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Chair

Mr. Tom Lukiwski

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• (1150)

[English]

The Chair (Mr. Tom Lukiwski (Moose Jaw—Lake Centre—Lanigan, CPC)): I'll convene the meeting, if I may.

I want to welcome our guests. We apologize for the late arrival, but votes happen from time to time. I'm sure you're all aware of that.

Colleagues, we have with us today representatives from the Canadian Federation of Independent Business, the Aerospace Industries Association of Canada, and the Quebec federation of chambers of commerce. We welcome all of you gentlemen here.

I understand that all of you have brief opening statements of approximately 10 minutes each. That will give us approximately 40 minutes left. We could probably get through one, perhaps two, complete rounds of questioning. We'll see how it goes, but we'll certainly go as long as we can.

Once again, I apologize for the fact that we won't have as much time with you as we would have liked.

Yes, Kyle.

Mr. Kyle Peterson (Newmarket—Aurora, Lib.): Just on that note, Mr. Chair, it's an important topic and there may be questions that we're not able to ask in the contracted period of time. Is there a way to ask those as follow-up in written form?

The Chair: Certainly.

Gentlemen, what Mr. Peterson asked is a very legitimate request. There may be additional questions that committee members have of you. Also, following this session, there may be information that you feel would be important for our committee to have, so if there are any questions unanswered or if there is other information that you think would be of importance to this committee, I would ask that you submit it directly through the clerk because that will greatly assist us in the development of our final report.

With that, I think we'll begin. I will ask Mr. Parent to speak for 10 minutes, please.

Mr. Louis-Martin Parent (Director, President's Office, Canadian Federation of Independent Business): Thank you very much.

Hello, committee members. My name is Louis-Martin Parent, and I represent the Canadian Federation of Independent Business. Thank you for this opportunity to present to you today on SMEs and federal procurement. Thank you especially for your openness to my presenting via video conference.

By way of background, I've been one of CFIB's leads on the federal procurement file for about nine years now. I authored the report from which I will draw some data for you in a few moments.

CFIB is a political advocacy organization that represents the views of over 100,000 business owners across the country in all sectors and regions. We are a non-partisan group, and our advocacy is funded solely by our members. Finally, we take our policy positions directly from our members through various surveys that ask how they are affected by a given issue.

I would like to quickly mention that CFIB has been active on the procurement front for at least two decades. There are a few reports listed here. We have also been members of PSPC's supplier advisory committee since its founding.

The quote on slide 4 was provided in response to CFIB's federal procurement survey. I feel that it reflects many SMEs' overall views on procurement. Simply put, if the perceived effort is not worth it, SMEs will look for opportunities elsewhere. If the process involved in just getting a foot in the door seems too complicated, SMEs will look for opportunities elsewhere.

Over the course of these hearings, you will hear about many legitimate macro- and micro-level problems with federal procurement. I will mostly focus my comments on red tape and perceived red tape. Improving procurement for SMEs may be time-consuming for the government, but it is important. The University of Ottawa and PSPC recently co-authored a study that plainly states that the government must encourage SME participation in federal procurement because "the growth of SMEs accounts for a disproportionate share of job creation, innovation, and the accompanying economic prosperity." Ensuring that SMEs can come to the table and sell themselves properly, with the least amount of hurdles, is in the country's best interest.

Moving on, procurement is an inherently competitive process. Firms that lose out on a contract will always be able to point to something that hindered their ability to present the best possible bid. It's also a completely different sales world than what most SMEs are accustomed to. The government has its own language and terms. Bidders often can't talk to the end buyer or user of their product or service. The timelines are much more drawn out than in the private sector. There will always be hurdles and pain points, but the government can make it so that it is easier for SMEs to, one, identify opportunities that are within their area of expertise and have a realistic project scope, and two, promote themselves and bid on those opportunities in a straightforward manner.

CFIB published its report on federal procurement in 2011. I'll present a few data points from that report in a moment. Many of these issues pointed to in our report have been replicated or brought up in subsequent reports, such as a 2013 study by OSME, the findings based on a 2014 email sent by the then-PWGC minister to 130,000 suppliers in the government database, a 2015 end-of-mandate report by the outgoing procurement ombudsman, and the aforementioned 2017 University of Ottawa and PSPC study. These reports all point to many of the same obstacles. I'll review just a few of these obstacles for you.

Many data points in our survey and others that show that small businesses are integrated into every type of purchase made by the government. They provide goods and services as either prime contractors or subcontractors. Very generally speaking, a small business does a few things well and they stick to that niche, often through a limited number of contracting vehicles, but they touch on every type of government need.

Regardless of how long they have been selling to government, businesses who do federal procurement are usually more established, older firms that have been able to build themselves up prior to selling to the government. There are some positives to this, of course. Being more established gives the government more confidence that the company will be able to follow through on its promises, for example, but it also shows that younger firms are seldom considering federal procurement as a prime target, regardless of promised contract size.

Here are the responses from other members as to why they did not sell to the federal government. The second, third, fourth, and fifth most popular answers can be categorized as red tape related. I should mention here that the government has made efforts to address some of these problematic areas. I'll mention a few of these projects in a few moments.

In terms of how businesses identify potential procurement opportunities, MERX was essentially replaced by Buyandsell.gc.ca for federal procurement. However, the chart shows how business owners of smaller firms, and in particular the ones without a dedicated sales staff, are less likely to sit down and peruse various government websites for opportunities. They have so many fires to put out on a given day that it becomes a difficult choice between what's needed right now and what could be a good opportunity down the road. Once they have successfully done some procurement, it becomes easier and more straightforward for them, but you can see how it becomes a bit of a catch-22 scenario.

A CFIB survey asked members who had sold to the federal government for their thoughts on various aspects of procurement, such as fairness of criteria, promise of response to bids, timelines, etc., but the three aspects that received the lowest ratings are simplicity of forms, clarity of steps necessary to sell to the federal government, and the notification of and access to contract opportunities. Each of these has nearly 50% of members rating them as poor, and they are all red tape related.

One additional note on payment timelines is that less than one-fifth of respondents indicated "typically get paid within 30 days". A larger group says it takes more than two months to get paid. The broader take-away from this chart is simple. If a small firm gets paid two or even three months after they have delivered a product or service, it will almost certainly sour them on doing repeat business with the government. They will also be likely to tell their fellow business owners about their experience.

