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Chair

Mr. David Christopherson

Standing Committee on Public Accounts

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• (1530)

[English]

The Chair (Mr. David Christopherson (Hamilton Centre, NDP)): I now declare this 79th meeting of the Standing Committee on Public Accounts in session.

Colleagues, you'll know that we are holding a televised hearing today. I would like to ask the indulgence of colleagues. I'm assuming that unless things go completely haywire today, which they always can, but I'm not expecting it, there should be some time at the end of the meeting for us to do some committee business. I would suggest that when we conclude the hearing, we move into committee mode and do some of that business.

Also for today, Mr. Warawa will be joining us in place of Mr. Aspin.

I'm also pleased to advise colleagues that Lindsay McGlashan has returned to us as an analyst and will be with us for the foreseeable future. Welcome back, you did a great job before. We're looking forward to your good work going forward. Thank you.

With that, colleagues, seeing no interventions, we'll move to the hearing. We are holding this hearing on the Fall 2012 Report of the Auditor General, chapter 6, Transfer Payments to the Aerospace Sector—Industry Canada.

With us today we have Mr. Ronnie Campbell, who is the assistant auditor general. Welcome, Ronnie. It's good to have you back with us.

As well, we have Ms. Morgan, who is representing Industry. She's the associate deputy minister.

We'll start with Mr. Campbell.

I'd ask you to introduce your delegation and then present your opening remarks, Mr. Campbell. You have the floor, sir.

Mr. Ronnie Campbell (Assistant Auditor General, Office of the Auditor General of Canada): Thank you, Mr. Chairman. I'm joined today by Glenn Wheeler and Nadine Cormier, who worked on this audit. With that I'll begin my opening statement.

[Translation]

Mr. Chair, thank you for this opportunity to discuss chapter 6, Transfer Payments to the Aerospace Sector—Industry Canada. Joining me at the table are Glenn Wheeler, Principal, and Nadine Cormier, Director, who were responsible for the audit.

The Government of Canada sees the aerospace sector as crucial to Canada's economic development, sovereignty, national security, and public safety. Since 2007, Industry Canada has managed two programs that provide repayable assistance to support industrial research and development in Canada's aerospace sector.

[English]

The strategic aerospace and defence initiative, SADI, is the federal government's second largest program of direct spending on research and development. Under this program the department has authorized assistance of just under \$825 million since 2007. The program was created to support private sector industrial research and pre-competitive development in Canada's aerospace, defence, security, and space industries through repayable project contributions. At the time of our audit, the department managed repayable contribution agreements for 25 individual projects with recipients.

The Bombardier CSeries program is intended to encourage research and development that will result in the development of new commercial aircraft technologies. The department authorized assistance of \$350 million to the Bombardier CSeries program in 2008. Industry Canada manages two repayable contribution agreements under this program.

Mr. Chairman, we examined whether Industry Canada had sufficient information to determine if the transfer payments were meeting the programs' objectives. We also looked at whether the department managed these programs according to the key requirements of the Treasury Board's policy on transfer payments as well as the terms and conditions of the programs. In addition, we examined whether Industry Canada collected repayments from recipients for contributions that are repayable under two previous transfer payment programs.

• (1535)

[Translation]

The work on this audit was completed in July 2012 and we have not audited actions taken by the department since then.

When funding for the Strategic Aerospace and Defence Initiative was approved in 2007, Industry Canada agreed to report publicly each year on contribution recipients as well as on program results and accomplishments. This reporting is in response to its commitment to set new standards for transparency following the end of its predecessor program in 2006—Technology Partnerships Canada.

We found that Industry Canada has yet to report publicly on the results of the Strategic Aerospace and Defence Initiative, as required by the funding approval it received in 2007. This means that both Parliament and Canadians do not know whether a program is meeting its objectives.

[English]

Before 2010, Industry Canada had inadequate performance information to determine progress being made to achieve the program's objectives. This information was needed to meet its requirement to report publicly each year on overall program results and accomplishments. Since 2010, the department has made improvements and now collects and consolidates sufficient information to allow it to determine progress against the program's objectives.

However, Industry Canada has delayed and cancelled some of its evaluation commitments, potentially missing out on early improvement opportunities. The department will need to follow through on commitments to collect additional performance information so that it can complete its planned evaluation of the program in 2016-17.

Similarly, the department needs to complete the final evaluation of technology partnerships Canada's longer term technological, economic, and societal outcomes. It may then be in a position to integrate lessons learned from this evaluation to potentially improve performance measurement for the strategic aerospace and defence initiative.

For the Bombardier CSeries program, Industry Canada has not collected all documents required by the two contribution agreements to determine progress toward the program's objectives. Therefore, it has a more limited picture of the program's performance. Again, this means that both Parliament and Canadians do not know whether the program is meeting its objectives.

[Translation]

Industry Canada has managed most aspects of these transfer payment programs appropriately, by using a reasonable control framework. For example, it reviews recipients' claims and progress reports before issuing payments. Also, the department funded only recipients that met program eligibility requirements. It also undertook a detailed review of proposed projects before signing contribution agreements with recipients.

[English]

In cases where contributions under two previous transfer payment programs—the defence industry productivity program and technology partnerships Canada—were repayable, the majority of repayments we examined were obtained by Industry Canada on time.

Industry Canada agreed with our recommendations and made commitments in its responses, several of which were to be implemented by the end of 2012. Mr. Chairman, the committee may wish to explore the progress made by the department to date in addressing our recommendations.

Mr. Chairman, this concludes my opening remarks. We would be pleased to answer the committee's questions.

Thank you.

The Chair: Very good. Thank you, Mr. Campbell.

Now over to Ms. Morgan. You can introduce your colleague and present your opening remarks, please. You have the floor.

Ms. Marta Morgan (Associate Deputy Minister, Department of Industry): Thank you, Mr. Chair and committee members, for allowing me to provide you with a brief overview of Industry Canada's response to chapter 6 of the Auditor General's 2012 fall report.

Accompanying me is Mitch Davies, who is the associate assistant deputy minister of the science and innovation sector at Industry Canada.

As you know, Canada is among the leading aerospace nations in the world. Our aerospace manufacturing industry is the fifth largest in the OECD in terms of revenues. This industry generates \$22 billion in annual revenues, employs a workforce of almost 70,000, and exports 80% of its output. Canada has the world's third largest commercial aircraft manufacturer and a wide range of global leaders in helicopters, landing gear, simulators, engines, aero structures, and maintenance, repair, and overhaul services.

• (1540)

[Translation]

A sustained effort over decades has contributed to Canada's success in building an internationally competitive aerospace industry. Fiscal, monetary and tax policies have established a supportive business environment. Programs provide complementary incentives to invest in research and development in order to foster economic growth and competitiveness.

No one feels the benefits more than the Canadians directly employed, often with high-skilled and high-paying jobs in everything from design to manufacturing, marketing and servicing. Employees earn 37% more in the aerospace sector than the average for all industries, and 23% more than those working in other manufacturing sectors.

[English]

As you know, our future prosperity depends on innovation. Business investments in research and development are central to our ability to introduce new and improved products, services, and production processes. Moving up the value chain is the key to succeeding in a global knowledge-based economy.

That's why the government's science and technology strategy, which was released in 2007, focuses on using the levers available to government to encourage more private sector innovation. It's in this context that the federal government has supported the aerospace and defence sector since 1959, starting with the defence industry productivity program, then through technology partnerships Canada, and now with the strategic aerospace and defence initiative, SADI.

[Translation]

Many companies have benefited from SADI and its predecessor programs over the years—large companies like CAE and Pratt and Whitney Canada; medium-sized companies like Ultra Electronics Canada and GasTOPS; and small companies like NGrain and Integran.

