forces alone, individuals and businesses would not invest as much as would be desirable for the good of society. Why?

First, these are very risky activities. It is impossible to find insurers who would insure the risk inherent in innovation. It is therefore difficult, if not impossible, for small enterprises to find financing on the financial market.

Second, even if small businesses manage to market their new product or process, innovators do not get the full benefit of their innovation for at least two reasons. In fact, there are several reasons, but the two main ones are that, first, they are often pre-empted by competitors, which drives down price and allows the imitators to grab a share of the innovator's profits; and, second, consumers, who may be other businesses or households, benefit from the situation by paying less than the real economic value of the invention. The other reason is that society as a whole benefits from the dissemination of new technologies, which increases everyone's productivity, well-being and general standard of living.

Therefore, public support for innovators closes the gap which exists between the benefits to innovators and the greater benefits for society.

Depending on their objectives, there are two types of programs to help support innovation.

The first one seeks to stimulate the offer of innovations by subsidizing part of the innovation. In this case, there are two categories: subsidies or other means of paying for direct costs, and indirect support in the form of tax incentives, such as the Scientific Research Experimental Development Tax incentive Program.

The second one seeks to stimulate demand, which leads us to the subject at hand.

• (1555)

One of the objectives of this type of program is to encourage the government to buy, which has at least two main advantages. The first objective is to reduce the risk for eventual buyers, who could be from the private sector or from the public sector. The second objective, perhaps more important, is to show that the new technology has lived up to the promise of its creators.

Since the 1980s, Canada has gradually reduced its subsidies and instead implemented tax credits, perceived as being more neutral and less subject to often misinformed bureaucratic decision-making. The actual result of this policy choice is that Canada leads all industrial nations in having the most generous tax credits. Indeed, tax credits reduce the after-tax cost of each dollar spent on research and development to about 50¢, and this figure can be even lower for small companies.

However, this policy, which aims to stimulate the offer of new technologies, has not met its objectives. Our business sector has fallen to the 20th place in world rankings for spending on research and development. The common diagnosis is that there is not enough demand for new technologies and innovations in Canada. The Canadian Innovation Commercialization Program seeks to stimulate demand for innovations through government buying. Similar programs with far greater resources have proved their mettle long ago in the United States under the Small Business Administration, as well as in Japan, Germany and other countries.

The Jenkins report, entitled "Review of Federal Support to Research and Development", which came out on Monday of this week, on October 17, recommends a fundamental reorganization in the way Canada supports research and development, and innovation. As you probably already know, one of the recommendations says:

Make business innovation one of the core objectives of procurement, with the supporting initiatives to achieve this objective.

More specifically, the report recommends making the CICIP permanent, and increasing its resources to stimulate demand, thus making the government the first entity to use new technologies and products.

I completely support this recommendation.

Thank you for your attention.

• (1600)

The Vice-Chair (Hon. John McCallum): Thank you very much.

We will now move on to questions. Each of you has five minutes, including answers.

We will begin with Mr. Ravnignat from the NDP.

Mr. Mathieu Ravnignat (Pontiac, NDP): Thank you, Mr. Chairman.

First, let's just remind ourselves of the context. As members of the opposition party, one of our important roles is to ask whether programs are doing what they are supposed to be doing, and what can be done to improve them. It is in light of this context that I will ask my questions.

My first question is for the representatives of the Canadian Business Information Network, CABiNET.

First, thank you for being here. I am very pleased to hear from you. What you have said is very interesting.

You explained how the office could do more to encourage SMEs. Ms. Shereen Benzvy Miller testified before the committee, I believe it was last week. I asked her a question with regard to the definition of a small and medium size enterprise. She replied that an SME was defined as being a business with 500 employees or fewer, regardless of business revenues.

Do you think that the government should change the definition in order to reach more SMEs?

[English]

Mr. Jeff Lynt: I'll answer that. Certainly, I think, the larger the organization, the better the opportunities they have in the federal government. I've always kind of chuckled at the definition, because 500 employees is a fairly sizable organization, in my opinion. It's certainly a lot bigger than my company. I wish to be that big some day.

I would hope that Shereen is focusing her efforts on all small and medium-sized enterprises. My opinion is that in the past their voice has not been loud enough for us smaller companies. I don't know if, in her explanation to you, she is satisfying those 500-sized companies, but I would hope that she is trying very hard to satisfy the small ones too.

[Translation]

Mr. Mathieu Ravnignat: I can tell you that she did not distinguish between a tiny company and one which employs 500 people. I can confirm that.

If we do not have a definition that takes into account business income, in your opinion, does this provide an advantage to companies that have the financial resources to apply for government funding, for instance, by hiring people to make these applications?

[English]

Mr. Jeff Lynt: Clearly, I think, the larger the company, the more opportunity they have. I mentioned specifically in my remarks that the large companies employ lobbyists who have a tremendous amount of influence in government and among senior bureaucrats. The more revenues you bring into your company, the more opportunity you have to do this kind of stuff. That's why we would like the OSME to be a louder voice for us.

• (1605)

[Translation]

Mr. Mathieu Ravnat: Do I have any time left?

The Vice-Chair (Hon. John McCallum): You have a minute and a half.

Mr. Mathieu Ravnat: Fine.

My next question is for the professor. First, thank you for being here.

You mentioned that the United States were investing more effort in research and innovation. Over the last 10 years, did you see a trend within government to reduce investment in basic research, which is necessary for innovation?

Mr. Petr Hanel: It is clear that after the period around the year 2000, that is, after the speculative Internet bubble burst, research and development in Canada fell, especially in the private sector. This was partly compensated by an increase or a levelling out of research and development spending funded by the federal government and in part by the provinces, for post-secondary institutions.

However, the problem is that the private sector generally decreased its spending as a proportion of GDP. So there was less research and the situation in Canada worsened compared to the way it had been 10 or 11 years ago.

Mr. Mathieu Ravnat: Therefore, in your opinion, should it be the role of the government to fill that void?

Mr. Petr Hanel: In my view, one of the problems is that the government cannot effectively replace the private sector in every area of activity where the private sector should be taking the lead. The problem lies much more with the private sector rather than with any attempt on the part of the government to support it.

The report I mentioned, the Jenkins report which came out earlier this week, contained recommendations that call for a significantly different approach with regard to federal support for research and development.

Among other things, the report recommends not only that the program we are talking about be maintained, but also—

The Vice-Chair (Hon. John McCallum): Thank you. I apologize, but you have run out of time.

We will now move to Jacques Gourde.

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

I would like to thank the witnesses for having travelled to be here with us. We are always pleased to hear from small and medium enterprise owners, who are key actors in our country. You are the economic engine of Canada, and we are very aware that, without all of your work and all of your efforts, we would not be one of the best countries in the world.

Our government created the Office of Small and Medium Enterprises to help you and to support you. We also have the Canadian Innovation Commercialization Program. Further, we have just created a new tax credit to help small and medium enterprises hire employees.