Finally, I want to show you how SMEs view their greatest strengths. The top three answers are related to their company's knowledge, reputation, and experience. These are values they bring to the table. Cost-effectiveness is viewed by many as a strength but not as much as the first three are. When the government looks at price as the main determining factor in choosing a supplier, it is by default putting most SMEs at a disadvantage. It is truly a case of price versus quality, and the procurement ombudsman's end-of-mandate report that I mentioned earlier has a particularly good summary of the problem.

As I mentioned earlier in my presentation, the government has made many improvements on a few different fronts. The launch of the Buyandsell.gc.ca website was a big step forward. Whereas previously information was found on multiple websites overseen by different departments, Buyandsell.gc.ca provides a central information point, which is a good start. I will say, however, that I've received a few comments about it being rather overwhelming.

The government recently conducted a pilot for submitting bids via Canada Post's e-post service, which is essentially another way of submitting bids by email. This is very welcome and has already generated positive results for suppliers and government.

Finally the building Canada innovation program has been a successful initiative, encouraging SMEs to approach government with innovative products and solutions. It also shows that communication between suppliers and end-users can be productive, but more must be done.

My first point on the final slide will be my main recommendation. A robust e-procurement platform that lays out a clear process to build on opportunities, written in plain English or French, would be a key to reducing the hurdles for SMEs to successfully bid on contracts. The supplier advisory committee has received many updates on the government's e-procurement plans and I know it is currently aiming to award a contract in the next six to nine months. This will surely be a very complex evaluation and implementation, but they need to get this right on the first try. I would urge the government to prioritize resource allocation to support the successful implementation of the e-procurement solution.

My two final recommendations are to focus on reducing payment timelines as much as possible and to implement strategies to deter procurement officials from focusing only or primarily on price. Both of these issues have strongly discouraged small businesses from selling to the federal government or being repeat sellers.

Thank you very much once again for this opportunity.

• (1155)

The Chair: Thank you very much.

[Translation]

Mr. Boivin, you have the floor for 10 minutes.

Mr. Pierre-Yves Boivin (Vice-President, Strategy and Economic Affairs, Fédération des chambres de commerce du Québec): Mr. Chair, ladies and gentlemen members of the committee, good morning.

My name is Pierre-Yves Boivin, and I am the Vice-President of Strategy and Economic Affairs at the Fédération des chambres de commerce du Québec. Today, I am accompanied by Mr. Yvon Boudreau, who works with us on access to government procurement.

We are very happy to be here today to talk about a topic that is very important to Quebec SMEs and many of our members, that is to say access to federal government procurement. I would like to thank the committee for its invitation to take part in the consultations.

I'll start by saying a few words about the Fédération des chambres de commerce du Québec, the FCCQ.

On the one hand, we are a federation of 140 chambers of commerce that are active in all regions of Quebec, which gives us a broad regional scope throughout the province. Moreover, the FCCQ is the Quebec provincial chamber of commerce, and we have more than 1,100 enterprise association members. So we have both a sectoral and a regional perspective on Quebec's economy.

Our federation represents close to 50,000 active businesses in all sectors of the Quebec economy. Our objective is to encourage an innovative and competitive business environment. That is why it is important for us to take part in today's consultation, especially when one considers that federal government purchases represent annual expenditures of \$20 billion, which is a considerable amount.

Simply for your information, Quebec government procurement is also on the order of \$20 billion annually, because it involves areas like education, health and transportation, and a large proportion of expenditures in these sectors are government expenditures.

As for Quebec municipalities, the volume of their annual procurement is in the \$10-billion range.

According to the Organization for Economic Co-operation and Development, the sum total of Canadian government procurement at all levels represents approximately 13.3% of Canada's gross domestic product. That is enormous. That is of course one of the reasons why we feel it is important to be here.

Public procurement allows governments and municipal authorities to have access to the private sector's vast production capacity, expertise and innovation. Procurement thus has the concrete effect of consolidating many private businesses. In addition, the expertise of certain businesses is strengthened by providing goods and services to governments and municipalities, which allows them to conquer new markets, accelerate their growth, and export products. Public procurement is a part of our economic ecosystem. And so it is very important to take an interest in it.

According to Public Services and Procurement Canada data, fewer than 10% of Canadian SMEs were suppliers for government contracts over the past few years. During the 2013 to 2016 period, they were involved in purchases of \$5.5 billion, or approximately 35% of the government's procurement contracts.

According to the very interesting study on the topic published by the University of Ottawa, the SMEs that are involved in government purchases have a particular profile. These SMEs are focused on growth. Their growth intentions translate into market development, they want to export, and they have a high rate of innovation.

It is unfortunate that more than 90% of SMEs seem to neglect government procurement or cannot take part in it. There are various reasons for this. The representative of the Canadian Federation of Independent Business mentioned this. There is a perception of inaccessibility in that small businesses feel that they will not win the bid, and so they feel there is no point trying. One of our working groups met this morning and this issue was raised, and those are the comments that were made. Consequently we must encourage the efforts that have been made for some years now to streamline the call for tenders and contract awarding procedures.

To help guide government action, the FCCQ has been reflecting on five broad avenues for action that would help improve the level of participation of SMEs in government procurement.

First, the processes must clearly be simplified. It is true that there are limits to simplification, since we are working with public funds and there has to be a high level of accountability. However, it is clear that over the past years, regulatory requirements have been added that have not necessarily been harmonized. We feel that the government should continue to try to resolve this issue. We invite the Government of Canada to re-examine the procurement management process in order to accelerate and improve the participation of SMEs in public procurement.

The second interesting avenue, in our opinion, is to bring together SMEs and large businesses that perform major projects for the government of Canada. We can discuss this further during the question period if you are interested.

In the case of the replacement of the Champlain Bridge in Montreal, the Fédération des chambres de commerce du Québec, in co-operation with the Government of Canada, organized what was known as Industry Day in March 2014. It was a co-operative venture between SMEs and large purchasers. We feel that the Canadian government should multiply these experiences, because they facilitate meetings between SMEs and large businesses that were hired to execute major projects for the federal government.