Many countries have research and development programs to encourage innovation in the aerospace and defence sector. Like Canada, they have renewed their programs as a result of their success in supporting the competitiveness of a sector that generates significant employment, technical, environmental and other benefits to their nations.

[English]

The department is pleased that the Auditor General concluded that Industry Canada is managing its aerospace programs in a sound manner. Detailed due diligence is completed before signing contribution agreements; new projects meet eligibility criteria; claims are carefully reviewed before issuing payments; appropriate steps are taken to obtain repayments; and sufficient information is collected to determine progress against objectives.

The Auditor General's report also made recommendations in areas where the department can improve. We fully agree with the findings and are committed to continual improvement in the following areas: We are ensuring that monitoring and reporting requirements are fully met and documented. We are continuing our best practice of including objectives and anticipated benefits in contribution agreements. We will evaluate Industry Canada's transfer payment programs in keeping with our multi-year plan.

[Translation]

We have put more information on our website on SADI results and accomplishments, and will continue this practice.

We have documented our approach to monitoring and reporting on SADI projects commensurate with their risk and size.

We are implementing a plan to document that our policies, procedures and processes meet the Treasury Board policy on transfer payments.

We have amended our claims service standard to include all claims.

[English]

To sum up, I would reiterate that Industry Canada's transfer payment programs are designed to support the strength and growth of the aerospace and defence sector. Industry Canada was pleased that the Auditor General concluded that its transfer payment programs are well managed, and we welcome the recommendations that will contribute to further administrative improvement to these important programs.

Thank you, Mr. Chair and committee members. We'd be pleased to respond to your questions.

• (1545)

The Chair: Thank you.

Colleagues, we're ready to begin our questions in the usual rotation.

We will begin with Mr. Saxton. You have the floor, sir.

Mr. Andrew Saxton (North Vancouver, CPC): Thank you, Chair, and thanks to our witnesses for being here today.

My first question is for the associate deputy minister of Industry Canada.

Madam Morgan, I'd like to just mention, in your opening remarks, you said and I quote, "fiscal, monetary, and tax policies have established a supportive business environment."

Could you explain what those were and how they supported the business environment, please?

Ms. Marta Morgan: The government has made substantial progress over many years in terms of the corporate tax environment, in particular reducing the corporate tax rate in Canada to make it one of the most competitive in the OECD. Also, there is the elimination of the capital tax. As you would know, for an industry such as aerospace which requires significant investments in capital in order to remain competitive, these kinds of tax measures are very important to their future competitiveness. I would also note the sustained budget plans that have been announced over a number of years, the action taken during the economic action plan when all industries were challenged by the drop in the demand globally.

I think that for all industries a supportive tax and fiscal climate is a significant advantage, particularly in these uncertain times.

Mr. Andrew Saxton: Thank you.

Can the Office of the Auditor General explain why it's important, or why we need to support this particular sector?

Mr. Ronnie Campbell: That sounds like a question of policy, Mr. Chairman.

Mr. Andrew Saxton: Let me be more specific then.

Is the strategic aerospace and defence initiative achieving its objective?

Mr. Ronnie Campbell: Thank you, Mr. Chairman, and thank you for the question.

We have observations around paragraph 6.38 and onward about the need to evaluate the extent to which these programs are meeting their objectives. On a number of occasions commitments were made to evaluate and they haven't been followed through.

As the associate deputy minister pointed out, we make a number of comments about things that are well managed in the program, but this is the one area where we think there needs to be significant improvement.

Mr. Andrew Saxton: Thank you.

I'll go back to the associate deputy minister of Industry. Perhaps you can tell us why we need to support this sector.

Ms. Marta Morgan: I'd be glad to.

First, let me say that this sector is an area where Canada is a real global leader. We have the fifth largest aerospace industry in the world. We have world-class Canadian firms in a number of areas, including regional aircraft. It includes Bombardier's small gas turbine engines; Pratt & Whitney is an example; CAE simulators; and landing gear by Goodrich and Héroux-Devtek.

It's an industry that generates considerable annual revenues and employs almost 70,000 highly skilled Canadians.

In this industry, projects have high development costs. They're high risk. They have long development lead times, and they have long payback periods. These factors, combined with the cyclical level of the industry, make it difficult for the private sector to fund R and D at levels that may be required to stay competitive.

That's why you would see that Canada and other countries with strong aerospace industries support these industries, because of the significant employment, and technical, environmental, and other benefits.

Mr. Andrew Saxton: Thank you.

Could you explain the difference between the strategic aerospace and defence initiative and technology partnerships Canada?

Ms. Marta Morgan: Yes, SADI is different from its predecessor, TPC, in a number of ways.

First, it's more narrowly focused on the aerospace and defence sectors.

Second, repayment expectations are higher under SADI, as we now apply a royalty to gross business revenues instead of product sales. There is a more standard and consistent approach to repayments, and the repayment period is shorter.

We've also tried to streamline the administration. There is a new online form so it takes less time for companies to submit their applications. We've improved the transparency. We publish information on our website on program criteria, results, audits, evaluations, and service standards. Once the repayments begin in 2013-14, we will post all company-specific repayments.

● (1550)

Mr. Andrew Saxton: Thank you very much.

The Chair: Thank you.

Time has expired, and now over to the official opposition.

Mr. Allen, you have the floor, sir.

Mr. Malcolm Allen (Weland, NDP): Thank you, Chair.

Thank you, folks, for being with us today.

Hopefully, Mr. Campbell, I won't ask you a policy piece, but I'm sure you'll let me know if I do; whereas, Ms. Morgan, you'll feel free to answer the policy piece if I ask.

So let me start with you, Ms. Morgan, since we are talking about a policy piece. I'm referencing paragraph 6.40 on page 12 in the English version of chapter 6 of the Auditor General's report. In reference to the CSeries program, it suggests that perhaps we should have done some review around the 2009-10 period, but the department decided not to. Rather than do an interim review to see

if the program was working well, the decision was taken to do it at the end. It's like counting the horses after the barn door has closed and they've all run away. You have to figure out if you had brown ones or polka dot ones or exactly what you had. I could have had more polka dot ones because I like polka dot horses more.

Why was the decision taken to do it when we had finished rather than, as the Auditor General suggested, doing it partway through and learning some lessons? Indeed, you might have kept doing the same thing if you were doing such a great job. On the other hand, we don't always do great things and sometimes there are some pieces that perhaps we need to do better or could change. Why wouldn't we have said that we should probably do that interim review, if you will?

Ms. Marta Morgan: There is one Treasury Board commitment for the Bombardier CSeries program, which is to conduct an evaluation by 2015-16. This is reflected in our current evaluation plan.

The implementation review that I believe you're referring to was in the department's internal plans, but the contribution agreement was signed only in March 2009, and the rate of spending on the project was slower than expected because that was right after the recession. We found in general that with our program, with SADI, and also with the CSeries program, it was a time where demand in general slowed and R and D spending by companies slowed.

At that time, the department judged that conducting an implementation review would not provide us with enough information because the work was insufficiently well advanced for the work to be useful.

Mr. Malcolm Allen: I guess the comment to Mr. Campbell would be that I could ask the direct question: do you actually agree with that? In looking at what you've said in paragraphs 6.38, 6.39, and 6.40, they seem to indicate that you may not necessarily wholly agree with the attitude, "Well, let's do it later; we were kind of slow, we didn't spend a lot of money..." I'm not quite sure what "slow" means.

I'm assuming that we're not talking about how we only spent a hundred bucks last year or in the years you're referencing, Ms. Morgan. I'm sure we spent more than a hundred bucks. For Canadians, they're probably significant dollars, albeit it may be slow for your department, which is very large.