My question is for all five witnesses, for those of you who have had the opportunity to use the services of the Office of Small and Medium Enterprises, and of the new Canadian Innovation Commercialization Program. Can you explain to us how the office and the program helped you grow your business?

[English]

Dr. Sue Abu-Hakima: Certainly, we've used both OSME and CICP, and for OSME, it was just to get educated on the programs of PWGSC. You have to remember that I started my first company in 1998. I did the exit to Entrust in 2004. In those six years, there was no help in terms of understanding the procurement process of the government. We tried again and again to respond to these RFPs and got nowhere. OSME certainly helped us understand what a standing offer is, how to get a supply arrangement, and how to do these task-based services and processes. We had no idea about any of these programs. That's where the OSME role was very important.

CICP was a different role for us. To us, CICP is part of OSME and is really trying to get Canadian innovation into the government. They had such a flood of applications for the CIC program, so that tells you that there is demand and there is a requirement.

SMEs are not considered to be very innovative; however, they are innovative, and the CIC program demonstrates that SMEs are innovative. From that perspective, I think you do need an overseer for CICP. I don't necessarily agree that you should be moving it off to a different department altogether, but I think you should absolutely strengthen and better fund the CIC program so that you have the right calibre of people who are going through these reviews, evaluating innovation and so on, and then bringing it to the federal government.

• (1610)

Mr. John Rivenell: We've been in business for 20 years. Probably half our business is with the federal government and half with the private sector. We've learned from the university of hard knocks how to deal with the federal government.

We first had contact with OSME around 18 months ago and we've had a couple of sessions where we've had questions that were addressed to them. But the CIC program is the first time we've had any real interaction, so there's not a lot that we've had before, in answer to your question.

We were also involved with SR and ED, which ran for many years, and IRAP, which we only recently became involved with.

One general point I would make is that dealing with these programs with the federal government is extremely complex. We looked at IRAP some years ago, got some incorrect information, and concluded that there was nothing in IRAP for us. So we probably missed out on seven to ten years of IRAP support on the basis of that first incorrect information. There are a lot of good programs out there. It is very difficult, from our point of view, to go digging.

To put it in a different sense, if I have a potential client over here with \$25,000 in his hand, and over here there is someone in the government with whom, if I spend time, I may be able to get something from, my natural instinct as a businessman is to go for the business client and take the money there.

So it would be good if we had a better means of getting information out, and OSME is probably going to do that.

Mr. Jeff Lynt: From CABiNET's perspective, I think the vast majority of our members have a lot of experience in selling to the federal government, our issues haven't been, until this point, what we feel OSME's mandate has been: to attract new companies and teach them.

I, too, remember trying to learn the ways of selling to the federal government, about 10 years ago, and it was very, very difficult, so I commend that. I think it's fantastic. It doesn't help me anymore. It would have helped me 10 years ago.

What we're interested in right now is having a louder voice for SMEs, specifically in making sure that SMEs are not looked at as a negative to purchase products from. As the old saying goes, nobody ever got fired for hiring IBM, and we'd like to have the same thing said about SMEs—

The Vice-Chair (Hon. John McCallum): Thank you. Excuse me. We've run out of time.

We'll proceed with Monsieur Boulerice.

[*Translation*]

Mr. Alexandre Boulerice (Rosemont—La Petite-Patrie, NDP): Thank you very much, Mr. Chairman.

I would also like to thank the witnesses who travelled to be with us today.

My first question is for you, Professor Hanel. You indicated earlier that Canada now ranks 20th with regard to investment in research and development. I was surprised to hear this. I feel that this ranking does not reflect the standing a G7 country should have in the world.

Notwithstanding the fact that I find it unfortunate that we are trailing in research and development, I would like you to take a few moments to explain the consequences of this situation on the Canadian economy and for our SMEs.

Mr. Petr Hanel: I have to point out that we ranked 20th for spending on research and development by the private sector. This is an important distinction, since Canada is one of the countries where the public sector spends more than average. The problem is that the way it spends is not necessarily always effective.

The consequences of this situation are already serious today, but they might become even more serious in the future.

When we compare overall investment of countries in research and development as a proportion of GDP, China, for instance—I am referring to greater China, that is, the Popular Republic of China—is not too far from Canada. Korea probably invests more than we do, not to mention smaller countries like Israel and Singapore.

Not only are we in a weaker situation compared to other G7 countries, but it is becoming increasingly weaker compared to countries which have become fierce competitors in the area of international trade.

• (1615)

Mr. Alexandre Boulerice: My next question is for the representative of CABiNET.

Your written presentation was more forceful than your verbal one. In it, you compare the Office of Small and Medium Enterprises to a public relations agency which does not really protect the interests of SMEs. I would like to hear more from you on that.

It also says that "some governments have, on occasion, used procurement vehicles to stop SMEs from bidding on even smaller projects."

What exactly do you mean?

[*English*]

Ms. Cathy McCallion: Unfortunately, some procurement officers see SMEs as difficult to work with. They like to work with one organization. In our experience—Jeff and our colleagues at CABiNET—we often come up against references that basically forbid us from going forward to respond to these RFPs. It makes it very difficult for us to compete.

What we would like to see happen at OSME is for us to have a voice to represent the small organizations. It would bring our concerns forward and fight on our behalf. When you're dealing with procurement, we want a voice. It's not to say that we need special treatment from procurement. All we want is to be able to compete against these larger organizations.

We keep our overhead low. We are very effective in keeping our costs low, and we are very, very competitive and innovative, and we want to be able to present our ideas going forward.

[*Translation*]

The Vice-Chair (Hon. John McCallum): Mr. Boulerice, you have 15 seconds left.

Mr. Alexandre Boulerice: Would you like to add something, in a couple of words?

[*English*]

Mr. Jeff Lynt: It is just that if the bar is set too high, we won't have an opportunity to bid, and we are seeing that more and more. Again, I refer back to the lobbying effort to convince senior bureaucrats that it's better to go with one throat to choke than it is to have a distributed model, and that is coming through in procurement.

Just yesterday they talked about this fed cloud; I guess what's old is new again. They called that managed services when I started in this business. I recall a—

The Vice-Chair (Hon. John McCallum): Thank you, Mr. Lynt. Sorry, but we're out of time again.

We'll go to Kelly Block.

Mrs. Kelly Block (Saskatoon—Rosetown—Biggar, CPC): Thank you very much, Mr. Chair.

I thank our witnesses for being with us here today. I want to join my colleague in recognizing that this is Small Business Week. I want to take the opportunity to acknowledge the hard work and dedication, as Ms. McCallion pointed out, of small business owners and entrepreneurs.

