

The Canadian defence industry is in a good position to make the necessary transition from a high tech military production to a high tech civilian production, as illustrated by the changes which have occurred in recent years.

[English]

Canada's defence industry comprises more than 500 firms. The majority of them have already begun the diversification process both in commercial and military production and in domestic and export sales. On average 60 per cent of sales by Canadian defence firms are for the commercial market and only 40 per cent for the defence market. Many of these firms also have strong export sales. More than 80 per cent of all commercial sales are to export markets and 35 per cent of defence sales are abroad.

• (1600)

The only notable exceptions are the large shipbuilders in the Atlantic provinces and in Quebec and the munitions manufacturers in Quebec. In recent years they have depended almost entirely on defence production.

In United States, defence conversion has been quite different. The U.S. defence industry has been a domestic market nearly 40 times that of Canada. It produces large scale, fully integrated systems. These include, for example, military aircraft, submarines and sophisticated weapons systems.

[Translation]

Until now, a large number of American defence industries have been almost totally dependent on domestic military sales. These industries do not follow the Canadian tradition of either diversifying, being geared to operations, or relying on an important volume of commercial sales.

An American solution to a typically Canadian situation is a highly unlikely solution.

[English]

As I mentioned earlier, Canada's solution is threefold: first, a defence policy review which will of necessity take time to complete; second, the rationalization of bases and defence infrastructure, both of which elements will be addressed by the minister of defence; third, the rationalization of Canada's defence industry base, a complex question but one on which progress is being made.

In the Liberal plan for Canada "Creating Opportunity" the government made a commitment to expand the mandate of the defence industry productivity program to assist in the conversion and diversification of the industry.

I am pleased to say that earlier this year the government followed through with a provision in the budget to redesign,

Supply

DIPP for 1996-97. This will help industry convert from defence to high technology civilian production. This is the first step in redirecting existing government programs and initiatives. We are also proceeding on other fronts and will be announcing further initiatives soon.

Some elements of the government's support program, however, must await the report of the defence policy review and therefore will not be fully developed for some time.

[Translation]

This type of measured response will be problematic if the Canadian context for the conversion of military industries is similar to that of Europe or the United States. As I pointed out, the situation is very different in Canada. Generally speaking, Canadian companies are in the unique position of being much less vulnerable to military world market slowdowns than their foreign competitors.

[English]

This is not to say that Canada does not face challenges in expediting a smooth transition. Rather the defence industry and therefore some Canadian workers face a unique situation.

Canadian companies are generally well positioned in international markets. They have strong order books. They have good employment prospects. They have solid, diversified international export markets for both their commercial and defence product lines.

There are some exception to the quite strong positions enjoyed by many companies in Canada. These exceptions include munitions and shipbuilding where a number of specific problems generally beyond the scope of a defence conversion program continue to cause concern. We will address these problems through a combination of defence conversion programs and other programs that can help provide solutions.

I have outlined the unique challenge facing us in the matter of conversion of defence industries. In some, while the defence conversion problem in Canada is similar in scope to that in other parts of the western world, it is not by any means of the same scale.

Sales and employment prospects vary by company: some positive, some neutral, sadly some negative. Specific problems affecting a particular firm require specific solutions. We do not need to embark on sweeping programs offering sweeping and expensive solutions. Programs that are carefully targeted require careful preparation.

Targeted programs take time to develop but in my view are the most effective in the medium term. It would be naive to assume that the defence conversion problem in Canada can be solved overnight.