Mr. Campbell, you seem to indicate that these would be important. Do you still believe that's true?

Mr. Ronnie Campbell: Yes, certainly we believe it's important. I think the initial question was about one particular evaluation. For each one of those, there may be a practical or logical reason for putting it off, but I think our concern is broader than that; that is, there's been a series of evaluations that have not been conducted.

For example, the TPC final evaluation was to have been done in 2011, and it's now going to be in 2015-16. The SADI initial implementation review was to be done in 2009. It was done in 2010. On the CSeries implementation, there was no implementation review done. They had talked about doing it in 2009-10.

I think if there's anything that we think would really strengthen the management of these programs, it would be a greater commitment to evaluation and getting some good data on performance. I was very pleased to see in the department's response that they're committed to doing that, but I think it's something that they need to get on with, and I think it would help strengthen the programs.

Thank you.

• (1555)

Mr. Malcolm Allen: Ms. Morgan, Mr. Campbell raised what obviously was going to be my next question. There's the issue about SADI, where we didn't do those reviews or we're going to put them off until later. Mr. Campbell actually has been helpful in outlining that there seems to be a pattern of "let's do it later", which is in a sense procrastination, quite frankly.

To paraphrase Mr. Campbell's comments, and I'm sure you have a copy and I'm sure you heard him quite clearly, he said that this means the information going to Parliament and to Canadians isn't happening in a timely way.

By the way, we quite often see departments come in after the fact and say they agree with what the Auditor General said. But we're now talking about things you should have done a while ago. What confidence are we to have in your department that you're not going to continue to procrastinate, and that we're going to actually get these things done, so that the House and indeed Canadians—because we are spending direct dollars here in some of these programs—can find out whether these dollars will actually be spent well and effectively?

Ms. Marta Morgan: Industry Canada's audit and evaluation branch, Mr. Chair, has conducted a number of evaluations on these aerospace programs.

With respect to SADI, we conducted an audit of SADI governance in 2010, an implementation review in 2010-11, a collaboration review in October 2011, and an evaluation in 2011-12. The next evaluation is scheduled for 2016-17.

With respect to the CSeries, the Treasury Board submission requires that an evaluation be completed in 2015-16, and we are fully committed to implementing the action plan that we have agreed to and in response to the Auditor General.

Mr. Malcolm Allen: I'm going to get cut off.

The Chair: No, no, you are cut off. You're way over, Mr. Allen.

Mr. Malcolm Allen: Actually, you were supposed to get it done by 2007, though. That's the problem.

The Chair: Mr. Allen.

Mr. Malcolm Allen: Thank you, Chair. Sorry.

The Chair: That's all right. Thank you.

Thank you, Madam Morgan. Time has well expired.

We'll go over now to the government members.

Vice-Chair Kramp, you have the floor, sir.

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): Thank you, Chair. I'm probably going to help Mr. Allen out a little bit. I'm going to continue a little bit of his process of questioning on this.

As our guests do realize, this committee has a responsibility to seek the answers, and of course, to put in timelines to expect responses so that we can have a stick by which to measure whether or not success has taken place, and whether or not recommendations have been followed up.

Industry, you've mentioned the number of components of an action plan that appears to be in place. You've already undertaken the initiatives. Are you doing this as a one-off because these are issues you have to deal with, or is there a total, complete, strategic response to this audit? Is there a full action plan? Is it broken down? Is it compartmentalized? To what extent can we expect to see a full response to the audit?

Ms. Marta Morgan: Mr. Chair, as I noted in my remarks, we have fully agreed with the recommendations of the Auditor General. We've submitted an action plan to this committee, which details our actions in order to follow through on that.

I'd like to turn it over to Mitch Davies to walk you through the key elements of that plan.

Mr. Daryl Kramp: Thank you.

Mr. Mitch Davies (Associate Assistant Deputy Minister, Science and Innovation Sector, Department of Industry): Mr. Chair, I'd be pleased to speak to the action plan and our progress.

On the first item, in relation to monitoring and reporting requirements set on agreements being fully met and documented, in this case we have implemented an annual program benefits report, which is noted in the Auditor General's report. We're maintaining that practice and including our regular site visits to program participants. We have a new performance measurement strategy that has been posted on the Internet, which is quite comprehensive and it reflects how we'll report on the program's progress over time, to which we'll be held.

On item two, the recommendation was that we include the project's specific objectives and anticipated outcomes in the contribution agreements. In fact, the recommendation is that we would maintain that practice. We're doing so, and we'll continue to do so.

On item three, we were asked that we would follow up on the planned evaluations. As Madam Morgan has said, we will be following through on those, including the evaluation for TPC, which will be completed, and the Bombardier CSeries program evaluations, which we're moving up, in fact.

On item four in the action plan, we were asked to provide a comprehensive report on our program benefits, which we've now posted to our website, which essentially catches us up from the outset of the program to the end of last fiscal year, and we'll continue that on an annual basis. It provides comprehensive information on the clients, their program activities, and benefits realized by the specific recipients of the program.

Item five was asking us to improve our documentation around risk management. We've completed a new guideline on risk management and our approach so that in future, when an audit occurs, they'll be able to actually look at the guidelines we've applied and how our practice matches up with those guidelines.

Item six was about implementing documentation improvements around management controls across all transfer payment programs in the department. We're well under way. We did complete our plan by November, as promised. We'll be completing the work on all the documentation required, which is what's been asked for, by the end of the next fiscal year.

The last item was to improve our service standard approach. In fact, we implemented in December of last year a new method for capturing service standards and reporting on them. That's in line with the observations of the Auditor General.

• (1600)

Mr. Daryl Kramp: Thank you very much. I think it's important to put some meat on that bone for us so we actually have a measuring stick by which we're able to check progress in the future as to whether or not you're following through with that.

Maybe I'll ask a second question. Canada traditionally has been pretty good in R and D. We fall off a little in incubation, and then for commercialization we've been notoriously not as effective as we should be as a nation.

Of course, now with this particular industry, you really have the whole ball of wax here. It's important to me that we have some indication of whether or not we are getting bang for the buck. In other words, if we spend \$1 million, are we getting back \$1 million in return? Are we leveraging other sources of funding? Are we able to maximize our investment? Can you give us some kind of indication as to leveraging of funds versus the spending that is going out?

Ms. Marta Morgan: Yes. Thank you for that question.

When we look at the SADI program, we look at whether we're getting bang for our buck on three fronts vis-à-vis the broad objectives of the program, which are innovation, collaboration, and competitiveness.

With respect to innovation, there are two measures, really. Are the companies conducting the R and D and completing the R and D projects that are the subject of their contribution agreements? To date we have 28 projects under the program, of which 20 have completed some or all of the R and D. We've also leveraged, for every dollar of SADI funding, \$2 from other sources into those projects. So we are leveraging contributions from the private sector and others into those projects.

We've encouraged collaboration, because we believe collaboration is a key to encouraging commercialization and closer links between research institutes and the private sector and universities. Twenty-three of our 28 projects currently involve collaborations with universities and colleges.

The third is competitiveness and the impact of these R and D projects on the competitiveness of the companies. That takes longer to determine, because it needs for the R and D to be complete and for that R and D to be then commercialized, either as part of the production process or the products.

What we're seeing now, five years into the program, is that about half of the projects are commercializing or putting this technology into place.

Mr. Daryl Kramp: Okay. One brief—

The Chair: Sorry, we're over time, Mr. Kramp.

Mr. Daryl Kramp: Thank you.

The Chair: We'll go now to Madame Blanchette-Lamothe. You have the floor.