• (1200)

In certain cases, it may be difficult for an SME to have access directly to government purchasing. However, it may be easier for it to act as a sub-contractor for a larger business. We think that that formula could be interesting for the Canadian government. It is beneficial for SMEs and will ensure economic spinoffs.

The third important element consists in avoiding the excessive centralization of purchases. Centralization certainly favours large businesses in large cities. Obviously, a balance has to be found. We think that centralization is necessary for certain types of purchases, but that it is not as necessary for others. For instance, you may want to centralize purchases in the military domain, but is it really necessary to do so in the case of all-purpose supplies for detention centres?

The fourth important suggestion consists in using procurement as a showcase for exporting certain innovations. As we know, Canadian entrepreneurs, especially those in the innovation sector, must establish their credibility with the markets. This is particularly true in export markets. They have to show that they have an important list of purchase orders and show that they have the necessary credibility to obtain contracts. During the startup phase, which is really critical, if an innovative enterprise can show that the Government of Canada has used its product, this will accelerate its entry into markets considerably.

Recently, in Budget 2017, the Canadian government earmarked new credits for research and development and support for the commercialization phase of prototypes. That is a step in the right direction, but we think it would be a good thing to take this further. In our opinion, the Canadian government should be an open technological showcase for innovative businesses, and allocate part of its procurement to the acquisition of emerging technologies or innovative products. In this way, it would provide concrete support to certain categories of businesses.

More broadly, I think it is important to consider public procurement as a tangible form of contribution to economic development. To that end, it could be advantageous to create alliances between the private sector and the Government of Canada in order to further the development and the export of Canadian technology and know-how.

Finally, the fifth interesting avenue of action for the government consists in developing strategic procurement. There is a lot of discussion about the importance of not considering price alone, and

not focusing only on the lowest bidder. In fact, the Conseil consultatif sur l'économie et l'innovation, which was created by the Government of Quebec and is directed by Ms. Monique F. Leroux, formerly of the Mouvement Desjardins, made an interesting recommendation we wish to pass on to you today.

Many governments throughout the world are moving their procurement policies toward what is called strategic government procurement. Rather than seeking to acquire particular goods or services and asking enterprises to meet very precise specifications, governments ask for proposals to resolve a problem. This allows various businesses to get together and put forward innovative solutions or products that are not used in the standard way, in order to meet a particular need. By focusing on projects or problems to be resolved, governments can encourage this type of solution and allow new businesses to have access to public contracts.

We thus recommend that the Canadian government gradually put in place a strategic government procurement process in public departments and organizations, by using competitions for special projects.

In conclusion, even if the participation of SMEs in Canadian procurement poses obvious challenges, it is important and even essential to actively seek ways of increasing SME participation. This can be done by reducing delays and simplifying processes, but also by reflecting on the most strategic way an SME can, in light of its situation, participate directly or indirectly in Canadian calls for tenders.

I thank you for having invited us today.

• (1205)

The Chair: Thank you.

[English]

Mr. Christie, you have 10 minutes, please.

Mr. Iain Christie (Executive Vice-President, Aerospace Industries Association of Canada): Thank you, Mr. Chair and honourable members, for the opportunity to speak to you today about small business and the procurement process.

What can we be doing to ensure that small businesses benefit from the procurement process, what's working, and what could we be doing better? Those are the questions that I want to try to answer in my remarks this morning. They're questions that matter to us at AIAC, because of the over 700 aerospace firms in Canada, 93% are actually small businesses. I'll also point out that, as you will probably be able to tell, these are topics that are very close to my heart. I've spent about 22 years living this particular dream, working for and eventually running a small company that did a lot of government work. That's why I asked Jim if I could be the one to give our remarks today.

To put it simply, as you've already heard from the previous two speakers, really the most important thing you can do in government is to understand small businesses and do business with them in a way that is advantageous to small business. Know what they need to succeed and thrive, and make sure that government policies, programs, rules, and procedures take their unique nature into account.

I want to spend a bit of time talking about small business.

First of all, I want to talk about what small business isn't. Small business, first of all and primarily, isn't big business that hasn't gotten big yet. A small business doesn't want to be a big business when it grows up. In important ways, small businesses function differently from large corporations. They succeed and thrive in a different environment and according to different imperatives and constraints, and they need to be dealt with in their own way.

The other thing to remember is that small business is neither inexperienced nor unsophisticated. Particularly in our sector, small businesses are specialized, highly innovative suppliers to customers in global supply chains. They're owned and run by skilled businesswomen and men who have dedicated considerable training and experience to building profitable companies in an extremely competitive business environment.

What, then, is small business? There are two defining characteristics that we often talk about, and the first one for small business is that they are cash-flow focused and not balance-sheet focused. This can come off as looking a bit like a short-term focus, but really what it means is that in order for small businesses to be able to make investments in their future growth, they have to take care of their short-term risks first. That affects the way they deal with their customers and the way they consume government policies and programs. Really, the key thing to remember when you deal with a small business person is that whatever else is going on, this is a person who needs to make payroll for 20 or 75 or 143 people this Thursday and every Thursday.

The other thing to remember about small businesses is that they do not have a lot of specialized staff. There are no contract or legal or HR departments in small companies. Well, there are, but it's usually one person who does all of those things. You can see in this context why the simplification and the cutting of red tape in the bid and proposal process is not just desirable but absolutely directly related to that problem of paying everybody this Thursday and every Thursday.

This also leads to the great strength of small business. As Louis has already alluded to, small businesses are lean and customer focused. Small businesses know how to maximize their limited resources, and they're focused on maximizing those resources for the benefit of their customers because, simply put, a happy customer is a return customer, and return customers make it easier to make that payroll every Thursday.

With these general observations as our foundation, what are some of the specific practices and recommendations that make procurement easier and better for small businesses? Let's start with some of the things the federal government is doing that are really working.

In terms of government programming, there are two things I would really like to mention, and they've already been mentioned, but the build in Canada innovation program, or BCIP, is viewed by the small business community as a real success. Small businesses really have a lot of respect for the office of small and medium enterprises, or OSME, which administers it. BCIP is a great opportunity for small companies to access procurement opportunities in Canada, and OSME is very effective at understanding small

business needs and advocating for the small business point of view inside the procurement system.

