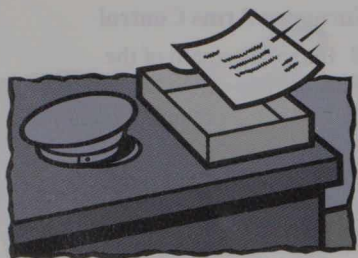


DEFENCE NOTES



Canadian Defence Budget

■ On 23 February Michael Wilson presented the government's spending plans for fiscal year 1988. The defence budget was increased by 6.1%, bringing defence expenditures to \$11.2 billion. The increase breaks down into three categories: a 3.3% adjustment for inflation, based on the Gross National Expenditure deflator used by the government; a 2% real increase as promised in the Defence White Paper, and an increase over and above 2% amounting to approximately \$60 million. After inflation, therefore, the real increase in defence spending is 2.8%.

The White Paper proposed a long-term funding programme in which a basic 2% real increase per annum would be augmented by funds for particular capital projects (so-called above-the-line expenditures). The estimates identify the \$60 million as additional funds for the implementation of projects discussed in the White Paper, but do not earmark the funds for particular projects. The White Paper did not comment on the total above-the-line expenditures that would be necessary for the implementation of all the projects proposed. However, press comment (*Financial Post*, 21 December 1987) has suggested that the full implementation of the White Paper would require 5% real increase per year for fifteen years.

The largest part of the defence budget (about \$8 billion) goes to personnel, operations and maintenance. Capital programmes will receive about \$3 billion, of which

almost \$1 billion will be committed to the first batch of patrol frigates now being built, preliminary work on the second batch, and modernization of the existing Tribal-class destroyers. The estimates include \$23 million for the project definition phase of the nuclear submarine programme. Typically, in the project definition phase of a weapons programme, the detailed specifications of the weapons system are identified so that complete requirements for the contract can be determined.

Two major defence contracts were announced in December and February. UTDC Inc., of Kingston, has been awarded a contract worth almost \$300 million to build up to 1,400 supply trucks. UTDC has previously concentrated on vehicles for mass transit systems, but with the award of the truck contract it is aiming for a mix of civilian and military contracts. In December, St. John Shipbuilding of New Brunswick was awarded a \$2.7 billion contract to build the second batch of new frigates. Citing savings of several hundred millions, the government announced that St. John Shipbuilding will not be required to split the work with Marine Industries Limited of Quebec, as happened with the construction of the first batch of six ships.

In February senior officials from the Department of National Defence testified before Parliament on the proposed nuclear submarine purchase. Eldon Healey, Assistant Deputy Minister (Materiel), indicated that the project definition phase, now beginning, would last until 1990, at which point the implementation stage would require contractual commitments to spend the bulk of the funds. Prior to that, Healey stated, "governments have an off ramp, and can change course as they have in the past." Assuming that the purchase is for the full twelve subs, the first will be delivered in 1996 and the last in the year 2014. In the meantime, DND

is encouraging the five potential prime contractors to form two competing project definition teams.

Department of National Defence officials told the Standing Committee on National Defence that Canada's existing Oberon-class diesel submarines already operate in a barrier role in the seas between Greenland, Iceland and the United Kingdom (the G.-I.-U.K. gap). In coordination with other NATO navies, blocks of sea-space are assigned to each submarine to create an area defence designed to detect and track Soviet submarines entering the Atlantic from Soviet bases around the Kola peninsula. The proposed nuclear-powered submarines would have similar roles, but in addition, the range and flexibility of the nuclear sub would permit operations beyond barrier defence. In response to questioning, National Defence officials indicated that other tasks, such as operations in waters close to the USSR in support of the US Maritime Strategy, could only be determined by the government of the day. On the subject of naval operations in the Arctic, it was stated that the Department of National Defence had not "come to any arrangements with NATO or with the United States regarding the command, control and employment of nuclear submarines."

US Defence Budget

■ With only a two-month interval between them, the US Administration finally came to terms with the Congress on one defence budget, and new Secretary of Defense Frank Carlucci submitted another for fiscal year 1989.

In December, almost three months after the 1988 fiscal year began (on 1 October in the United States, compared with 1 April in Canada), President Reagan approved the 1988 defence spending authority for US\$ 291 billion – some \$21 billion less than the

President had requested from Congress. The President initially requested a 3% increase in defence spending after inflation, whereas the amount finally approved constituted a loss after inflation of about 3.5%

In terms of weapons procurement, the Navy was the big winner, receiving additional funds for two new aircraft carriers. In preparing to face budget cuts, the Air Force offered to abandon the proposed new small inter-continental ballistic missile (Midgetman). The missile is not popular with the Pentagon because, its critics argue, with only one warhead it is considered too expensive for the amount of nuclear firepower it can deliver. Congress, however, funded both the continued engineering development of Midgetman and the new mobile basing system for the ten-warhead MX missile which would put the missiles on railway cars.

The Strategic Defense Initiative (SDI) received US \$3.6 billion, considerably less than the \$5 billion requested. Additionally, the Department of Energy received US \$300 million for nuclear weapons development related to SDI projects.

In mid-February Secretary Carlucci began the long process of negotiation on the defence budget for 1989 by sending a request to Congress for US \$299 billion – a departure from previous practice since in doing so the Pentagon has accepted from the outset a budget which would not keep pace with inflation. The major new weapons projects of the three services survived the cuts with the exception of the Midgetman, which the Pentagon clearly intends to sacrifice. The budget includes an increase of US\$1 billion for SDI.

As a part of the cost-cutting, the Navy will retire early sixteen of its older frigates. Within a week of the publication of the budget, James Webb, Secretary of the Navy, resigned in protest. Webb opposed the Pentagon decision to stop short of the six-hundred ship