[*Translation*]

Ms. Lysane Blanchette-Lamothe (Pierrefonds—Dollard, NDP): Thank you, Mr. Chair.

I thank all the witnesses for being here with us today.

I want to congratulate the department for the positive elements that are to be found in the report of the Auditor General. However, since this is the Standing Committee on Public Accounts, I would like to obtain some further information on the follow-up to the Auditor General's recommendations.

First, I would like to go back to what my colleague Mr. Allen was saying about measuring the progress made with regard to program objectives.

You explained why you had not begun, at first, to produce these reports. However, I did not quite understand why you will only be producing a report in 2015-2016. What is preventing you from producing one next year?

• (1605)

Ms. Marta Morgan: Thank you very much.

We have already produced a report on the program. We published it on our website in February. We are now reaching a point where we are able to produce a report regarding the program objectives, since it has been ongoing for five years.

[*English*]

From the outset, we have collected information on these program objectives through quarterly progress reports and annual site visits. Since the companies were in the early stages of doing their R and D, the information that they had to share with us was on how far along they were in completing the activities that they agreed to do as part of their statement of work, and who they were collaborating with. Now, over time, as these R and D projects become complete, we will be more in a position to report publicly on issues around competitiveness.

[*Translation*]

Ms. Lysane Blanchette-Lamothe: Mr. Campbell, do you think the information that has been collected from the beginning is sufficient to prepare a report that will show us clearly that the program objectives have been met?

Mr. Ronnie Campbell: Thank you.

Mr. Wheeler is going to answer that question.

[*English*]

Mr. Glenn Wheeler (Principal, Office of the Auditor General of Canada): Mr. Chair, as we note in our audit report, in the period up until 2010, the department was not collecting sufficient performance information to report on SADI's objectives and whether they were being achieved. Since 2010, yes, the department is now collecting sufficient information to report on performance.

However, the fact of the matter remains that when SADI was introduced in 2007, there was a commitment to increase transparency. If you compare SADI with its predecessor, TPC, we didn't see that annual public reporting for the first number of years that the program was operational. We were happy to see that recently the department published a report on program highlights.

[Translation]

Ms. Lysane Blanchette-Lamothe: Thank you very much.

In another connection, in response to one of the recommendations in the report, Industry Canada replies that it accepts the recommendation and that it will continue the exemplary practice it implemented in 2010, which consists in including in its contribution agreements specific project objectives as well as the expected benefit outcomes.

I wonder why they reply that they accept that recommendation, but specify that they will continue to do what they have been doing since 2010. Does that reply really cover everything you had included in the recommendation?

[English]

Mr. Glenn Wheeler: Mr. Chair, starting in 2010-11 the department was collecting more of that performance information and including it in annual project benefits reports. Before that point in time, a lot of the information that was being collected wasn't getting at anticipated outcomes and benefits, so the department was not in a position to report fully on that.

We have noted a big difference in the period since 2010. They included in contribution agreements specific requirements for reporting on outcomes and benefits. We are quite happy that that improvement has been made. But in the period before 2010, the information was much more sporadic.

The Chair: The time has expired.

We'll move over to Mr. Shipley. You have the floor, sir.

•(1610)

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you very much, Mr. Chair, and thank you to our witnesses.

I wouldn't mind following up a little bit, Ms. Morgan, on some of the things you were talking about, such as the number of projects that are already under way. You talked about the leverage and the value of the two for one. All of those are good.

I'm just wondering what sort of value we're talking about in terms of dollars. Would you have some indication of what that would be, of the 28 projects?

Ms. Marta Morgan: The government has invested thus far about \$880 million through SADI, although only about half of that has been disbursed at this point. That's the total amount in commitments. We would expect, based on our current track record with what's been disbursed, that we would be able to leverage about another \$1.7 billion of investment on top of that.

Mr. Bev Shipley: To help us, you say about half of that has been disbursed. Is that normal in terms of that 50% disbursement at this stage? I go back to a comment you made earlier about when the recession hit and there was a slowdown. Is there any connection?

Ms. Marta Morgan: Well, yes. I think the programs have been in place since 2007, and five years quite shortly thereafter the recession hit. It's absolutely normal in a program like this that the funds would be disbursed over time, because they're disbursed as the company carries out its R and D activities.

What we saw during the recession was that there was somewhat of a slowdown in the rate of spending and also in the number of applications that came in to us, particularly in those couple of years, 2008 and 2009.

Mr. Bev Shipley: Again, SADI is the strategic aerospace defence initiative, for those who are watching.

From my perspective, I've been in business and one of the things that I always look at when we do research and development, and then what is the actual outcome and the value we get, is where does the commercialized value come out of it. You talked about it being at 50%, I think, based on the number of projects, which represented about 50% of it. Is that satisfactory?

What would be your goal? If you were to put it on a bell curve and you could start to see the development of research and development, where would that peak to satisfy some sort of return on investment, where you would say that's great because it's been commercialized?

Mr. Mitch Davies: Mr. Chair, I would refer back to and commend particularly to analysts of the committee to look at our performance measurement strategy, which is quite detailed in enumerating how we are undertaking to examine performance. It addresses also the facts of the challenges, in particular when you're supporting programs, mechanisms where you're trying to achieve an outcome in the commercial market where a lot of other factors come into play over and above whether or not the support for the R and D is in place. I think it is important to make that point.

Our objective in terms of commercialization is that 80% of the projects that we support would see the technologies that are developed ultimately find their way into products and services in the marketplace. Then a subset, in terms of our own objectives, is managing the portfolio itself.

In the case of SADI, we're seeking to achieve nominal repayment to the crown for the funds that are expended. That's a very key indicator. If the companies are in a position to return those funds back to the program and essentially make them available for reinvestment, then we're succeeding.

Those companies are having success in the marketplace and there is an objective to have nominal repayment to the fund over time, but each agreement—speaking to where we are with the agreements and where we were in the early days when the reporting was thinner—is a 20-year relationship. There is a five-year period in which R and D is undertaken. It takes time for the actual engineering, the technical work, to develop to a level where you can actually say you're starting to see the objectives of the project come to fruition. Then there is a 15-year period over which they're repaying.

Mr. Bev Shipley: I have a short time here.

That really helped, and I thank you, especially with the time limit.

I have a quick question for the AG. A little earlier Mr. Davies went down the list he had in his presentation, and I think there are seven items. Recognizing the audit was completed in July 2012, which is now seven or eight months ago, whatever the math is, he went down and actually gave categorically some indication of where they are and what they, as an industry, have done.

Could you comment on that, recognizing that before 2007 apparently there were inadequate performance evaluation tools, before 2010. I'm just trying to get a sense of this, because there's a gap here, and since you wrote the audit and since they've reported today.

•(1615)

Mr. Ronnie Campbell: Thank you, Mr. Chair.

With all the caveats that an auditor would put on something that he hasn't audited—and I could go on but I won't—we haven't audited that information. Nonetheless, we took a quick look at the department's action plan and it seems to be complete. We just took a quick look. Probably if we had a bit more time we would talk to the department about a couple of areas where we think there could be more detail, but they seem to be addressing—

Mr. Bev Shipley: Not to put you on the spot or anything, but we need to get some sort of feeling because there has been a time lag. That's all.

Thank you.

Thank you, Mr. Chair.

The Chair: You're welcome.

Mr. Byrne, you have the floor, sir.

Hon. Gerry Byrne (Humber—St. Barbe—Baie Verte, Lib.): Thanks, Mr. Chair.

Thank you to our witnesses and to the assistant auditor general.

My question is for the associate deputy minister. Since 2007, \$350 million has been entrusted to the Bombardier CSeries aircraft program.