● (1210)

We would also point out that innovative solutions Canada is another program that, although still in its early stages, seems to be holding a lot of promise. It's modelled on the United States' highly successful SBIR program and is designed to leverage procurements to fund and purchase innovative new products and services from small businesses, providing them with that valuable first-buyer support that they all tell us is critical, especially in the kinds of procurements that our companies are involved in.

Lastly—although it's a little bit policy-wonkish—rated and weighted value propositions inside the defence procurement system can help and are helping encourage large bidders to incorporate small businesses directly into their successful bids. Although I think there is still more that we could do here, it definitely seems to be going in the right direction.

There are some things, though, where we think there is a little more work to be done, so I'll conclude with four recommendations for you to consider during the discussion today and as you develop your report.

The first of our recommendations is simple: be aware of small business needs. When you're developing policies and processes, reduce the complexity of contracts and contracting processes. Also, as Louis said, nothing presents a bigger problem to small businesses than struggling to collect payment for services that have already been rendered. Making sure that contractors are paid in full, on time, every time should be a top priority of every procurement officer in the federal government, period.

Second, we recommend the development of a vendor management system that rewards good performance with the opportunity to do more business with the government. Allowing procurements to take into account previous performance, something that is specifically prohibited in the procurement system today, will allow small businesses to employ their people where they are most productive, working for customers, and that's what will allow them to plan, invest, grow, and pay everybody this Thursday and every Thursday.

Third, we recommend that the government find more ways to work directly with small businesses through the procurement process. Reinforcing BCIP, and implementing innovative solutions Canada, both of which I mentioned earlier, would be excellent places to start.

Finally, value propositions and the way they're handled can and should be used to leverage the inclusion of small businesses in negotiations with large manufacturers and bid teams prior to the bidding process. We need more than a commitment from large bidders to use small companies on their teams after the fact. We need them to engage with small bidders prior to actually submitting a bid, with the understanding that the participation of those small companies is essential to their winning the bid. This will give our small businesses the leverage they need to conduct the negotiations that are advantageous to them to make sure that they participate in the procurement process in ways that they deem to be of most value to themselves.

I will stop there. I will be happy to answer any questions you might have.

• (1215)

The Chair: Thank you very much. I'm sure we'll have several questions for all of you.

We'll start with Mr. Peterson, for seven minutes, please.

Mr. Kyle Peterson: Thank you, Mr. Chair.

Thank you to everyone for being with us today, and to Monsieur Parent, via video conference, thank you for taking the time to make your contribution.

Mr. Christie, I'm going to pick up where you left off. It's nice to see your passion coming through. It was a good choice for you to make the presentation. We could really tell that you're very enthusiastic about the subject matter, so that's fantastic.

I want to follow up on your recommendations. There are a lot of them and I think we're not going to have time to delve too deeply into them.

On the vendor management system and the rewarding for good performance, can you elaborate on that because I know it's something that's been contemplated and talked about. I'm going to let Monsieur Boivin and Monsieur Parent comment on that as well, on what you see as the strengths and how we can make sure that's implemented in the process.

Mr. Iain Christie: I'll try to be brief.

Put it this way, it's really in the DNA of anybody who runs a business that the thing you're always trying to do is to please your customers. The reason you're trying to do that is that you want them to be repeat customers. It's a mantra that "no customer is easier than a repeat customer".

In the federal government procurement system, though, all of that investment is effectively wasted because no matter how well you do this time, you have to go back out to the street and start in again with a clean slate and you can't depend on having a happy customer.

We need a vendor performance management system not just to weed out bad vendors, which isn't talked about a fair bit, but really to provide a means of encouraging better vendor performance and rewarding that by doing exactly what you do every time you buy everything from a cup of coffee to a car. You go back to the people who provided you with good service. Why would the government not want to do the same thing for its small businesses and small suppliers, or any suppliers? Do business with the people who do a good job for you.

It frankly stuns our members when we tell them this, that there is actually no point in their trying to make the government happy because it doesn't matter. This just does not make sense to people in business.

Mr. Kyle Peterson: That dovetails nicely into your first recommendation, which is to understand small business. If you don't understand that keeping the customer happy is inherent in small businesses, then you don't understand small businesses.

Mr. Iain Christie: Small businesses would rather have people working to make the customer happy than pay people like Jim and I to sit on the Hill and explain that.

Mr. Kyle Peterson: Exactly, although we're happy you're here.

Monsieur Boivin.

[Translation]

Mr. Pierre-Yves Boivin: I will let my colleague answer.

Mr. Yvon Boudreau (Consultant, Fédération des chambres de commerce du Québec): Good day.

Medium-sized businesses are quite satisfied with the Canadian government's call for tenders and contract awarding system, especially because for the past few years a particular focus has been placed on the quality of the firm and its experience, innovation and skills. In certain contracts for example, 90% of the points are awarded for these more qualitative aspects, and price only counts for 10%. The lowest bidder syndrome is qualified in this way.

To answer your question, I would say that one of the important qualitative elements is the quality of service provided by the bidding enterprise in the course of a previous contract with the Government of Canada. An evaluation is done, and it counts for future contracts. This is positive if the firm did good work, and negative if it made major errors.

I don't know if this is done in every case or in the majority of cases, but when it is possible, our member enterprises consider that it is indeed important to take into account the work that was done in previous mandates.

Mr. Kyle Peterson: Thank you very much.

[English]

Mr. Jim Quick (President and Chief Executive Officer, Aerospace Industries Association of Canada): Mr. Chair, can I add a comment to Iain's comment?

Mr. Kyle Peterson: Sure.

Mr. Jim Quick: When we're talking to government about program and policy development, we always try to say to them that small and medium-sized companies are different than large companies. Therefore, the Ts and Cs around programs and policy have to be different from what you would do for large companies. We're often get told we can only have one set of Ts and Cs, and that then becomes a real deterrent to small and medium-sized companies accessing programs and participating in policy.

• (1220)

Mr. Kyle Peterson: Thank you for that.

Monsieur Parent.

Mr. Louis-Martin Parent: Just to add to what Iain was saying a moment ago, generally I'm very supportive of a vendor management system. As I mentioned on one of my slides, the first things that they sell themselves with are their reputation, experience, knowledge, and all the rest of it. I think it stands to reason that, if they are very good at what they do, they want to promote that.