As we have been doing this study, we've learned that OSME was created with the main purpose of giving small and medium-sized enterprises access to government procurement in a number of ways: by reducing procurement barriers; by simplifying the contracting process; by providing training and education—I think that was mentioned; by collaborating to improve procurement policies; and by working to ensure that the concerns of small and medium-sized enterprises were brought forward and heard.

My questions are for Mr. Rivenell and Ms. Abu-Hakima. I am wondering, judging from your opening remarks and keeping these objectives in mind, if you think OSME is fulfilling its mandate.

• (1620)

Dr. Sue Abu-Hakima: I think on one side they are, but I must admit that I didn't know about OSME. I started my second company in 2007. We only met up with OSME at about the same time as the CICP hit, or maybe a month before, in October 2010, and I think we went to the course in November 2010.

The landscape in Canada has not really changed. The markets essentially were topsy-turvy in 2008 and 2009. In 2010, we said that maybe we should do some services work for the government as our products catch fire in the market with customers. That's when we started looking at the whole procurement thing.

My experience with government now is as an entrepreneur for 13 years, and I still think it's very difficult for SMEs to sell products to the government. I think a lot more could be done to help SMEs navigate and understand how to win some of these contracts, but that would be my....

I'm sorry. It's a mixed answer and a little bit political.

Mr. John Rivenell: Okay. I have a lot to say and not much time to say it in.

I love OSME. They're very helpful, but they are guides. There's a jungle out there, terrible stuff is going on, and they will help to guide us through, but they can't do anything about the bad stuff that goes on.

I'm here and I don't wish to sound impolite about the federal government, but the procurement is a total mess. I mean, we have a DISO program, and for most of our clients, we, as a private sector company, are explaining to them how the DISO program works. We actually had a situation yesterday where we had a DISO in and it was

filled out all wrong. We go back to the clients and say that they didn't fill it out right, and they go, "Oh, yes, we did, we have authority for \$500,000". I go, "Yes, but not for DISO". Well, I don't do that, but I got one of my people to say it.

OSME are very sympathetic. They're a bit like the therapist who sits down and goes, "Yes, it's awful, isn't it?" I go, "Yes, it is awful".

Voices: Oh, oh!

Mr. John Rivenell: But there's not much they can do, because they don't have the power to change stuff.

Don't get me started, but when HST came in, I took a pay cut. Why? Because my clients will not buy anything for \$26,000. They will buy up to \$25,000 and above \$100,000.

Above \$26,000, we have NAFTA. We have to do all this paperwork. It will take two years. The first thing we have to do is get an expert in to help us write the RFP, and that's going to cost us \$23,000. It always does, because he has this magic \$25,000 thing.

So I got a client a little while ago. I said: "You've got a problem, I've got the solution, it's \$40,000, and you can't buy it. You cannot buy it." I've had a DISO for 10 years. I've only once got it through, and it took me three years. I don't even try to sell stuff for \$40,000. I just say, "You can only spend \$25,000, this is all I'm going to sell you, and don't waste your time".

Now OSME is great, and I go, "Maybe you can do it on a service contract". I meet a typical client who has a problem. They explain the problem to me. I have the solution and I say, "Here's the solution". That takes 10% of the time. They have a problem, I have a solution, we're going to do it. Now, 90% of the time, it's how the heck do we get this through PWGSC? Because it ain't going to fly. Let me just give you one example in the brief time I have.

The Vice-Chair (Hon. John McCallum): One quick example.

Mr. John Rivenell: I sell asset management systems. We're into hand-held computers: software, hardware, one bundle, DISO. Some years ago, PWGSC said that it was going to improve efficiency and split software and hardware. So now people can't buy my solution on a DISO. They can buy the software on the DISO, but they have to buy the hardware on a local purchase order, and half the clients say, "Oh, I'll lose my pension because I'm contract-splitting".

So there are a lot of problems. OSME is very sympathetic. They don't have any muscle to deal with this. It's a horror story out there for us to try to sell to business. I have a great product, they want it—

The Vice-Chair (Hon. John McCallum): Thank you very much. Now it's my turn.

I really appreciate your honest, direct comments about the problems with these agencies, but I want to ask you a more general question. It doesn't mean that I haven't absorbed your more specific points.

As you know, earlier this week, the report of the expert panel on federal support for R and D came out and made a number of recommendations.

Just today—and this relates to the earlier discussion about Canada's poor level of R and D—one of my colleagues proposed that we have a goal for business expenditure on R and D that the government adopt, and then it could use these expert panel recommendations to help figure out how to achieve that goal. Right now, Canada's business expenditure on R and D is extremely poor. It's 1.0% of GDP, whereas the average for the OECD is 1.6% of GDP.

My colleague suggests that Canada should have a goal to get to the average of the OECD by 2015. It's extremely ambitious to go from 1.0% to 1.6% of GDP in four years, so never mind the exact goal, but I have two questions I'd like to ask each of you.

Do you think it's a good idea to have a stretch target goal on increasing business expenditure on R and D? Second, if so, partly in light of this expert panel, what tools or mechanisms do you think would be best for the government to use to try to achieve such a goal?

Who wants to go first?

• (1625)

Dr. Sue Abu-Hakima: I'll start; I have the letters *a* and *b* in my name.

Certainly, I think stretch goals are always excellent. In business, the way you incent salespeople to make sales is usually to dangle carrots in front of them, right? So from the point of view of trying to get a small business or an SME to spend more on R and D, there have to be incentives.

I think programs like IRAP—unfortunately, John had early bad experiences—have been tremendous. I think IRAP understands how to get SMEs to spend on R and D and do innovative stuff. Kudos to the government for giving them the \$200 million two years ago. The problem with IRAP is that their funding is cyclical. It's never reliable. So that's where there should be a fix.

The other one is SR and ED. The more people who leverage that, hopefully, the more innovation you will get. As for whether or not you need to create another program, I read the Jenkins report. I read the recommendations of the Jenkins report. I spent 11 years at the NRC before deciding to become a crazy entrepreneur, and I can tell you, I have lived research, and I don't think it's a good idea to cancel NRC, start a new institute, and move IRAP somewhere else. Keep IRAP where it is and just change your spending in terms of what you're doing: move that budget over.

The Vice-Chair (Hon. John McCallum): Actually, the expert panel suggested somewhat less money for SR and ED and putting that into direct investments through BDC.

Dr. Sue Abu-Hakima: Oh, BDC is the dinosaur of venture capital in this country—

Voices: Oh, oh!

Dr. Sue Abu-Hakima: —and I don't mind saying that very publicly. I think it would be a huge mistake for the Government of Canada to rely on an entity.... As an entrepreneur for 13 years, I've had a lot of experience with financing. This is not a good solution.

The Vice-Chair (Hon. John McCallum): Okay. I cannot abuse my position and take more time than I have.

Dr. Sue Abu-Hakima: Sorry.

The Vice-Chair (Hon. John McCallum): We have a very short time for the other three to comment if they wish to.