Madam Morgan, would you be able to tell the committee if the Bombardier CSeries program has met its objectives as stated in its contribution agreements?

Ms. Marta Morgan: We collect very detailed information on the Bombardier CSeries program with respect to the R and D activities that are being undertaken in support of that initiative. We have very comprehensive information on the project. From that perspective, we are very confident that the milestones are being met and that the R and D that was contracted to is being undertaken by Bombardier.

Ultimately the success of this project will be reflected in Bombardier's success with its CSeries program. We are very hopeful that Bombardier will be successful with that program, because it is a very important project for the company.

Hon. Gerry Byrne: Understood. Thank you for that. I'll take it that the official position of the Department of Industry is that it is meeting its objectives.

I'll move the question now to the assistant auditor general. Was that a reasonable statement for the associate deputy minister to make

to this parliamentary committee, that it is indeed reaching its objectives?

Mr. Ronnie Campbell: Mr. Chairman, the department is doing a lot of stuff. It's done a lot of good stuff and it's gathering a lot of information. What we've pointed out is that there's critical information that needs to be gathered, evaluated, and reported. It's not a question of their doing nothing and it's not a question of their having done everything. They're doing a lot. There are some critical things in the evaluative sense that we think they need to do, and we've made recommendations to that effect.

Hon. Gerry Byrne: Thank you.

I note in your opening statement, Mr. Campbell, when you were referring to the Bombardier CSeries program, that you said to this committee that both Parliament and Canadians do not know whether the program is meeting its objectives. You said that in the course of your audit you found that Industry Canada had not collected all documents required by the two contribution agreements to determine progress towards the program's objectives.

From the point of view of this committee, we're trying to establish whether or not benchmarks are being met. It doesn't appear that they are. This is a significant amount of taxpayers' money being provided to individual companies in this regard. I'll leave it at that, but I'm still left a little confused.

I'll ask this question. Industry Canada committed to providing Parliament and Canadians with annual reports regarding the SADI program. It was approved, and SADI was initiated in 2007, yet there has never been a report to Parliament, if I understand correctly. Is that your understanding as well? I'll ask the associate deputy minister.

•(1620)

Ms. Marta Morgan: We have reported a significant amount of information on the SADI program on our website, on new agreements, amounts disbursed, program service standards, repayments, and evaluation findings. The Auditor General recommended that we also report publicly in the form of an annual report on the extent to which the program is meeting its objectives and on the accomplishments of each project, so less on the project objective side of the program and more on the program objective side.

Now that projects are beginning to complete their R and D and enter the repayment phase and the implementation phase, we have more information to report on this. We've accepted that recommendation by the Auditor General and we've recently published a program highlights 2011-12 report, which we posted on our website in February.

Hon. Gerry Byrne: Thank you.

One of the most important tools the public accounts committee has available to us to hold the government to account and make sure that the Auditor General's reports are respected and upheld is the provision of action plans to us. We provided a directive to departments as a committee that we expected that not only would action plans be provided, but key individuals would be identified in the production of action plans in response to AG reports, and also that key timeframes would be provided.

Recommendation number four of the Auditor General, found in paragraph 6.45, is that Industry Canada should ensure that it meets its commitment to report publicly each year on how approved projects met the SADI assessment criteria. You list the time frame for your compliance with that as ongoing. Would you be more specific about your intended compliance to that particular request?

Mr. Mitch Davies: The ongoing is not to indicate that something hasn't already been done. We've achieved the first milestone, which was to have published a comprehensive report reflecting the 2011-12 fiscal year, which we did on February 8. It's available publicly on our website. The ongoing part is that every fiscal year thereafter we will do the same.

The Chair: Sorry, time has expired.

We move along to Mr. Dreeshen. You have the floor, sir.

Mr. Earl Dreeshen (Red Deer, CPC): Thank you very much, Mr. Chair.

Thank you, folks, for coming here today.

It's great that you've been able to explain some of the aspects of this, especially the 20-year plan and the fact that we've taken the first five years to get through the start-up phase, if you like, and then work our way through from there. I imagine that eventually, if you have new projects that are coming on line, you'd be able to come up with certain metrics for how you'd be able to look at it in the first three years of a 20-year program or when you're seven or eight years into it, because you're obviously looking for different things as you go through the project.

Perhaps you could go through some of those metrics that you will be using in order to look at program objectives, outcomes, and benefits. What types of things are you looking at so that you will be able to satisfy the questions that have come from the Auditor General?

Mr. Mitch Davies: It's definitely the case that over time in each project there will be a different set of metrics that become important.

In the early part of the R and D program, essentially the metrics relate to whether the R and D is being executed as contracted in the agreement, which is not a stage at which we're seeing benefits other than there's direct employment, there's actual activity, being an activity of procurement, there's knowledge development, and so forth that's occurring at that early stage. That's the one in the case where we were speaking of wishing to see a target of 90% of that activity being executed upon under the agreements we achieve in the program. We will report on that on an ongoing basis.

The next stage, of course, is the question of collaboration, where we have a particular objective to encourage spillovers through the program, so it's not simply a matter of R and D completely being conducted in-house inside the enterprise, but also in collaboration with our higher education institutes and research institutes so we have a transfer of knowledge, we have education of students, and we have a pathway for innovation to transfer across the two sectors. We will report on the extent of those collaborations over time.

Finally, we have a target in terms of 80% for those projects to lead to actual commercial outcomes, where the technology is transferred into a product that makes its way into the marketplace.

Of course, one doesn't do any of this with the assurance that all of it will turn out. It's all done in an environment where there's a risk being undertaken, that you ultimately achieve the objectives. But we have established targets in those areas and we will report on that publicly over time.

• (1625)

Mr. Earl Dreeshen: When the Auditor General took a look at what was happening and so on, were there discussions with the folks from the AG's office as to the type of metrics you should be using, what they would like to see, to make it easier when you do come up with the reporting regime later?

Mr. Mitch Davies: The Auditor General is bound to look at the facts of what our files and documentation reflect at any given point in time to the extent that we make improvements, as we continue to do, and as we do as good administrators of our programs, for example, publishing the performance measurement strategy, which is quite comprehensive. It wasn't an undertaking we made in respect to this audit. It was something we were going to do in and of itself for good reason. But when they come back and check in with us in a number of years, and I'm certain they will be back, they will be able to reflect on how well we've implemented that to the extent that we've reported.... I assume they'll have to talk about something else next time when they do their report on us. That's what we'd hoped to do.

I take a lot of credit in the sense that there's one paragraph in the report that is quite key, which is not all the areas where we need to improve, but it's that the core operation of the program, the way we determine eligibility, the due diligence, that we actually pay claims appropriately, that we collect the funds, that sort of beating heart of what we do, they found us to have done a good job.

Mr. Earl Dreeshen: That's great.

Could you expand somewhat on the collaboration you have with the colleges and universities? What can we see happening there? What types of things do you see in the future where you might be able to work with those institutions?

Mr. Mitch Davies: In this case it's a question of having the companies undertake collaborations. In fact, now it's something we contract with them around. It's gone from an aspirational objective when we commenced the program to something where we actually ask them to make commitments contractually to execute various arrangements with colleges or universities to establish research chairs in particular disciplines, which are part of the overall research that they're interested in, to sponsor students or internships in their firms in order to ensure there's a transfer of knowledge.

We have students in universities and higher research institutes actually learning what Canadian companies are doing and becoming familiar with that work so that knowledge and eventually that talent can transfer from the university sector, the higher education sector, into companies. That's what we're looking for.

Mr. Earl Dreeshen: Thank you.

The Chair: That's very good. Thank you. Time has expired.

It's over to Monsieur Giguère. You have the floor, sir.