By the same token I want to flag.... I believe it's part of the conversation that PSPC is having. It strikes me as a bit disadvantageous for a first-timer who wants to sell to the government for the first time, if everybody has a very good rating in a certain area, and you have no rating. Even if you are an experienced seller in an industry, the first time you try to approach the federal government and you have little to no rating of any kind, either positive or negative, it might dissuade the government or give you fewer points in your evaluation. I want to flag that, even though I am generally supportive of the overall idea.

Mr. Kyle Peterson: Thank you.

Mr. Parent, while I have you, I just want to talk about your slides here. It's always good to see data, and I just noticed that the study goes back to 2009. Not to put pressure on you, but are you planning to do another one to update? It's very useful information, and I'm just wondering what your plans are in that regard.

Mr. Louis-Martin Parent: I would absolutely love to do a new study, yes. It's one of those things where we have to be careful how many studies we put into the field to make sure that our members are not overwhelmed by surveys because, as you can understand, there are lots of different topics that affect them. The short answer is that we would love to have some more recent data.

Mr. Kyle Peterson: I appreciate that, and thank you, gentlemen, for your comments.

The Chair: Thank you, Mr. Peterson.

We go to Mr. McCauley for seven minutes, please.

Mr. Kelly McCauley (Edmonton West, CPC): Thank you, Mr. Chair.

Gentlemen, thanks for joining us.

Mr. Parent, thanks for taking time out to beam in.

I want to follow up on Mr. Christie's comment about OSME. It is a phenomenal resource. We used it in Edmonton just last week for a town hall on how to sell to the government. A lot of the feedback we received that day directed toward OSME was concerning, as Mr. Parent mentioned—and it came up a lot—the difficulty of dealing with business, the complexity. I love the quote here: “Dealing with federal tenders is too painful to bother.”

That, of course, comes up in the procurement ombudsman's annual report. I think 25 of the top 32 issues were all concerning red tape.

I want to wrap it around to a couple of government initiatives. One is a private member's bill, Bill C-344, which is about community benefits. It provides the minister with the authority to require an assessment of community benefits as part of an RFP process. To me, this adds a huge level of red tape and also a large amount of uncertainty because it does not define what a community benefit is, but does allow the minister to demand that a small business provide an assessment.

I wonder if I can get feedback from CFIB and from you, gentlemen, about this possible bill coming down.

[*Translation*]

Mr. Yvon Boudreau: That's a great question.

Not to dwell on the irony, but I will say that it underscores what a complex undertaking it is for a government to streamline or simplify a process. Streamlining has its limits. As you said, when you add a requirement such as assessing the economic spinoff to a community, more information is necessary to warrant applying those requirements. We believe simplification has a clear limit.

The existing processes can undoubtedly be streamlined, but what matters most is an effort to take the mystery out of the request for proposal and federal procurement process for businesses. Many SMEs see it as too complicated, even before they've really taken a look at it. Efforts to educate and inform them are necessary.

• (1225)

[*English*]

Mr. Kelly McCauley: That's the concern I have—that we're adding complexity.

Mr. Parent, do you have anything on the issue?

Mr. Louis-Martin Parent: With regard to the first reading of the bill, you could make an argument that if you're a successful bidder, then you will naturally have positive community impacts just by nature of getting more money and paying your employees or whatever. But yes, the red tape nature of what this could be or, I think, is a bit concerning. I would have to see what the kind of check or proof would be—or whatever the requirement would be—before actually coming down positively or negatively on it. I understand the reason for it, but it gives me pause, I will admit.

Mr. Kelly McCauley: Okay.

It leads to another question we've been asking for a couple of years in the committee here. There's been mention in several mandate letters about our fair wages policy, and two years ago, former Minister Foote with PSPC stated in committee that the intent was to make the fair wages policy apply to every single government purchase: photocopy paper, paper clips, etc.

How can small and medium-sized businesses possibly compete? Is this going to exclude them from a lot of the bidding process because they have to follow the added red tape, but also the added wage burden of a fair wages policy that affects every single penny of government purchases?

The Chair: Do you want to direct that?

Mr. Kelly McCauley: I'll start with Mr. Parent. Mr. Christie's giving me a funny look, so we'll go there next.

Mr. Louis-Martin Parent: When you see these new initiatives, you always understand the reason why they're being proposed. In this case, it's because, of course, fair wages are important. You want to pay people equally and fairly and everything. Again, this is one of those things. When small business owners have to bid on contracts, but also have to take into account all these extra things that they have to put into the bids that always adds an extra level of complexity and difficulty. Maybe they need a fair wages policy. Maybe they have one already. Maybe it's not portrayed correctly or what have you. Again, it's one of those things that would have to be implemented with a small business lens in mind. That, I think, is probably the key point.

Mr. Kelly McCauley: Perfect.

Does anyone else want to comment?

Mr. Jim Quick: In aerospace, that's not really a big issue for us, because of the nature of the work and the salaries, that sort of thing.

I'll go back to your earlier question, just to take a different look at it. One thing we try to encourage our members to do is to articulate, when they are responding to these things, what the government has identified as being important for Canada. When we were developing value propositions over the last three years, one of the things we said to the government was that it should be using value propositions to say, "Here is the plan we want for Canada", and then make the bidders respond to that. If you want to have things like diversity and inclusion, we think you should do that. Then it becomes part of the process.

It's not so much a burden as it is, "Show us what your plan is."

Mr. Kelly McCauley: To me, it's the clarity required up front, as opposed to the vagueness that's proposed in the bill.

Mr. Jim Quick: You could argue some of that. I'm just taking a different view on it that I think....

We are very encouraged by what we see in value propositions, because the government says, "Here is what we think our plan should be for this procurement. How are you going to respond to those things?"

We view it as a positive thing, actually.

The Chair: Mr. Weir, you have seven minutes, please.

Mr. Erin Weir (Regina—Lewvan, NDP): Thanks very much.

Our fearless analysts have called our attention to a recent OECD study, which found that Canada has quite a high rate of small business participation in federal government procurement—something like 40% of the value of federal government contracts goes to small businesses.