Mr. John Rivenell: To add to the BDC thing, we used to take money from BDC, but we don't anymore, so I think that says a lot. I love SR and ED now. I love IRAP.

The point you make is right. Because we're not just running a business. We're doing many things. You don't want to have to lay people off, so part of the expenditure that you plan is to make sure that you can maintain it. Having a known source of revenues is important, and SR and ED and IRAP go a long way towards giving us that confidence.

The Vice-Chair (Hon. John McCallum): Okay. Thanks.

Mr. John Rivenell: In terms of the stretch budget, yes: set a target and go for it.

The Vice-Chair (Hon. John McCallum): Mr. Lynt.

Mr. Jeff Lynt: I agree with the target. I can't speak much on the topic other than as a small company that has benefited from SR and ED. It certainly was beneficial to us.

It promoted the development of products that we think are beneficial to society, for that matter, and we commend the new programs that are coming under SR and ED, but at the end of the day, we wish more money would go into promoting small business, because we believe that's where the real innovation comes from.

The more emphasis we can put on promoting small business in government procurement contracts, the better the government will be.

• (1630)

The Vice-Chair (Hon. John McCallum): Thank you very much.

I'm afraid my time is up.

Ron Cannan.

Mr. Ron Cannan (Kelowna—Lake Country, CPC): Thank you, Mr. Chair.

I would certainly like to echo the comments around the table about Small Business Week and the Year of the Entrepreneur. As for the economic engine that drives our economy, 98% of the businesses are small businesses. I represent an area in the Okanagan in the interior of British Columbia. It's very vibrant and it is small businesses that keep our community that way. We have some larger businesses—some aviation and forest industry—but small businesses are the backbone.

I was at one business last week for their second-year anniversary. Their sales have grown 44%. It's aviation electronics. They commented about their appreciation of SR and ED, but about the complications, again, of having to hire a consultant to get through the bureaucracy.

I would like to follow up on the chair's comments about the Jenkins report. He said it was an expert panel. I think we heard from Sue about her successful business and her experience.

I'd say you're an expert, Sue, so let's define what an expert is.

There is the aspect that it's people who have experience on the ground. I've heard similar comments about putting the money into BDC and government going to venture capital, which just seems like an oxymoron, to my mindset.

I'd like to hear a bit more of your perspective on how we can particularly improve the process of procurement.

Also, Jeff and Cathy, you might not have the specific information right now, but perhaps you could provide to the committee an example of how the SMEs have been basically prevented...or discriminated against by having procurement refused. If you have any specific cases, I'd be interested to hear about them.

Mr. Jeff Lynt: Were you around last year for GENS? That was the last time I gave testimony at this committee. That was a specific attempt to push out small and medium-sized enterprises, to give what started out as one large contract but turned into two large contracts. Their answer was to provide a set-aside for small business through whoever won the contract. It was basically bundling everything together and the one winner would take all. We saw that as a direct attack on small business.

I think we are constantly concerned about this type of mentality that's really out there, that "one throat to choke", and the only way you're going to do that is to give it to one company. As I mentioned earlier, we constantly see RFPs. We can certainly provide you with examples where the bar is too high, for no relevant purpose. Why exactly does a company that is going to deliver services for less than \$1 million have to be a \$20-million company? It just doesn't make sense.

We can certainly provide you a lot of examples.

Dr. Sue Abu-Hakima: One suggestion I would make with respect to improving the procurement process for an SME would be to take a little bit of a different strategy.

I believe the reason that IRAP is so successful working with SMEs and getting the money that you want to get deployed out to SMEs is that they have the notion of this ITA, the industrial technology adviser, who works directly with a group of SMEs. Ours, for example, works with hundreds of SMEs. He has a very big group

of companies that he has to work with. They're all SMEs. What I've seen from their attitude or their approach is that as soon as the government announces an IRAP fund, they start working extremely actively with all of their SMEs to try to get them to benefit from this.

So I would say try to bring that over to procurement. You need ITA-like people in the OSME office who become more than our guides; they become almost our champions. They help us cut down the process and the paperwork and the reporting.

We still have to do it all, because we know that everything is going to get audited, etc., and we do all of the time sheets. We do all of that stuff. But when you have somebody there who says to you, "This is the template, you have to work in this, and everything has to fit in here", it becomes less of an unknown when you're dealing with these contracts and people.

With respect to RFPs, I think there has to be almost a mandate that says x amount of the Government of Canada budget has to go toward SMEs, or, if you win a contract as a large company, you have to bring in SMEs, and this is how much of this contract is going to be awarded to make sure that there is SME involvement. The United States does that, but we don't do that.

• (1635)

Mr. John Rivenell: I'm looking at procurement in a different way. From my point of view, we just need a simpler process. We need to take out some of the restrictions.

Once we've dealt with the technical issues that we need to settle to end up with procurement, then we get caught in all sorts of things. Take the \$25,000 limit. I don't know how long that's been there, but that directly affects my company. I'm faced with a choice. It's a \$20,000-deal: if I bid \$28,000, I've lost it, so let's bid \$23,000; there's less profit, but at least I get the deal.

Those are the things we need to look at taking on.

The Vice-Chair (Hon. John McCallum): Thank you.

Mr. Ron Cannan: I don't know how to—

The Vice-Chair (Hon. John McCallum): I'm afraid you're over the five minutes.

Mr. Ron Cannan: Okay.

To the chair or the clerk, maybe we can put a question to the department on how the \$25,000 arbitrarily came about, how they evaluated it. Does it increase with inflation or does it ever get reviewed? That's something that I think we should expand on in our investigation as a committee as well.

The Vice-Chair (Hon. John McCallum): We have the NDP, and then we have the Conservatives, so if you want to pursue this in your next turn, go ahead.

[Translation]

I will now give the floor to Denis Blanchette.

Mr. Denis Blanchette (Louis-Hébert, NDP): Thank you, Mr. Chairman.

My first question is for Ms. McCallion.

You are the second person in the course of two meetings who has suggested that responsibility be transferred from Public Works and Government Services Canada to Industry Canada. This is beginning to pique my curiosity. I would like you to tell us more about this and why you believe that this would be more effective.

[English]

Ms. Cathy McCallion: We were making this recommendation because we feel that OSME under PWGSC would have to go up to bat against their colleagues in procurement. Under Industry, I think there would be a separation of that colleague environment; they wouldn't have to go to bat against their boss. Obviously, within PWGSC, OSME would have to speak out against their colleagues and the people they report to. We would like to see that separated out to Industry Canada so there isn't that butting of heads within the same organization.

[Translation]

Mr. Denis Blanchette: All right. In that case, we are talking more about a separation in terms of governance than anything else. The management is not related to the mission of the departments. So what you are really talking about is a matter of governance and relationships between the people working for the office and their colleagues.

[English]

Ms. Cathy McCallion: Exactly.

