

---

beginning in the fiscal year 1976-77, to increase our capital budget by 12 per cent in real terms over the next five-year period. These increases will be computed from an initial base of \$470 million. What this means is that our capital budget for 1977-78 will be \$470 million plus the inflation percentage for the year plus 12 per cent. This will go a long way towards giving me the money I need to buy new equipment.

No doubt you have heard that some of these purchases have been identified. Others will follow. For example, the Government recently announced the decision to purchase 18 Lockheed long-range patrol aircraft of a version significantly advanced beyond the current P3C *Orion*, and we expect to make a decision by June 1976 on which tank we should buy. Also, we have begun to examine the detailed requirement for a new fighter aircraft and a ship-replacement program. All of this equipment, and a multitude of less expensive items, will fit into the financial envelope the Government has approved.

However, there is a rider in our capital contract with the Government. You will recall that the calculations for increases are based on the figure \$470 million for 1976-77. Here's the rider -- I must find the initial outlay of money required by the purchase of a new long-range patrol aircraft and tank from the non-capital part of my current budget. This may amount to a total of \$50 million and will form part of the 1976-77 capital budget of \$470 million. This is not an easy task, and I have not yet identified all of it. However, I have directed that the money must be found. We shall cut our costs by making "in-house" economies, further drastic cuts in travel-funding, severe cuts in our activity rates, further energy-conservation measures, disposal of surplus assets, and a number of other money-saving expedients. Although I should have preferred not to have to take these steps, I must be a realist. The Government is fighting a battle with inflation that must be won. This battle concerns all of us. The Government has prudently decided that the defence budget cannot be reduced, and we must help as much as we can. That means we must get full value for every dollar we spend, and we must save dollars wherever we can. This leads me to what I consider as Phase III of the Defence Structure Review.

This phase will include my recommendation to the Minister on how the forces may best be "postured" to execute our tasks. Of course, this matter has been examined concurrently with Phase I and Phase II studies, and hence we shall be ready very shortly to present my recommendations to the Minister. I shall give you my current thinking on one of our possible future postures in a few minutes. But first -- what is our current position? At present we have too many house-keeping units -- that is to say, too much tail and not enough teeth.

---