[*Translation*]

We are determined to reach that objective and we have already accomplished significant progress towards the development of an effective strategy.

[*English*]

Our defence conversion program has three major components: First, defining Canada's defence policy; second, rationalizing the military infrastructure; third, rationalizing the defence industrial base.

Later today in this debate my colleagues will describe the government's policy and program for expediting the first two components of our overall strategy. We will also discuss the nature and direction for defence conversion of the industrial base.

Conversion of defence production can be described as industrial adjustment with an added element of national security. To understand the scale and scope of the challenge which Canada faces one must appreciate the evolution of Canada's aerospace and defence industry.

We have followed a path quite different from that of almost every other nation in the western world. We have long maintained a relatively small domestic military procurement budget. In order to sustain themselves and indeed to grow Canadian defence firms pursue two avenues. The first has been to focus on export markets. The second has been diversification.

As I said the Canadian aerospace and defence industry pursued export markets as suppliers of components for the manufacturers of major military systems such as radar systems to detect low flying aircraft and military flight simulators. Their clients were generally not governments but defence companies world wide. Canadian manufacturers have designed, developed and sold world-class high tech products aimed at buyers of sophisticated, specialized equipment and our industries have produced these special components at competitive prices.

• (1555)

By contrast most of the western world's defence firms have relied on large domestic military sales. They have produced entire systems for a closed and essentially less competitive market. They have had little export focus and have sold almost exclusively to their national governments.

In many countries domestic military budgets were cut back severely at the end of the cold war. The shifts in geopolitical power required nations to re-evaluate their defence role.

Suppliers in other countries which focused on a domestic market for major weapon systems found themselves suddenly without a traditional market. Add to this equation the fiscal and budgetary problems facing all western governments and the result has been what might be described as a double whammy of radically different requirements and a rapidly shrinking market.

The inevitable results: Significant downsizing, rationalization and large layoffs, what we all too readily identify with defence conversion.

[*Translation*]

But here in Canada, defence industries are faced with a very different reality. Most have concentrated on export sales. The size of world markets, as well as the number of world suppliers, are diminishing.

The reduction of military spending at the international level could put out of business some competitors of Canadian companies and thereby create new market opportunities.

[*English*]

Canadian industry reliance on Canadian government procurement is already small by world standards and it is declining. In aerospace for example, 30 years ago defence products comprised 65 per cent of total sales. Today defence sales are less than 30 per cent of sales and projections indicate that by 1997 the percentage will fall to 25 per cent.

These figures indicate that in Canada defence conversion has been going on as a gradual process for almost 30 years.

The sudden and precipitous changes taking place in the United States and Europe in the defence industries will not occur in Canada to the same degree. For example, between 1991 and 1993 in the United States the aerospace and defence sectors lost almost 300,000 jobs. That is 10 per cent of their workforce. In Europe the experience has been similar. Over the same period, 150,000 people have lost their jobs in defence and in aerospace.

In Canada, in marked contrast, we have lost 5,000 jobs in this sector and forecasts indicate they will be regained by 1998.

Our successful Canadian manufacturers aim at small niche markets around the world. The export focus of Canadian manufacturers of subsystems and components has cushioned our industry from the worst of the fallout occurring in the United States and in Europe.

As I stated earlier, the other major factor in our success in avoiding severe contractions has been diversification.

[*Translation*]

A large number of defence industries have developed technology which can be sold for both military and commercial purposes. These companies have gained the necessary skills to successfully manage operations producing both military and commercial products.