[Translation]

Mr. Denis Blanchette: Mr. Lynt, you are probably aware that, in the field of information technology, one of the best practices, which has now been recognized, consists in not creating huge projects, because they always end up costing a huge amount of money.

What do you think of the idea of breaking down IT projects into smaller pieces, and how do you see the role of small enterprises in relation to IT giants?

[English]

Mr. Jeff Lynt: As we've always said, we believe that shared services...and as an example, which could be a very large project—or they could break it down into more of a distributed model—they think small business can provide and does provide niche services. Certainly, in my company we hone those skills, as do many of our member companies. We don't try to be all things to all people.

In my case as a service management expert, if our company provided that expertise, in Service Canada, as an example, we could help them define a distributed model, where we could still have the best in class or the centre of excellence that's required to take on such an initiative. We think we can bring in that expertise as well as provide the experts throughout the system.

There's this mentality that the one big company can provide all of that. They may very well be able to do a good job, and we're not saying they can't, but we're just saying that we shouldn't be precluded. We're not trying to be all things to all people. We think we do a very good job in the niches in which we provide the services, and we think there are better strategies to incorporate them through a distributed model.

● (1640)

[Translation]

Mr. Denis Blanchette: Thank you very much.

My next question is for Mr. Rivenell and Ms. Abu-Hakima.

The impression we get is that there is a lot of frustration for people who have to deal with government. Obviously, you are in a good position to talk about that. However, I imagine that you also have to deal with the private sector, be it in the form of small or large companies.

Based on your personal experience, can you compare the problems you encounter in dealing with government versus big business? Are the problems the same or are they really different?

[English]

Dr. Sue Abu-Hakima: They're different for me.

[Translation]

I can speak French, if you prefer.

[English]

The Vice-Chair (Hon. John McCallum): You have about 10 seconds.

Dr. Sue Abu-Hakima: The Government of Canada's procurement system is like a rat's nest. I agree with my colleague John that it has to be simplified. It's getting worse and worse.

The Vice-Chair (Hon. John McCallum): We'll go to Peter Braid now.

Mr. Peter Braid (Kitchener—Waterloo, CPC): Thank you, Mr. Chair.

I thank all the witnesses for being here.

I am going to try to cover questions for most if not all of the panel.

Ms. McCallion, I'll start with you.

This came up through Monsieur Blanchette's question to you. In your comments, you recommend that OSME should perhaps be under Industry, not under PWGSC. I heard Ms. Abu-Hakima say that she probably doesn't agree with that, and I'm not sure that I do either.

The role of OSME, of course, is to advocate for SMEs within the federal procurement process. PWGSC is responsible for federal procurement. It would seem to me as if that's the right fit. If it moved to Industry, would the mandate remain the same or would it change? The second part of the question is, would you be concerned about a potential dilution of the mandate with a move out of PWGSC?

Ms. Cathy McCallion: No. We're hoping for the opposite. We're hoping for a greater voice under Industry.

My business tends to be fairly flat in structure, but in most organizations there are a president, directors, managers, and people who work for them. If you're always questioning the people at the top and going up against them, then you're going to be pushed out. There are going to be issues in the end.

We're hoping for a situation where they feel comfortable to act on our behalf and question procurement. When you're constantly questioning your colleagues, it can become quite adversarial and uncomfortable. We are hoping for the creation of a new OSME where they are comfortable speaking out against their current colleagues and improving the procurement processes.

I think they want to do a great job for us in the current situation, but their voice is muted.

Mr. Peter Braid: It sounded to me, from some of the other panel participants, including Mr. Rivenell, that in fact OSME has advocated fairly strongly for SMEs.

Some of the mandate that you describe sounds to me a bit like the role of a procurement ombudsman, which we also have.

Mr. Rivenell, how did you find out about the CICP?

Mr. John Rivenell: By accident, actually. We were just at GTEC yesterday. At last year's GTEC, we met somebody who explained the process to us. In practice, I had received an e-mail a month or two earlier, but it was one of 500 e-mails from someone I didn't know, and it just went in the junk folder, I'm afraid.

When we were at the trade show, my colleague Keith Jackson went to the booth, saw somebody, came back, and said we should do this. So to a degree, it's by chance.

• (1645)

Mr. Peter Braid: Have you seen any of their outreach since you've been connected with them?

Mr. John Rivenell: It's difficult for me to answer that because now we're tightly connected with these people and we've been backwards and forwards for the last year. We know the people and we like them. They're good people.

Mr. Peter Braid: Are you using IRAP now?

Mr. John Rivenell: Yes, we are using IRAP. Again, that was one of Keith Jackson's initiatives four or five years ago. Our original problem was that we have an SR and ED. Our original understanding was that the two overlapped and you take one or the other, but that's not true.

Mr. Peter Braid: Are you pleased with your relationship with IRAP?

Mr. John Rivenell: Yes, it's excellent.

Mr. Peter Braid: Ms. Abu-Hakima, has the CICP helped your company with the commercialization process for any of your products or technology?

Dr. Sue Abu-Hakima: It's early for us, because we just signed the contract on September 15. We pre-announced because we had a big trade show in the U.S. Where it has been very helpful is that because we announced at this U.S. trade show we were just at that we are working with a Government of Canada department, we had a tremendous response from a lot of the U.S. government departments.

I think it will be proven once we close some of these revenues. From the point of view of visibility in regard to whether it's helping, I think it's starting to help. I think it will be advantageous for us.

Mr. Peter Braid: That's a testament—

The Vice-Chair (Hon. John McCallum): I'm sorry. Thank you very much.

We'll go to Monsieur Blanchette.

[*Translation*]

Mr. Denis Blanchette: Mr. Hanel, you are the only person I have not put a question to yet. I will now have the pleasure of doing so.

Incidentally, I just want to point out that I find all of you very interesting.

Mr. Hanel, you said a couple of things which really struck me, including the fact that there was not enough of a demand for innovation. Can you tell us exactly what you meant by that?

When you answer that question, I would like you to make a connection with the fact that the private sector in Canada does not feel the need to invest more in innovation.

Mr. Petr Hanel: Several studies have examined this issue and have tried to find an answer. There are basically a couple of reasons to explain the situation. First, the Canadian market is relatively small. A small innovation company can only count on a market 10 times smaller, or even more than 10 times smaller, than the United States, for example. That's one of the reasons.

Companies that are able to export or that immediately focus on exporting a new technology in their strategy might not face this problem. Unfortunately, many companies are not able to do so.

Mr. Denis Blanchette: I have an additional question regarding that aspect. You said that the Canadian market is small. However, given the technology of the Internet, borders are increasingly disappearing.

Since Internet technologies can help businesses market themselves, have there been any improvements? Has this helped Canadian companies?

Mr. Petr Hanel: It certainly has not been an obstacle. I am not aware of any studies—which does not mean they do not exist—specifically demonstrating the positive effect of the Internet. It is possible that some studies have been done, but I am sorry, I am not aware of them.