[Translation]

Mr. Alain Giguère (Marc-Aurèle-Fortin, NDP): Thank you, Mr. Chair.

I thank the witnesses for having come here to provide us with this information.

I note in the documents provided by Industry Canada that in 2001 there were 48,000 employees in the aerospace products and parts manufacturing sector, but that there are only 40,000 left, which represents a loss of 17%. The same Industry Canada documents indicate that currently, 20% of Canadian aerospace equipment is manufactured outside of Canada. The exportation of our jobs offshore increased by 12%. And yet job impacts were an inherent part of the evaluation of SADI.

Can you give us some more information on future job-related outcomes that SADI will generate?

[English]

Ms. Marta Morgan: One of the things we look for in our SADI agreements is the kind of employment that will be generated directly by the contractual agreements. However, we don't collect information on overall eventual employment gains from specific projects because it's very difficult to establish that from a causal relationship. When we think about employment, what we're really looking at is the overall success of the Canadian industry, which continues to be very successful on a global scale, to generate high-value jobs and employment.

I would have to get back to you on the specific data tabled here if more information is desired.

• (1630)

[Translation]

Mr. Alain Giguère: Madam, your own figures indicate that you are not creating jobs, but that you are losing them. From 2001 to 2012, you lost 8,000 jobs in the manufacturing sector.

[English]

Ms. Marta Morgan: Mr. Chair, I would need to get back to the committee with that information. I don't have the specific numbers that the member has in front of him. I would note there are about 70,000 employees in this sector right now and that all sectors in manufacturing have faced a challenging period over the last decade.

The Chair: Excuse me, Mr. Giguère, did those numbers come from somewhere other than the Auditor General's report?

[Translation]

Mr. Alain Giguère: That is from the Library of Parliament study on the aerospace industry. It also refers to job creation.

[English]

The Chair: Okay.

In that case, it's a fair answer. Can you get back to us on that, please?

Ms. Marta Morgan: Absolutely.

[Translation]

Mr. Alain Giguère: Very well.

We know how important research and development is for the aerospace industry. However, you say that you are going to have to reassess your objectives. The Auditor General in fact urges you to do so more frequently.

My question concerns the strategic nature of your review of objectives. We rank fifth among aerospace sectors, according to the OECD, but the Emerson report indicates that there is no proper linkage between Industry Canada and the aerospace-related orders placed by the Canadian government.

Is your strategic objective not to ensure that when the Canadian government needs an aircraft, our own industry is able to manufacture it to meet that need?

[English]

Ms. Marta Morgan: Mr. Emerson's report made a number of recommendations regarding the aerospace industry. In total, 25 touch a number of federal departments. His report concluded that innovation is critical to the future competitiveness of the industry. He made a number of recommendations on how we can improve our programs at Industry Canada, and also how other government departments can improve their programs vis-à-vis the industry. Right now, the government is looking at that report and all the recommendations and considering how best to proceed on the advice of Mr. Emerson.

The Chair: That's it for time.

You're right on the money.

Thank you. I appreciate your cooperation.

Mr. Hayes, you have the floor, sir.

Mr. Bryan Hayes (Sault Ste. Marie, CPC): Thank you, Mr. Chair.

It strikes me that it doesn't really matter if benchmarks are being met if the company you're dealing with goes out of business. I'm looking at the sizes of these distributions: \$9.6 million, \$52 million, and \$19.6 million. We're talking huge money here. As a taxpayer, I would want some level of comfort that the company I'm dealing with is going to be around for the foreseeable future.

I took the opportunity to look at your website. It's a very good and comprehensive website. There's a section on due diligence review. Could you speak a bit on that? As a CGA, I'm more interested in the financial information you look at as part of your assessment of doing business with a company. I'm interested in the capabilities of your staff and the number of staff involved in the due diligence process.

Mr. Mitch Davies: Thank you for the question, Mr. Chair.

The due diligence that's undertaken speaks to the reason it takes us a number of months to complete the review of an application. We will undertake a significant amount of work in a number of areas.

First, we look at the technology that the company is undertaking to work on, and often we will consult experts. The National Research Council is used for its expertise in aerospace in particular. We'll go to other departments if they have a scientific competence in an area and bring in information in that regard.

Second, we'll undertake to look at the market assessments the company has prepared and to validate those. We will work in the department to confirm information against other industry analyst reports, against reports prepared for public markets and such.

Then of course the financial due diligence is extensive. We will undertake a complete review of the company's financial health, because essentially that's the entity that takes on the obligation to return the funds to the crown under the agreement.

Speaking specifically—though I won't name the gentleman—the person who heads up the team we have which undertakes the financial analysis is the person who actually goes and scores the CFA exam in the United States for the best financial analysts who are put into industry. He's the one who marks their papers. So I actually have quite a bit of confidence that we have a team with a number of designations in different areas as well as strong financial analysis and financial review.

On the repayments side, we also undertake modelling. Not only do we take company information that they supply in terms of their outlook and repayments to us, but we'll also subject that to a number of tests. We do Monte Carlo simulations which is a probabilistic model to determine whether, based on past information, we'll expect to have the result we expect. We use that to evaluate whether or not we're going to meet our portfolio objectives.

Much of this says there's a lot done. There are a lot of belts and suspenders. There's a lot of review done, but it's still done with risk. You can work as hard as you can, but you can't take the risk away when you're in a business space that's R and D. So we still have to live with particular risk. We'll adjust the repayment expectation from each company based on the risk assessed. For example, if it's a higher risk company, we'll expect a higher repayment, which is a way of compensating for that in the program. For a lower risk company, there is a lower repayment cap on their contribution agreement. That's essentially how it comes together.

•(1635)

Mr. Bryan Hayes: In terms of repayment, is interest charged on these funds that are given to companies?

Mr. Mitch Davies: It would be implicit. For example, a company could receive its contribution and be expected over the 15-year repayment period to repay 155% of their total. It turns out to be a nominal repayment to our portfolio, and it more or less equates to about a 3% interest rate. What you see right there is the incentive value in the program, because the cost of capital for most of these firms would be 12% to 15%. It's very high, and R and D is very risky. That funding is being provided through our program at around 3%. It's a low cost loan essentially.

Mr. Bryan Hayes: In terms of success rate, have you had companies that have failed along the way, or is SADI too new to really have come to any of those types of conclusions yet?

Mr. Mitch Davies: We have one firm. I wouldn't speak in too much depth regarding the commercial information. It's the nature of the relationship. We have one firm that has undertaken a restructuring since the agreement was undertaken with them. There was certainly information in the public domain about financing challenges and difficulties of some firms, but for the most part, we're dealing with going concerns.

Most of the companies we deal with have been doing business of this kind with the department for many years with different program arrangements and different expectations and would expect to do so for many years to come, which obviously has an effect on behaviour in terms of meeting the commitments they've made to us and so on.

Mr. Bryan Hayes: Thank you.

The Chair: Thank you very much.

We'll move along to Mr. Byrne.

You have the floor, Mr. Byrne.

Hon. Gerry Byrne: Thank you.

This is a question for Industry Canada.

Do you deem these support programs to the aerospace industry to be a structural subsidy to the industry, or are they a temporary bridge to competitiveness?

Ms. Marta Morgan: We would see these programs as a support to the innovation capacity within the industry.

We have three objectives. One of them is to incent that innovation and increase the amount of innovation in the industry. One is to promote collaboration, because we believe that promotes more sustained innovation throughout the whole system. One is competitiveness, because we believe that companies that innovate, particularly in this sector, which is very innovation intensive, are more likely to be competitive.

Hon. Gerry Byrne: Do you anticipate that in the foreseeable future, let's say a period of five to ten years, this program, or the structure of these umbrella programs, would not be required by the Canadian industry?

