

Supply

The future prosperity of the defence industry is vital to the future prosperity of Canada. As a vibrant part of Canada and North America, its industries can keep pace with global change and technological advancements.

I applaud the interest of members in raising this question and I would like to speak for a few moments on this matter.

European markets for defence sales have dropped remarkably leading to a loss of 150,000 jobs over the last three years. That is 10 per cent of the workforce in the aerospace and defence sector.

In America the experience is similar with large reductions in military procurement matched by significant job losses, more than 300,000 jobs in the last three years.

Both European and American industries have been faced with a serious industrial adjustment program. In various countries governments have responded in various ways. It is tempting to look at solutions such as those proposed in the United States for the problems facing our industries.

I believe we can learn from others. I am confident that some of the lessons which we might learn from others in defence/industrial conversions are universally applicable.

The term defence/industrial base defies easy definition. Companies that make military products are obviously included but it is important to consider the broader picture. These are many firms that market commercial and dual-use products in addition to the military sales. Of course the military itself uses many of these products. For example when our peacekeeping troops needed a soft desert boot, not a normal item in the Canadian forces supply system, we bought commercial products.

Another reason the defence industrial base is hard to define is that like all products military ones are composed of many components. When you get down to basics these components are pretty small, things like screws, nuts, bolts, washers, and rubber gaskets. One would not normally think of these as defence products but in fact we could not build military products without them.

Having made these cautions I would like to provide a brief overview of Canada's defence industries. Canada's defence industrial base is quite small by world standards. Depending on how widely it is defined it contributes about 1 per cent to 1.5 per cent of Canada's GDP and about 70,000 jobs. That is about 1 per cent of the Canadian labour force.

A large majority of the firms are small or medium in size, having sales below \$100 million per year.

The defence industry is largely foreign-owned, about 60 per cent, especially the larger firms.

This is not to say that the defence industry is not important. While small it nevertheless contributes to Canada's economy in

important ways. The products it produces generally fall within the realm of high technology, many of these at the leading edge.

As a consequence it generates highly skilled, highly paid jobs which are not only nationally important but which also make a substantial contribution to both regional and local economies.

Another main benefit derives from the fact that these companies are highly export oriented. These revenues help our balance of payments. The defence industry is highly specialized in niche markets such as subcomponents in aerospace, electronics and communications sectors.

Our companies are well respected in specialized fields such as major aircraft components, flight simulators, satellite subsystems, unmanned air vehicles, armoured vehicle fire control systems and magnetic anomaly detection systems. Their successes in both the civilian and military markets improve the overall competitiveness of the Canadian economy.

Along with the aerospace industry defence firms perform more R and D than the rest of the Canadian industry although somewhat less than their competitors in other major western nations. One finds defence industries throughout the country and the regional distribution has been slowly changing over time.

The munitions sector is a small sector which produces excellent ammunition and small arms. Companies involved in this sector include SNC and Expro, Bristol Aerospace, and Diemaco in Ontario. This sector is naturally highly dependent on DND purchasing. Exports and export potential are modest. Reduced spending in this sector by both Canada and the U.S. presents a special challenge in this sector.

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In conclusion, Canada's defence and defence related industries are small but a vital sector of our economy. While the defence industry could never be considered to drive the economy it does make an important contribution in crucial high tech sectors.

While Canadian shipyards have historically focused on the domestic market, St. John's Shipyards is currently exploring other marketing opportunities. In addition to its expertise in the commercial sector St. John's Shipyards has acquired valuable expertise in constructing naval vessels as a result of its contract for the Canadian patrol frigate. This expertise will assist the company in its search for offshore sales.

The military vehicle sector is a very small, highly specialized, subset of the Canadian automotive sector. Two companies are currently producing vehicles for DND. Western Star located in Kelowna, B.C. produces DND's fleet of light trucks. In the great city of London, Ontario the diesel division of General Motors