Mr. Denis Blanchette: Let's come back to the fact that there is a lack of demand for innovation. Are companies too comfortable? As far as I'm concerned, if we do not innovate, we will regress. If that happens, our competitors will eat us alive. So what exactly is going on?

Mr. Petr Hanel: A study has recently been conducted under the same principle in a dozen OECD countries. What came out of the study is that companies that export are the ones most likely to innovate. However, this did not apply to every type of export. In fact, it applied to companies which exported outside of the United States.

Many Canadian companies view the American market a bit like a domestic market. Markets which are located outside of the United States, to the south and on the other side of an ocean, are perceived as being more difficult to penetrate. We therefore have to find a way to combine innovation and the ability to understand a market, and respond to its needs. The combination of these two elements is very important.

Many companies, especially small- and medium-sized ones, do not actively try to export their products.

• (1650)

Mr. Denis Blanchette: Mr. Chairman, how much time do I have left?

[*English*]

The Vice-Chair (Hon. John McCallum): You have just under a minute.

[*Translation*]

Mr. Denis Blanchette: You briefly explained how we could stimulate offer and demand. Could you briefly tell us what, in our opinion, are the best methods to use in Canada to stimulate offer and demand in innovation?

Mr. Petr Hanel: As I said, one way to achieve that is for governments to step in. However, there are other ways. For instance, the government could invest in new technology information for both businesses and households.

Another possibility would be to give out subsidies not for the development of new technologies, but for the adoption of new technologies. It is not always essential that we use Canadian technology. What is important to increase productivity—

The Vice-Chair (Hon. John McCallum): Thank you—

Mr. Petr Hanel: —is that the new technologies are actually being used. In that case, it might be a problem—

The Vice-Chair (Hon. John McCallum): Sir, your time is up. Thank you.

We will now move on to Mr. Trottier.

[*English*]

Mr. Bernard Trottier (Etobicoke—Lakeshore, CPC): Thank you for coming in today. I appreciate your input.

We're conducting these sessions in the spirit of learning, really, and of gaining a better understanding of the problems. In my former life, I was a business consultant. We always said that there are no problems, only opportunities.

I hope these are opportunities to improve the procurement process and open up opportunities for your companies to participate, not just because it's good for your companies, but because it's also good for the Government of Canada, and therefore for the people of Canada. You've talked about some of the innovative solutions that you've come up with, and there are always needs out there.

I want to follow up on Mr. Cannan's point about the \$25,000. Just to clarify, where did that come from? Why is that the threshold? Could you explain to us the DISO process and why it creates this barrier that prevents companies from bidding?

Mr. John Rivenell: It's quite simple. Up to \$5,000, you can buy stuff with a credit card fairly easily with a certain level of management approval. Beyond that, up to \$25,000, there's a higher level of approval needed.

I referenced earlier that there are different approvals with DISO and everything else, which is poorly understood, so we're often correcting that. I would suggest that less than half the DISO orders

we receive are correct. We have to return them to federal government for correction.

Beyond \$25,000, I'm not sure what the rule is, as I've not looked at it lately, but it gets into NAFTA, so it has to be offered, and there's work done with the Americans. We're talking about a two- or three-year delay in procurement. I reckon the turnaround time in the federal government is typically two years from the time we say hello until the time we get a purchase order and start running on something.

I really have given up trying to sell anything above \$25,000 to the federal government, unless it's more than \$100,000. I had one contract for \$10,000. We solved the problem fairly quickly, then we had to get their IT approval, and then there was security, and then there was the threat risk assessment. We had to go through all the different departments, and all had the power to veto the system.

Ultimately when it's done, it goes off to PWGSC, and someone we've never spoken to looks at procurement. In one case, a clear case, we spent two years working on a project. We got the equipment, surveyed the market, picked the best stuff, loaded the software, gave it to them to trial, and they wanted it. Actually, we got the software contract, but they gave the hardware contract to two guys in a basement with a fax machine and a reseller agreement.

The deal was that the person making that decision had never met us and knew nothing about us. He was just asked to procure this at the best possible price. So he goes out with a detailed list, which I provided, and asks everybody for the pricing. I've already quoted my price, which builds in our time and effort, plus the support we promised, and the stuff just gets shipped in, in a box, from God knows where. The guys make a 5% markup, and my client is stuck, because he's asking me to support a hardware product that I've not been paid for. That's not an unusual circumstance.

• (1655)

Mr. Bernard Trottier: Right.

Ms. Abu-Hakima, you mentioned how the experience of selling to government is quite a bit different from selling to big corporations, even though there are similarly sized bureaucracies in many cases. Could you talk about how the thresholds or barriers are not quite so imposing with some of your private sector customers?

Dr. Sue Abu-Hakima: My other experience in selling into the larger enterprises would have had to come in once Entrust bought our company. Entrust is considered an SME because they have below 500 people. We sold to large banks, the U.S. government, the Canadian government, etc. They have a way of dealing with the barriers to entry into those places. You have certain focal points in those organizations, such as the CIO, the chief compliance officer, the chief security officer, etc. As soon as you start talking to them, they'll get the director of IT involved. The people who would actually take your solution and use it get involved in the cycle.

In the Canadian government, you have to go through the whole process first. What's interesting is that there are now companies that have been formed to teach you how to get over all these little shenanigans and twisted ways to actually win a contract with the Canadian government. If somebody wants to buy something, he targets the RFP for the particular company he wants to buy it from. Once that happens, it's not a fair process anymore. We have competed in situations like that where we're the last ball that's thrown in, and then we win the technology battle, but not the actual political battle.

Mr. Bernard Trottier: It's called column fodder. I have—

The Vice-Chair (Hon. John McCallum): I'm sorry, but the time is up—

Mr. Bernard Trottier: The time is up? That's too bad. I had a lot more questions.

The Vice-Chair (Hon. John McCallum): —and it's my turn.

I'd like to ask each of you the same two questions and get a brief response.

I seem to get the impression that everyone loves IRAP, so my first question is, do you think IRAP is great? Do you love IRAP?

The second question is about BDC. It comes from this expert panel. Someone made a very negative comment about BDC, but right at the centre of the expert panel recommendations, they say that Canada spends a lot on tax credits compared with other countries, and compared with direct loans, to solve the problem of capital shortage at the commercialization stage or at a certain stage in the process. So they're proposing somewhat less money for SR and ED through making it less refundable over time, and more money in direct loans or investments through BDC. Now, if you think BDC is hopeless, that's clearly a bad idea.

Those are my two questions. You each have about 20 seconds.

Voices: Oh, oh!

Dr. Sue Abu-Hakima: I promise that I will keep this short. IRAP is fantastic. I would rather that the government, instead of creating a pot of money for BDC, give half to IRAP and maybe half to OSME to create champions for SMEs—or CICIP.