Ms. Marta Morgan: If you look globally at the aerospace industry, you see that because of the kind of R and D that's required, with the long timelines, the high risk, the long payback periods, and the high value of the kinds of technologies that are being created, governments around the world are investing in R and D in this particular field.

The Canadian government has had some version of the SADI program since 1959, with DIPP and technology partnerships Canada, then SADI. I think that's really a function of this industry, and the fact that it is such a high tech, innovation intensive industry but also high risk.

It would not be for me to decide what would happen in the future, but certainly past and international experience suggest that in this area innovation has significant economic payback, both to the society and also to the specific industry.

• (1640)

Hon. Gerry Byrne: I appreciate that.

It sounds to me, and I think it sounds to most Canadians, given our support to the aerospace sector since around 1959.... You seem to be indicating to this parliamentary committee that you expect it to be around for quite some time; because other governments are doing it, our competitiveness is at stake.

It sounds like this is a structural subsidy to the sector, and could potentially be a cause or a reason as to why the industry is not being held in compliance with reporting under its contribution agreements.

It does kind of baffle the mind as to why, if someone's receiving hundreds of millions of dollars in assistance from the Canadian taxpayer, they're not being held to account to at least report, as per the contribution agreements, for those hundreds of millions of dollars.

Could you report to the committee your activities to actually get compliance from those who are receiving those types of taxpayer dollars?

Ms. Marta Morgan: What's important to note here is that from the outset of this program, the department has asked for information on the three program objectives through quarterly progress reports and annual site visits.

In the early stages, when the companies were just beginning their R and D activities, they provided significant information to us on their statements of work. What technical objectives were they trying to meet? What kind of materials were they using? What kinds of engineers were they using? Were they meeting their deadlines? Was the project on track?

We collected significant information vis-à-vis the project and whether the project was on track. I think that was acknowledged in the Auditor General's report. We also collected information through site visits and quarterly reports on program objectives, although that takes more time to materialize, because it really starts to relate to such issues as commercialization, which starts to happen a little bit later.

We improved the way we collected that information in 2010, which was also recognized by the Auditor General. That's something that we intend to continue.

Hon. Gerry Byrne: We've had an opportunity to go through the Auditor General's reports, so why don't we go right to you, Mr. Campbell, as assistant auditor general, and ask you, are you satisfied that the taxpayer dollar has been protected, or have the contribution agreements with industry, signed by Industry Canada, been satisfactorily achieved or enacted?

Mr. Ronnie Campbell: Thank you, Mr. Chairman.

Following from the discussion that has just happened, I mean, certainly there were areas that were not satisfied. There were reports that were required that have not been received, and the department, rather than follow up with the companies, told us that they found other sources of the information. Yes, they've done the site visits, and we noted that by and large I think they had done them all, but we noted that those weren't well documented at all, and that sort of thing.

There are a lot of areas there. I'm referring particularly to paragraph 6.31 and the Bombardier CSeries and other comments where we think that could be improved.

The Chair: Thank you.

Sorry, the time has expired.

Mr. Williamson, you have the floor, sir.

Mr. John Williamson (New Brunswick Southwest, CPC): Thank you, Chair.

I want to try to split my time between both the AG and Industry.

First, Mr. Davies or Ms. Morgan, there's a line in the auditor's report that reads, "The federal government's approach—sharing risks and rewards—is intended to encourage private sector investment."

Do you agree with that?

Ms. Marta Morgan: Yes.

Mr. John Williamson: Okay. That's good. I'm going to come back to you. I want to speak to the assistant auditor general.

I'm concerned with your review of the old programs, TPC and DIPP, particularly the line in section 6.80, "We found that, of the repayments we reviewed as part of our audit, the Department obtained most repayments on time."

I'd like a very quick answer. This wasn't a value for money audit. It was looking at procedures, I suppose, and how the program worked. Is that right?

• (1645)

Mr. Ronnie Campbell: It was a performance audit. We looked at the department's performance in a number of areas.

Mr. John Williamson: I'm curious to know how you came to that conclusion, because, for example, TPC has handed out \$3 billion over the course of its program, and \$767 million has been repaid. DIPP was at about \$2.15 billion, of which 28% has been repaid. I'm curious to know if you looked at the department's own repayment forecast, which the department never actually released to the public. But access to information reports found, for example, that in 2004-05 Industry officials had pegged TPC's total for repayments at about 21%, yet the records at that time indicated that it was nowhere near that.

When the program was first unveiled, the minister said that the program would recoup \$1.50 to \$2 back to the federal government. Even David Emerson, when he was named minister, downgraded it in saying that 80% would be recouped. I'm just curious to know how you came to that conclusion in light of access to information reports that are a number of years old now and that show the department was never anywhere near recouping the amount of money that it had projected it would recoup.

Mr. Ronnie Campbell: Mr. Chairman, I'll respond to the question, and I may ask Mr. Wheeler to help with some of the details.

What we did is that we took a sample. If you look at TPC in exhibit 6.3, that was the number of projects we examined: 41. Of that 41, and Mr. Wheeler will correct me if I'm wrong here, 32 of them triggered the conditions for repayment. From thereon in, it flows out of that. There were 132 payments that were due out of that, and then the numbers flow from that.

Did I miss anything?

Mr. Glenn Wheeler: No.

I'll just add, Mr. Chair, that the focus of our work here, when we looked at the management regime, was—

Mr. John Williamson: I'm actually going to stop you. Did you compare the department's own forecast for repayment, yes or no?

Mr. Glenn Wheeler: No, we did not.

Mr. John Williamson: Thank you.

My time is running out. I want to return to Mr. Davies.

Mr. Davies, you talked about repayments that could in theory total 155% if you look at the interest, but the reality is that past programs never came anywhere near that. Otherwise, repayments would have been much higher and much, much closer to the amounts that were disbursed.

My problem is that we're falling into the trap that existed for the last two programs. You're not being transparent with taxpayers. I want to know how the department is going to respond to this report and the concerns that the assistant auditor general has that you're not meeting those requirements and that we don't end up with another program like TPC and DIPP, which were sold to taxpayers as value for money. At the end of the day, we saw that the forecasts weren't there, and the moneys were never recouped by the government and therefore the taxpayers.

Mr. Mitch Davies: Mr. Chair, I think that when the government in 2007 introduced SADI the expectations established were that we would raise the bar in respect particularly of transparency around the program. I think that's the thread of some of the recommendations that we've agreed to in this AG report. It's to improve our efforts in that and we're going to undertake that.

In terms of repayment and specifically to your point, our repayment track record on SADI is going to be on the website. It's there now. Obviously, many of the entries are blank because the companies are not in a position where they owe us money. But at that point in time in the next fiscal year when first payments come due on our first round of contracts, any Canadian who wishes to know will be able to check that website and determine whether we're actually

collecting those moneys. Over time, you'll have a cumulative story as to whether the goal to have a nominal repayment of the funds that have been issued under the program is being achieved.

Quite frankly, that's what we're interested in—the program, the administration of it, and the way we manage the portfolio—and certainly we'll provide that information for Canadians and parliamentarians to judge the progress against it.

• (1650)

The Chair: Thank you. Time has expired.

Mr. Allen, you have the floor, sir.

Mr. Malcolm Allen: Thank you, Mr. Chair.

Let me go back to where I was. In his opening comments when he talks about SADI, the strategic aerospace and defence initiative, which is what we should call it because a lot of folks don't necessarily understand the acronyms, Mr. Campbell talked about in point 8 of his remarks, "We found that Industry Canada has yet to report publicly on the results of the strategic aerospace and defence initiative as required by the funding approval it received in 2007."