Do you consider that the current system is working fairly well and maybe just could be a little better, or would you present those statistics in a different way?

Mr. Iain Christie: We should remember, as Jim said, that the companies we represent engage with the federal government on very particular kinds of procurement, and they tend to be high-dollar-value, high-complexity procurements. There are some concerns, like the ones Louis expressed, that a lot of our members don't have. That doesn't mean they are not important.

I don't think the system is broken. We tried to portray it fairly well in our remarks. I think it has actually gotten a lot better in the last few years. Most of the trends we see are positive, but I don't think we should believe that we have gotten all the way as far as we should.

I certainly give Canada's system a passing grade, but I also think that work continues to need to be done.

• (1230)

[Translation]

Mr. Pierre-Yves Boivin: The data from the recent University of Ottawa study also show that certain types of SMEs are more likely to want to bid on government contracts. These are businesses looking

to grow themselves, engage in exporting, and pursue innovation. That said, I would echo the gentleman's comments. It's important to bear in mind that not all businesses are necessarily interested in doing business with the government, depending on their sector.

The aggregated data reveal that less than 10% of SMEs participate in government procurement, but it is more important for some than for others. What we need to do is figure out how to make those contracts more accessible and appealing to these SMEs.

Mr. Yvon Boudreau: I would add, if I may, that it is possible to indirectly facilitate the participation of SMEs in government procurement. That would involve making it easier for big businesses that have landed major contracts to establish ties with SMEs. That's something the government has done in the past and could do more often. Indirectly, it would increase the participation of SMEs in government procurement, even though they would not be awarded the federal procurement contract directly.

[English]

Mr. Erin Weir: I'll ask you about a specific aspect of the current system. I'm wondering if anyone has a comment on the industrial and technological benefits policy. This, of course, applies to defence procurement and to procurement that is subject to national security exceptions, but it does include a provision to provide at least some of the work to smaller enterprises.

Mr. Iain Christie: With respect to government procurement, ITBs are squarely where we live. You could probably try to stop me from having an opinion, but you'd be unsuccessful.

Again, there's no question that we certainly have come a long way in the last few years. The very transactional nature of the IRB program was truly problematic, so we're doing better, and it's not just the ITBs but it's the whole rated and weighted value proposition, which means that companies need to have a plan.

They need to explain to the Government of Canada what their strategy is and how it relates to the government's industrial strategy, and if it's working right, they need to demonstrate that their strategy for how they want the sector to develop is aligned with the government's priorities. That's what should get them the highest marks. Then they should win the bid and they should execute the strategy, rather than taking the government's money and shaping the market to their own satisfaction, which is what was happening before.

ITBs are a part of that whole process. It is a complicated process. Even two years on it's still just getting itself rolled out because it takes so long to get these procurements through the system. We're not there yet but we are moving in the right direction.

Mr. Jim Quick: I'll just add a comment to Iain's. We are now seeing a change from the IRB program to the ITB program in terms of behaviour of large companies. For example, the last two ITB announcements were large companies investing in small companies in very significant ways, tens of millions of dollars, to help them develop technology and innovation that they can then help them take out to the market and export.

I think we're starting to see now some of the behaviour that we were looking for, through the transformation of the IRB program to ITBs.

Mr. Erin Weir: We've used this term "red tape" a bit, and I think it's often thrown around as a pejorative, but of course, there are legitimate requirements. Picking up on the question about a fair wages policy, there's nothing particularly administratively complicated about having to pay a certain wage rate. Some employers might prefer to pay lower wages, but I would challenge presenters to define what we really mean by "red tape" and what should be done about it.

The Chair: Do you want to direct your question to a particular individual?

Mr. Erin Weir: Mr. Christie seems ready to go, but I also don't want to exclude our panellist from Toronto, so perhaps we'll go there next.

Mr. Iain Christie: I'll try to be short because I think the others should weigh in. Again, our members view this from a particular perspective.

They are companies that are used to dealing with very large entities that have very particular requirements in order to supply them. The government in that way is no different from the large OEMs, so what frustrates companies and what makes the government different from large suppliers is the transparency of those requirements, and the fact of whether or not they change *post facto*.

When our companies complain of red tape, it's that they don't know what they need to do to be successful, and new requirements seem to appear after they get involved in the process. Frankly, some of them seem to be arbitrary and coded to the whim of the procurement official, rather than running according to a process that is consistent.

I think that is one thing the government does not do as well as, for instance, the large OEMs, which have spent a lot of time generating various efficient supply chains. They are better at that than the government is.

• (1235)

The Chair: Thank you very much.

We'll have to wait for Monsieur Parent, perhaps, to respond to Monsieur Drouin's line of questioning.

Mr. Francis Drouin (Glengarry—Prescott—Russell, Lib.): Thank you, Mr. Chair, and just let know at three minutes. I will share my time with my good friend Mr. MacKinnon. He wants to speak for three minutes.

[Translation]

Many thanks to the witnesses for being here today.

[English]

I want to go back to an issue that Mr. Peterson touched on, vendor performance. How do we evaluate previous vendor performance and how do we weight that in a next procurement? Should we score this? How much weight should it carry in the next procurement cycle? Should it be a pass or a fail?

I'm curious to find out from witnesses, because a lot of the witnesses have told us, yes, vendor performance should be taken into consideration, but then the question is how. That's the tougher question and I'm curious to find out.

I'll start with Mr. Quick and Mr. Christie.

Mr. Iain Christie: Again, my experience with this certainly comes directly from living the dream and having worked for different governments and seen what worked and what didn't. You're right. It's a difficult question. I know that Public Services and Procurement Canada is working on it and looking at different models. I wouldn't want to prejudge its efforts.

The features you need to get right are that, if you do it right, and when I have seen it work, the performance management system becomes an incentive not only for the companies but for the project managers inside government to improve their performance. You end up with procurement officers who want to have vendors that are scoring the highest grades. It becomes a mark of pride to them to have good suppliers. They proactively work with suppliers to improve their grades before they get rated.

When we were subject to systems that worked, that's why it worked, because the person on the other side who was buying was as interested in our performance as we were and was constructive in helping us become a better company. When you do that, procurement will get better for everybody. Companies will deliver, they will enjoy that, the government customer will enjoy it, and we'll end up with better companies and a better procurement system. The trick is to use it as a way to encourage everyone to do better, not as some kind of filter where you weed the bad from the good.