The Vice-Chair (Hon. John McCallum): And nothing for BDC...?

Dr. Sue Abu-Hakima: BDC does not get it. Honestly, I worked through the bubble for 13 years as a technology entrepreneur. They do not understand it. They do not get it. They will not invest in risk unless you're at a million dollars in revenues. You don't get to a million in revenues unless you build the product.

Mr. John Rivenell: Okay. IRAP is great, except that we're constantly teased by hearing things like this: "Well, this is the last one because they are going to cut the program, so forget it after this, but oh no, they've renewed it, and there is a bit more...". It just goes on. So there's an insecurity around it: a constant threat that it's here but is going to be taken away from you.

With regard to BDC, let's talk facts. I took \$120,000, I think it was, from BDC. Part of the deal was that I had to hire a consultant and pay him \$6,000. He came in and spent three days interviewing all of my staff and didn't do anything. He was there to show me how

to run my company. That particular consultant was a total waste of time. I saw that \$6,000 as tax that I had to pay to get the \$120,000.

I would like his job, actually—

The Vice-Chair (Hon. John McCallum): Mr. Lynt.

Mr. Jeff Lynt: I don't have any direct experience. I will say that our members have pretty much the same experience as what I hear from Mr. Rivenell. I will reiterate that I think more money should be spent on promoting the interest in SMEs in all branches of government.

The Vice-Chair (Hon. John McCallum): What about IRAP?

Mr. Jeff Lynt: I don't have any specific experience with them.

• (1700)

The Vice-Chair (Hon. John McCallum): Ms. McCallion?

Ms. Cathy McCallion: I am in the same boat. It's outside our realm. I haven't had any direct experience with IRAP.

Basically, my opinion is to put the money behind OSME. I would like to see an increased voice there.

The Vice-Chair (Hon. John McCallum): Thank you.

Professor Hanel.

[Translation]

Mr. Petr Hanel: I would like to share an observation with regard to the projects, more specifically the reduction of tax credits based on salary alone. In my view, this is dangerous. I believe it works very well in some sectors, for instance in the sectors of information technology and communication. However, in the case of biotechnology and other technologies which require the purchase of sometimes extremely expensive equipment, this is a risky approach. I cannot speak to IRAP, but I know that some eminent economists, including Mr. Lipsey, gave this program a very positive review in terms of the way it is implemented and its results.

Further, I believe that government projects should not be designed as lifelines to help small- and medium-sized businesses to operate. We should do what is done in other countries, which is to foster the growth of SMEs. Indeed, we are competing against countries which are helping to grow their small- and medium-sized companies so they become bigger and more powerful.

[English]

The Vice-Chair (Hon. John McCallum): Thank you very much.

We will now go to Andrew Saxton.

Mr. Andrew Saxton (North Vancouver, CPC): Thank you, Mr. Chair.

Thank you, witnesses, for coming here today.

I have several questions. My first one is for Cathy McCallion.

Cathy, you mentioned earlier in your remarks that contracts are bundled for the sole purpose of excluding SMEs. Do you think there might be other reasons why contracts are bundled?

Ms. Cathy McCallion: I think there's that misconception that it's easier to deal with one organization than with several.

I think that is a misconception. There are many examples of projects that have gone astray because they've been sourced to one large entity and they get out of control very quickly. Does that answer your question?

Mr. Andrew Saxton: Do you think it could be a question of economies of scale or cost savings as well?

Ms. Cathy McCallion: From a cost perspective, I can say that SMEs do a fantastic job of keeping costs extremely low. We're hands-on with our clients in the sense that we have good, solid, direct relationships with our clients and the people who work with us.

I have never worked for a large entity, I'll be honest with you, but the impression I get from my clients when I discuss it with them is that there is a disconnect between the people who run these organizations and the people they interact with.

I work in the resourcing industry. Our consultants and the relationships we have with them are very important to us, because they are ultimately doing the work that the client wants performed. They are getting the tasks done—

Mr. Andrew Saxton: Thank you. That's fine.

Mr. Rivenell, I have a question for you.

You mentioned CICIP in your opening remarks. Can you explain the tangible effects that working with CICIP has had on your business?

Mr. John Rivenell: Yes, absolutely. The fact that we have an initial test department set up and that there is funding in place for that test department gives me a little more freedom and security financially, so I have hired more people over the summer than I would have done otherwise. That's the first thing; I can step back a little from the panic of the spreadsheet, as it were.

The second thing is that we're working with a very good test department. We have already reached the point where they have given us some effective feedback concerning ways in which they would like to see the system changed. That's the whole point about the test department. Not only do we have a reference account at the end of it, but we get to work in a real-life situation and get positive, tangible feedback.

So our product is improved, I have a little more flexibility in hiring new heads to contribute to development, and we will have a reference account at the end of it.

Mr. Andrew Saxton: So you found that the process was helpful and they were receptive to your needs?

Mr. John Rivenell: Oh, absolutely. In fact, I just came from a meeting here and I'm off next week to do a first install. We work very closely with the client.

• (1705)

Mr. Andrew Saxton: Would you use CICIP again?

Mr. John Rivenell: Absolutely, there's no question about it. It's very good.

Maybe I shouldn't raise this other point, but if you remember, I said earlier that it's very difficult for me to sell to the federal government for anything more than \$25,000. This contract is more than \$25,000.

Mr. Andrew Saxton: That's very good. Thank you for that.

We just saw yesterday the culmination of the naval procurement process, which I think just about everybody has complimented, saying how transparent it was, that it was non-political and at arm's length. Is this a process you think we could use for other procurement processes?

Dr. Sue Abu-Hakima: I'm sorry, but I don't know enough about the naval procurement process.

Mr. Andrew Saxton: Perhaps John...?

Mr. John Rivenell: It's a very big thing. Personally I have concerns about some of the socio-economic benefits that are put into some of these projects. My past experience with CF-18 procurement made me wonder. It is a good idea if it is exercised correctly, but you have to be very cautious that it isn't abused—in other words, if you have a socio-economic benefit, the price goes up and you don't get any benefit.

But openness is good.

I don't really have a lot of experience in big contracts of this sort. My typical contracts are in the range of \$5,000 to \$400,000.

Mr. Andrew Saxton: Thank you very much.

Thank you, Mr. Chair.

The Vice-Chair (Hon. John McCallum): Thank you.

Our last intervenor is John Carmichael.

Mr. John Carmichael (Don Valley West, CPC): Thank you, Mr. Chair.

Thank you to the witnesses.

I have one question I'd like to ask, but we don't have an afternoon to get into it. The specifics on procurement are very clear, from all of your comments, and I'm trying to assess the barriers to entry as we talk about this. I think the whole procurement process is something that needs probably a really good look in order to understand how it works and how better to streamline it.

