

## 2.11 DEFENCE PROGRAMS SECTOR

1. Market Opportunity Overviews:

The Canadian Department of Defence Capital budget is currently 26% of its overall budget for 1984-85 of \$8.77 billion, and will continue to grow to fulfill Canada's obligations to NATO and to North American collective defence as a priority in the Canadian Government. Currently, the main DND expenditures are for imported, major military equipments of types not manufactured in Canada, but the continuing increase in DND's capital budget will result in new opportunities for Canadian defence and high technology industry for both DND and foreign requirements. DND'S major re-equipment programs occur infrequently, with typical life cycles before replacement of 15-20 years. Therefore, to remain viable, and to achieve state-of-the-art technological capability, Canadian manufacturers of defence and related technology products must be prepared to compete in the export market for sales.

The largest export market for Canadian defence manufacturers is the USA. This will be US\$300 billion in 1985 plus nearly US\$30 billion for R&D. Prime Minister Mulroney and Minister of National Defence Coates have stressed the importance they attach to economic strength and consequently the need for greater participation in the US defence market to increase defence and related production capabilities. This market is characterized by requirements for high technology equipment, subsystems and components. Canadian industry, by virtue of proximity to the USA and working to the same, or similar, technical and quality standards is in an excellent position to compete with US and European NATO countries for prime and subcontracts. Since 1959, Canadian defence exports to the USA are over \$9 billion and have been drawn from many product sectors, the most important being: aerospace, armament, electrical and electronics, general purchasing, shipbuilding and vehicles. Over this time frame, the value of prime contracts (i.e., sales directly to the US Government) have been 50% of total defence sales but in recent years the ratio of subcontracts/prime contracts has been rising.

The overseas defence market has resulted in sales of over \$3.5 billion since 1962 from a wide range of product sectors. This market is characterized by a larger ratio of prime contracts (72%) than for sales to the USA, but in recent years the ratio of subcontracts is increasing. Another important characteristic of the Overseas market is the large ratio of sales of complete end items (aircraft simulators, aircraft engines, radio equipment) and spares rather than components.

Historically, our largest defence equipment market overseas has been to European NATO countries. However in the last few years, for several reasons, these traditional markets have been declining. To reverse this trend, during a recent visit to Europe the Honourable James Kelleher, Minister for International Trade, agreed during meetings with FRG Defence Minister Woerner that defence procurement programs offered excellent opportunities for German and Canadian industry to cooperate in joint ventures and in transfer of technology and that new initiatives in these areas should be fostered. New opportunities are also being pursued in the Middle East (in particular Egypt and Saudi Arabia), East and South East Asia, (electronics and communications equipment) Australia and New Zealand. There are sporadic opportunities in South America but current financial difficulties of most SA countries have prevented significant sales of new equipments and business is mainly for repair and overhaul and spares.