Mr. Francis Drouin: Yes.

[Translation]

Now I'm going to turn to my friends from Quebec.

Mr. Yvon Boudreau: I'll give you a specific example of something that is already federal practice, in the case of pre-qualification processes.

Mr. Francis Drouin: Very well.

Mr. Yvon Boudreau: The challenge comes down to assembling a jury that is as qualified, as impartial, and, of course—ethically speaking—as independent as possible. Taking into account the bids received, it is still possible, with a qualified jury, to assess how bidders are likely to perform on the basis of the proposals submitted and to determine which is the most promising. Obviously, as I was saying earlier, government contracts can also take into account a bidder's past performance.

Mr. Francis Drouin: That, right there, is the problem. Past performance is not assessed. Actually, an assessment is done; businesses are asked whether they have been in operation for 15 years. It is becoming increasingly difficult for us to defend businesses whose performance fell short in the past but who land another contract. Business owners tell me that the same contracts always go to the same people. I don't even need to name them; all you have to do is read the news to see which companies I'm talking about. Year after year, the performance of certain IT companies, for instance, is lacking, and I find it very difficult to defend that. I have to answer to my constituents, so I want to make sure that everyone has an equal opportunity and that companies deliver what they are supposed to.

How do we assess that?

• (1240)

Mr. Yvon Boudreau: Our businesses say that it is entirely appropriate—

[*English*]

The Chair: I'll interject just for a moment.

Mr. Drouin, if you want your colleague to have have three minutes, you're at that point right now.

[*Translation*]

Mr. Yvon Boudreau: It is entirely appropriate to assess performance midway.

Mr. Francis Drouin: By the way, it's not the SMEs.

Mr. Yvon Boudreau: No, no. I understand completely.

It's appropriate to do that, but the criteria need to be known and transparent, and the information should serve a purpose afterwards.

Mr. Steven MacKinnon (Gatineau, Lib.): Thank you, Mr. Chair.

Thank you, Mr. Drouin.

Thanks especially to the witnesses for being here today.

As Parliamentary Secretary to the Minister of Public Services and Procurement, I must tell you that we are determined to modernize the procurement process. It's one of the top priorities set out in the Minister of Public Services and Procurement's mandate letter. The SME issue is obviously hugely important.

As part of this process, we have reached one or more agreements with various jurisdictions regarding acquisitions related to specific jointly held properties. Most of the agreements are with provinces, but we will soon be extending them to municipal authorities as well as to the health and education sectors.

I'm going to share a little anecdote with you. One province had a concern. One of its manufacturers was worried prior to signing the agreement with the Government of Canada. The province was adamant about doing business with the manufacturer, who turned out to be selling the product to the federal government and, by extension, all of its partners, at a lower price than what it was charging the province.

Unfortunately, Quebec still hasn't signed the agreement.

Not only does this tool provide value to taxpayers in various jurisdictions—there is only one taxpayer, as we know—but it also affords businesses in those jurisdictions the opportunity to offer their products and services at the national level.

My question is for the representatives of the Fédération des chambres de commerce du Québec. If there is enough time left, the representative from the Canadian Federation of Independent Business can answer as well.

Would you be supportive of federal government efforts to expand the agreement and sign one with the Quebec government? Are you even aware of those efforts?

Mr. Yvon Boudreau: No, not particularly.

Generally speaking, the FCCQ has been an active supporter of agreements on interprovincial trade and other agreements of that nature. We tend to be in favour of anything that has the potential to increase trade. I'm not familiar with the specific draft agreement you're referring to, but philosophically, we are not opposed to any such movement toward openness.

[*English*]

The Chair: Unfortunately, we're out of time.

We'll now go to our final two five-minute interventions. We'll start with Mr. Shipley.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you very much.

Mr. Parent, I want to follow up on Erin's comments regarding the regulatory process. When we look at your page 8, there's 71% with "The government's tendering/bidding process", "No means of determining what the gov't wants", and "Too much paperwork". Then another 20%, actually, which I didn't include in that 70%, is the "Inability to contact the actually user/purchaser". We've had some discussion about that. Mr. Christie brought it up.

Then when you get to your page 10, you mention "Simplicity of forms", "Clarity of steps necessary to sell to federal gov't", and "Notification". Those were the three that you had mentioned.

I'm glad to hear from our witnesses in some respects that things are improving. Quite honestly, I think, as political people, we want to see that. Many of us have been in business. We understand small businesses. They're in our ridings. We talk to them all the time. I think many of us get that.

I think our challenge is that if that's the case—and we've talked about it here—why do you think it is so difficult? That's a policy thing, I guess. The challenge becomes of moving forward in the complexity. Why have they become so complex? Is it for liability? Do you have any ideas?

I want to go to Mr. Parent.

• (1245)

Mr. Louis-Martin Parent: Actually, you touched on it right at the end there. The end-of-mandate report by the procurement ombudsman states it very well.

I think there's a great fear on the government's part of protecting the crown. Iain's colleague, Janet Thorsteinson, is very big on risk and how oftentimes procurement officials are fearful of doing something out of bounds, overly simplifying things, and being too clear, or what have you. It's gotten to the point where they're so careful that it hinders oftentimes clarity and simplicity. I think that's a big reason why it's very hard to simplify things on the back end.

I was talking a lot about e-procurement. Obviously, I believe very much in how important it is, but also a big part of the problem is the modernization of the principles and the rules underneath, which support that e-procurement system. The supplier advisory committee has a subcommittee that deals with risk. It is a big issue. I think that's a strong thing that we're talking about.

Mr. Bev Shipley: My time is going to run here.

The issue really becomes.... We talk about the liabilities, we talk about the risk, and then we talk about simplifying the process, which seem to be going in opposite directions. I think for us as politicians, out of this, I'm hoping that some of the recommendations that are actually put in place.... We have determined the why, the governments. We know why we're doing these things, but we need some help on how to accomplish them.

I'm interested also in how we get new start-ups the credibility that they need as the more mature ones.... Getting that performance measure in place, is it difficult for a start-up? Is it using a large company because they know somebody? Is it because they can say that it's the quality of their product? I understand the differences between some of the sensitive maybe, aerospace and technology parts and ordering the concrete for a building project or something.