Let's talk about innovation. I'm hearing that innovation is a problem; I'm on other committees. One of the challenges we face is as a nation is how we establish this nation as a centre of innovation, which I'd love to see. If we truly believe in leadership, what do we do? I'm looking at four entrepreneurs who I believe are all extremely innovative. Could you talk to me very briefly about the innovative process in your companies?

Let's keep it short if we can, because I know the time is tight.

Dr. Sue Abu-Hakima: I'll keep it short.

From my opening remarks, you know that my first company filed 18 patents. This one now has 12 patents. We're known as an extremely innovative company that's really on the leading edge. That's our history. We have a tremendous team with experience from places like Bell-Northern Research, Mitel, and so on.

I think it comes from leadership and a philosophy of innovation within the enterprise itself. I think that from the youngest sales person or marketing person or front-line staff to the most senior people, if your leadership is innovative, your team will be innovative. You look at social networking and methods to look at marketing yourself much more effectively. The kind of response we get at shows in the United States is the stuff that large companies get.

That would be my answer to you. You just have to train people to think in a certain way.

Mr. John Carmichael: Thank you.

Mr. Rivenell.

Mr. John Rivenell: I have a different opinion from some of the points brought forward earlier. I can only talk about my own limited experience with my own companies.

Mr. John Carmichael: That's excellent.

Mr. John Rivenell: It was part of our business plan when we set the company up 20 years ago. We don't want to compete on a level playing field with everyone else. I don't want to be one of 4,000 organizations offering a better web page.

We've developed products that no one else has, and innovation is what drives us. We can say that if you have a problem, we have a solution, and no one else has that solution, so here's the price and let's go.

From our point of view, innovation is what drives our company all the time.

Mr. John Carmichael: Thank you.

Go ahead, Mr. Lynt.

Mr. Jeff Lynt: Well, you're talking to somebody whose company is called inRound Innovations.

I'll tell you what really drives innovation, from our perspective: it's access to opportunities.

I suppose to a certain degree we believe that the government has a certain socio-economic responsibility to help small business, but as I said earlier, we're not looking for special treatment. What we're looking for is continuing to have access, and we think that bundling contracts is something that stymies innovation in the Canadian government.

I don't buy into the notion of economies of scale, because I think innovation comes through niche companies like ours. I do have experience with the big guys, and I know that in my service management practice, when I worked for Compaq HP, it was still five or 10 guys sitting around in a particular section. That was the extent of the experience we had in that company. We just happened to sell under a broader label.

As I said, it's important that there not be initiatives that prevent us from continuing to have access to government contracts.

• (1710)

Mr. John Carmichael: Ms. McCallion? Then we'll come back if we have time.

Ms. Cathy McCallion: We're not a product development organization. We're a service delivery firm. The key for our firm is transparency within our own organization and with the organizations we deal with. That means transparency with the consultants we deal with and with the clients.

We try to keep our costs extremely low and pass those savings on to our clients. That's the way we try to be innovative and separate ourselves from some of the larger organizations we compete against.

Mr. John Carmichael: Thank you.

Mr. Rivenell.

Mr. John Rivenell: It breaks my heart—I'd like to be a hard-nosed businessman, but I'm not very good at that—when I go into government departments and see them doing drudge work the hard way, with errors and mistakes, and I have a solution: I want to give it to them. I love that, and my team loves to have innovations that we can give. I just wish the procurement group would get out of the way and let me give these people the tools that would help them do the job better.

There's an opportunity here if we can do that: you can improve the efficiency of government and speed up innovation. But at the moment, based in Ottawa, Nortel is dead, I don't have any high-tech, and the federal government is an extremely difficult sell: there's too much of "we've been doing it this way for 30 years, so why bother, the clipboard is good enough...".

Mr. John Carmichael: Thank you.

The Vice-Chair (Hon. John McCallum): Well, on that happy note....

Mr. John Carmichael: Thank you, Mr. Chair.

The Vice-Chair (Hon. John McCallum): Would you like to make a brief comment?

Dr. Sue Abu-Hakima: As an entrepreneur, one of the things that drives you is making sure that you know your competitive landscape really well and you live in fear of your competitors catching you. I tell my team—my CTO is here—that I want the "catch me if you can" features. That's how you drive the entire team towards trying to be at the front.

The Vice-Chair (Hon. John McCallum): That brings our meeting to an end.

I'd like to thank our witnesses for their frank interventions and answers to our questions. I think we've learned a lot.

The meeting is now adjourned.

MAIL  POSTE

Canada Post Corporation / Société canadienne des postes

Postage paid

Port payé

Lettermail

Poste-lettre

**1782711
Ottawa**

If undelivered, return COVER ONLY to:
Publishing and Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5

*En cas de non-livraison,
retourner cette COUVERTURE SEULEMENT à :*
Les Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5

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

SPEAKER'S PERMISSION

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

Additional copies may be obtained from: Publishing and
Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5
Telephone: 613-941-5995 or 1-800-635-7943
Fax: 613-954-5779 or 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Also available on the Parliament of Canada Web Site at the
following address: <http://www.parl.gc.ca>

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

PERMISSION DU PRÉSIDENT

Il est permis de reproduire les délibérations de la Chambre et de ses comités, en tout ou en partie, sur n'importe quel support, pourvu que la reproduction soit exacte et qu'elle ne soit pas présentée comme version officielle. Il n'est toutefois pas permis de reproduire, de distribuer ou d'utiliser les délibérations à des fins commerciales visant la réalisation d'un profit financier. Toute reproduction ou utilisation non permise ou non formellement autorisée peut être considérée comme une violation du droit d'auteur aux termes de la *Loi sur le droit d'auteur*. Une autorisation formelle peut être obtenue sur présentation d'une demande écrite au Bureau du Président de la Chambre.

La reproduction conforme à la présente permission ne constitue pas une publication sous l'autorité de la Chambre. Le privilège absolu qui s'applique aux délibérations de la Chambre ne s'étend pas aux reproductions permises. Lorsqu'une reproduction comprend des mémoires présentés à un comité de la Chambre, il peut être nécessaire d'obtenir de leurs auteurs l'autorisation de les reproduire, conformément à la *Loi sur le droit d'auteur*.

La présente permission ne porte pas atteinte aux privilèges, pouvoirs, immunités et droits de la Chambre et de ses comités. Il est entendu que cette permission ne touche pas l'interdiction de contester ou de mettre en cause les délibérations de la Chambre devant les tribunaux ou autrement. La Chambre conserve le droit et le privilège de déclarer l'utilisateur coupable d'outrage au Parlement lorsque la reproduction ou l'utilisation n'est pas conforme à la présente permission.

On peut obtenir des copies supplémentaires en écrivant à : Les
Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5
Téléphone : 613-941-5995 ou 1-800-635-7943
Télécopieur : 613-954-5779 ou 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Aussi disponible sur le site Web du Parlement du Canada à
l'adresse suivante : <http://www.parl.gc.ca>