As I think Mr. Williamson was trying to get at it and I hear Mr. Davies saying, part of my problem is that we're going to get better, we're putting things in place. The difficulty I think some members of this committee have is we've heard the department say they're not doing this part and they're not doing that part and they're not going to do this part. When that happens the difficulty comes when you say you're working on things. Without a benchmark of a specific piece at a specific time we have no idea whether it's getting done or not. It's similar to my saying that I really want to run a four-minute mile; I probably never will, but I'm going to work toward doing that. It's a wholly unrealistic goal. To be candid to my friends at the end of the table, too often the departments come here and tell us this all the time, once they make commitments to the Auditor General's report, that they're going to work toward it. It doesn't really...especially when you're spending money, and Mr. Williamson has pointed out other programs that were there prior to the programs you have now that didn't necessarily get back the moneys we had spent. I'm not saying that's not going to be the case for you folks who are running this department at the moment.

Ms. Morgan, you outlined in your brief, and I went through how you laid them out in the same way in answer to the recommendations throughout the report. So your first one was "The Department will ensure that the monitoring and reporting requirements...are fully met and documented". You've done that in your opening piece. For the recommendations that you said you would do by the end of 2012, some in December and some in November, how many of them have you completed working on and how many have you not?

Mr. Mitch Davies: Five of the seven were implemented. The sixth was essentially the overall program highlights report for 2011-12. We published it on February 8, so we missed December 31.

The last recommendation that we have to complete work on is documentation of our transfer payments policy, which isn't a specific program issue, it's updating procedure manuals, documents inside the department on how we administer all transfer payments. That work is under way. Some is complete, and the remainder will be completed by the end of the next fiscal year.

Mr. Malcolm Allen: Can we get an update in writing as to where that program is? I hear your commitment, and by the way, kudos in getting the vast majority of the work done on time. You missed one by four or five weeks. We could nitpick that one if wanted to, but no, I wanted to know if you hit the deadlines or not. You've done a good job. How's that? I don't want to say "reasonably", but that would qualify it and that's not fair.

Could we get a sense of where you are with this next one? Are you 10% complete, 20% complete? If you are intending to do it by next year, if it's only 20% done and you've used up 40% of the time, it means trying to rejig things and it makes it really difficult. If we could get that undertaking, I would appreciate it.

The Chair: Do we have that undertaking?

Ms. Marta Morgan: Yes.

The Chair: Very well, thank you. When will you be able to have that to us? What's the timeframe?

Ms. Marta Morgan: An update on how we've done, or what status we are on that?

Mr. Malcolm Allen: An update on the specific program that Mr. Davies indicated is not done yet.

•(1655)

Ms. Marta Morgan: We could provide an update to the committee within the next week or so on what stage we're at on that.

The Chair: Okay, that's good.

Mr. Malcolm Allen: That would suffice.

The Chair: Very well.

You're pretty much done, unless you can do something in six seconds.

Mr. Malcolm Allen: I suppose I should stop while I'm ahead—while I'm still saying something nice, the department would probably tell me—quit while you're ahead, as they say.

Thank you both very much.

The Chair: Thank you.

That rounds it out nicely.

To close off our rounds of discussion, Mr. Kramp.

Mr. Daryl Kramp: Thank you, Chair.

Again, thanks to our witnesses. It's great when we have quality witnesses here, forthcoming and well prepared; that's all I can suggest at this particular point. Thank you very, very kindly, all of the participants. It certainly makes our job much easier.

I was very fortunate; I had the opportunity to sit on the finance committee, and of course we're always in budget deliberations and pre-budget deliberations. There's always a demand for government dollars. Every program comes wanting and needing.

In particular with SADI—the budget—I'd like to have an indication from industry at this particular point about whether or not your request for dollars for SADI has been adequate, and/or whether it has met the demands that industry has put forward.

Ms. Marta Morgan: The SADI budget has been adequate to meet the demand that we've seen from the industry over the last number of years. We adjust it according to the demand we expect to see.

Mr. Emerson, in his report, did recommend some changes to the SADI program. Those are being considered right now by the government, looking forward, through the budget process and beyond, as to whether that would be advisable.

Mr. Daryl Kramp: Okay, fine.

Looking forward one, three, five years—obviously, we all like to plan ahead a little bit, if at all possible. It doesn't always work out; reality sometimes kicks in with some different options. What are you doing with this budget right now for SADI? Do you think it's going to have greater demand, where there might be more expectations to pull more from? Do you think we could potentially be reducing that budget? What are your thoughts right now? Does the status quo appear to be the answer?

Ms. Marta Morgan: It's a little bit hard to predict. What we've seen in the last few years is that demand was a little bit below the budget that was available. We've adjusted the budget to put that into more of a steady state and to see how it goes going forward. We'll just need to monitor that. I think it will depend on the state of the industry and the plans of individual companies.

Many of our projects are quite large, sort of lumpy, so it can be quite variable from one year to the next. I expect over time we'll have a bit better sense, especially since the first five years have been through the recession and then the rebound, so it's been a bit of an unusual time.

Mr. Daryl Kramp: Okay.

One of the challenges that I see moving forward...you need information in order to be able to make intelligent decisions and to verify, but the industry you're dealing with is highly competitive. It's strategic, and certainly confidentiality is tremendously important. You might want some information, but if that information becomes public, it can certainly put competitors in an advantageous position and/or adversely affect our own domestic suppliers.

How do you balance both the confidentiality and the transparency?

Mr. Mitch Davies: I don't want to look like I'm excusing our February 8 performance on something we committed to do by December 31, but I would use this question to provide you with some information.

As we provided a considerable amount of information on each of the companies that we've supported in the program in that most recent report, we had to vet each of those releases. We're talking about a paragraph that long, but we had to work those through with each of those companies to ensure that the information we were releasing was not sensitive to their commercial interests. That does take time. We'll have to build further lead time into doing that report in the future so that we can make sure we have that in. That's part of the reason it kind of pushed us beyond the timeframe that we have to participate—

Mr. Daryl Kramp: Is that as a result of a contractual arrangement you have with that company and the demands you place on them, or is that an industry standard? There's probably not a cookie-cutter approach to this because all those companies are different. Do they negotiate that with you, or are they in such a competitive market that, really, they almost have to dictate that?

• (1700)

Mr. Mitch Davies: In the case of a private company, they would be essentially providing us completely proprietary information that they wouldn't release to anyone, particularly to anyone who would be a competitor. We would hold that in our records because we have to undertake due diligence on the file. In such cases, of course, obviously, we ensure we have clearance when we do include information that they've provided us, particularly with respect to the benefit reports or how far along they are in their R and D. Each of these things could well be a sensitivity in respect of other companies that are also pursuing similar lines of R and D activity. They're all trying to aim at selling their products.

Our agreements allow us to have access to information that the companies would have, but not necessarily to release it publicly. Of course, we ensure that we have clearance from them before we aggregate it or consolidate it, in order to balance that with the need for us to explain to Canadians what we're doing with the funds we're investing. So there is a trade-off that has to be taken into account.

Mr. Daryl Kramp: I'm just going to turn my time over to my colleague.

The Chair: Actually, time has expired.

I appreciate your good intent, but it ain't going to happen. Thank you, Mr. Kramp.

With that, colleagues, unless there is a motion or a request to continue any further, I will extend our thanks to our witnesses today.

We appreciate your being here and appreciate the answers you've given. There were a couple of undertakings, I believe, for information to come to the committee. We'll expect to see that in the timely fashion that you committed to.

Many thanks to all of you and good luck until we see you again.

With that, I will suspend this meeting for two minutes, and we'll move in camera to deal with committee business.

[Proceedings continue in camera]

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