Mr. Iain Christie: I have two four-letter words: BCIP and, well, it's SBIR in the United States but innovative solutions Canada. It's only a three-letter word in Canada.

I think those are two programs, without going into the details, that are squarely aimed at solving that problem. I encourage you to talk them about it.

Mr. Bev Shipley: Are there any other comments?

Thank you.

On payments, what do we do in terms of the payments between 60 and 90 days and then notice of more than 90 days? How do we deal with that to improve it?

Mr. Iain Christie: How long do I have? Bottom line is that it has to be a priority amongst the other top priorities, but it has to be a priority for procurement officials to get people paid on time.

I'll give you a very quick example, two different examples. One, you submit a claim that has a small error in it. On day two after the claim has been submitted, you get a call from the procurement officer, "You're going to need to fix something if I'm going to get you paid on time".

The other example is, on day 28, you receive a formal letter with a return of the claim saying, "The following inaccuracies are in your claim, please resubmit", which will give them another 30 days to assess it and then 15 days to pay it.

The first example, unfortunately, was not a Canadian government. The second was.

The Chair: Thank you very much.

Madam Ratansi.

Ms. Yasmin Ratansi (Don Valley East, Lib.): Thank you all for coming, and thank you for your presentations.

I have a question for you, Mr. Parent. I'm following up on what Mr. Shipley said. On your slides, you talk about how SMEs are not selling to government because of the tendering process and no means of knowing what the government wants, so there is a gap analysis of what the government wants and what you're trying to supply.

Somebody talked about OSME, the Office of the Small and Medium Enterprises. Have your members been using that office, and is it after using the office that they still feel that this is a really complicated system?

Mr. Louis-Martin Parent: The survey in question did have questions—again, in 2009—on OSME. At the time, it wasn't terribly well known. I think now they've done a lot of work to reach out to the supplier community and to do as many presentations and information sessions as possible.

I think the problem is, oftentimes, they don't know what they don't know. I believe, as Mr. Boudreau was saying, there's a perception of it being complicated, and they go to the buy and sell website, which again is a positive development, but they see a whole list of links and things that they have to do and everything, and it seems rather daunting to begin with. It's a question in their minds of whether to take the time they need to know about everything they need to know about, and do what they need to do, or to go to their normal suppliers in the private sector and do the thing that they know how to do.

I think I answered the question.

• (1250)

Ms. Yasmin Ratansi: Okay, fair enough.

You talked about Buyandsell.gc.ca. Is it a better system for the SMEs compared with the MERX system?

Mr. Louis-Martin Parent: I think so, yes.

Ms. Yasmin Ratansi: Okay.

Mr. Louis-Martin Parent: At the very least, it was centralized, so that was positive.

Ms. Yasmin Ratansi: Okay.

All three of your organizations sit on the national supplier advisory committee. Mr. Shipley and most of the people here have talked about balancing the risk with the benefits. With SMEs, I am risk-averse because the moment I give you a contract and something goes wrong, I, the politician, pay the price, not the bureaucrats. You know that, right? That's the reality of our lives. That's why there are all these checks and balances.

Have you given your input into the risk versus benefit analysis, and what has been the input?

I think, Mr. Christie, you are ready to answer.

Mr. Iain Christie: We have, perpetually, continuously, and on an ongoing basis.

Ms. Yasmin Ratansi: Are there no changes made?

Mr. Iain Christie: No, not at all. There's lots of very interesting discussion, but as we talked about around the table, it's not a simple fix. It's not a simple system, and, as you said, there's...

To go back to Mr. Shipley's question, look at the incentives. If you look at an OEM big aerospace company supply chain, the incentives of the people who run that supply chain are very clear: a more efficient system, fewer suppliers supplying bigger work packages on time. That's what they get marked on. Their variable pay is very strongly linked to that.

If you ask a procurement official inside government what their incentive is, they say it's not to appear on the front page of *The Globe and Mail*.

Voices: Oh, oh!

Ms. Yasmin Ratansi: I have another question. I have a lot of small and medium-sized innovative businesses in my riding. I'm wondering whether you could give some advice as to how to rank.... They apply for grants, and I've just delivered a few to my riding. I'm wondering, first, how we can make the system so that value proposition—you talked about the value proposition—comes into play.

Second, if you're innovative as a small and medium-sized enterprise, you have to be very innovative, very creative. You have to manage with limited resources. What sorts of changes would you make to the rating system?

Finally, would you like to adopt a U.K. model that sets aside 33% of federal procurement?

It's open to all, and you can give yourselves 30 seconds to answer.

The Chair: That's not 30 seconds each.

Ms. Yasmin Ratansi: No.

Mr. Parent.

Mr. Louis-Martin Parent: CFIB has always been reticent about set-asides, and the U of O study did some analysis of the American model. It showed there weren't many noticeable, positive develop-

ments from the set-aside program. I would be a bit nervous on that question.

Ms. Yasmin Ratansi: Mr. Boudreau.

[*Translation*]

Mr. Yvon Boudreau: Good afternoon.

The build in Canada innovation program does indeed provide a boost to that end. Although the measure may seem a bit weak, it is certainly a step in the right direction.

The U.S. has a more robust program known as the small business innovation research, or SBIR, program, which requires departments with more than \$100 million in research funding to spend 3.5% of it on commercializing innovations through government procurement. It's a more aggressive program.

Canada's program is a step in the right direction. We believe the government could help innovative SMEs expedite market penetration by serving as an accomplice—not in the negative sense—to these businesses or innovations.

[*English*]

The Chair: Gentlemen, thank you very much for your participation and your patience today as we got a bit of a late start.

As Mr. Peterson indicated at the outset, should our committee members have any additional questions I would ask them to please submit them to the clerk who will then get them to our witnesses. Conversely, should you have additional information that you think would benefit our committee members as we are developing our final report, I would strongly encourage you to get your opinions, recommendations, and suggestions to our clerk for analysis later in our deliberations.

Once again, thank you all for being here. It's been helpful and informative.

We will suspend for about two minutes, colleagues, and then I have a very brief bit of committee business.

We are suspended.

[*Proceedings continue in camera*]

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