



STATEMENTS AND SPEECHES

INFORMATION DIVISION
DEPARTMENT OF EXTERNAL AFFAIRS
OTTAWA - CANADA

No. 51/28 THE ORGANIZATION AND WORK OF THE DEPARTMENT
OF DEFENCE PRODUCTION

A statement by the Minister of Defence Production,
Mr. C.D. Howe, made in the House of Commons on
June 14, 1951.

...It will, I think, be convenient to deal with the different programmes which we are carrying out in the various divisions of the three main branches of the department: the production, general purchasing and materials branches. I will begin with the organization of the Department of Defence Production.

...When the department was established on April 1 of this year the majority of the staff was recruited from the government service, chiefly from the Department of Trade and Commerce and from the Canadian Commercial Corporation. A number of employees have also been drawn from sections of the government service that have been discontinued or are cutting down on staff, such as the Wartime Prices and Trade Board, Emergency Import Control Divisions, etc.

As I mentioned last March, we have also recruited men from industry to head up a number of divisions and to provide the technical knowledge that is so essential to the job we are trying to do. You will recall that under the Defence Production Act the minister may make appointments outside the normal procedures of the Civil Service Act. However, relatively few appointments have been made in this manner, and where it has been done, it has been done chiefly to secure specialists from industry; and in most cases these persons are serving without government salary. At the time of its inception there were 871 persons employed in the new department, and three-quarters of them came from the Canadian Commercial Corporation. By June 1 the staff had increased to 1,120. This figure is exclusive of Crown companies, such as Defence Construction Limited, Canadian Commercial Corporation as it is now constituted, etc.

In addition to the offices at headquarters in Ottawa, the department has offices in the leading cities of Canada, and also in Washington and London. The department has taken over the district offices formerly operated by the Canadian Commercial Corporation, but in Toronto and Montreal the office accommodation was insufficient to meet the expanded needs of the new department, and other quarters have been leased. Headquarters of the Petroleum and Machine Tools Divisions and the Wool Division of the Canadian Commercial Corporation are located in Toronto; the Chemicals and Explosives Division and the Pulp and Paper Division are in Montreal. Other divisions of the department are also

represented in these two cities, and in each case there is an office manager to co-ordinate the administrative work in these two centres. As space was limited in the Canadian Embassy in Washington, it was necessary to move the department's office to new quarters on June 1.

In the Washington office we have on-the-spot representatives for the different divisions of the department that have a direct interest in what is happening in the United States priorities field.

To avoid duplication of effort, arrangements have been made to use Trade and Commerce officers and facilities in London, England, and also at St. John's, Newfoundland, and Vancouver, British Columbia. In each case it was found that the interests of the two departments were sufficiently close to warrant such a course and that it was unnecessary at this time to set up separate offices.

Turning now to some of the problems with which we are dealing, I think I should start with the question that first arises in connection with the wide variety of things that are required by modern armies, navies and air forces. Should these items be produced in Canada, or obtained from other sources of supply? In many cases it has not been easy to arrive at these decisions. A number of factors are involved. As you know, a decision has been taken to adopt United States type equipment for our army. This means, in many instances, that before we can make production decisions we must secure rights to manufacture from the United States, as well as plans, specifications and bills of material. Frequently we must also secure special security clearances for departmental officials or Canadian industrialists to visit plants in the United States in order that they can study special production problems at first hand.

In the beginning we found that the securing of the necessary rights to manufacture, the specifications, and access to production sites was a time-consuming process. Naturally there are reasons why this might be so. The rights of private industry, as well as government proprietary rights, are involved. The security of highly classified material must be adequately safeguarded. I am satisfied, however that we have now worked out with the United States authorities procedures which will facilitate and accelerate the release of the rights and information which we require.

Another factor is our limited requirement for military end items in certain fields, which does not make it practical to undertake Canadian production if we would only be filling our own orders. In some instances we feel that because of special circumstances our production would be particularly efficient, and in such cases we attempt to interest the United States in our production facilities. According to our agreement on economic co-operation, signed by Canada and the United States last October, we are pledged to utilize the combined production facilities of our two countries to the best possible mutual advantage.

There are, of course, certain cases where, despite limited Canadian requirements and lack of United States orders, we feel that it is important that we initiate production in this country. The reason for such a decision is that we feel that if a war should develop, we would have immediate need of heavy production in certain fields, which could not be brought into being unless we establish a nucleus now. This entails partial tooling up, training key production personnel, and studying new production

techniques. In some instances, in order to get better production runs, we have offered to make some of our output available as mutual aid to our NATO allies, financing the production from funds voted by parliament for this purpose. I might add that we do not make such offers unless we are assured by the Defence Production Board of NATO that such supplies would help meet a real deficiency which could not be adequately met from European production. Examples of items which we are now offering to NATO countries from current production include 155 millimetre howitzers and other artillery items, as well as certain radar and other electronic equipment.

So much for the questions involving decisions as to what to produce in this country, When a decision has been made to build a certain type of aircraft or a certain type of ship, certain types of armament or any other complicated piece of equipment, we are faced with establishing the necessary facilities.

In most cases existing plants have to be largely rearranged or new plants built, machine tools have to be purchased and production tooling and setting up expenses incurred. In some cases it is advisable to establish these facilities with capacities greater than our immediate requirements, as a measure of insurance. We have two basic policies that we follow in dealing with these cases. If industry will put up its own money we offer them accelerated depreciation so that they may reduce the value of their investment to a reasonable figure in the event that the facilities are not required for the original purpose and have again to be converted. I might add the obvious fact that, if the facilities are required by the Government after they are written down, the Government receives the benefit, as the assets can only be depreciated once. If it is not possible to persuade industry to advance its own money on terms satisfactory to the Government, we provide the facilities through direct capital assistance, but in that case we retain title to the assets. Sometimes one course seems advisable, sometimes the other, and on rare occasions some combination of the two.

To date we have concluded arrangements for accelerated depreciation in three cases. We have five formal applications under study, and nine or ten others in the early discussion stage. Because so many of these cases have not yet been settled, I cannot give the House much in the line of figures as yet, but the three settled cases involve assets to the value of approximately \$1,500,000. The formal applications before us involve assets valued at approximately \$20 million.

In capital assistance we have projects in various stages of completion which will ultimately aggregate \$107 million, only part of which, however, will be spent in this fiscal year.

One further matter that I might mention in dealing with the estimates is the department's revolving fund. This of course is a statutory vote, and was discussed at some length when the Defence Production Act was being debated. However, because of the importance of this vote, I should like to advise hon. members of the commitments which we have entered into and have financed through the revolving fund. To date a total of \$74 million has been allocated from this fund to provide for the purchase, and resale, during the year of textiles, wool, strategic materials, shipbuilding, and ammunition components, to the value of some \$250 million.

I turn now to the various individual programmes. It is perhaps appropriate to start with the aircraft programme, because it is the largest. It is in this field that Canada has demonstrated its ability to compete with other countries, and it is in aircraft production that we can make a major contribution, not only to our own defence effort but to that of our allies. The Aircraft Division has already placed contracts amounting to over \$400 million, and a number of programmes are well under way.

After spending years in research and development work on the CF-100 jet fighter and its Orenda engine, Avro in Toronto will be in production this fall. Deliveries of this aircraft will depend on how soon the new engine plant under construction at Malton can produce Orenda engines in quantity. In Montreal the F-86 Sabre is now in quantity production, with output limited only by the number of engines and complementary equipment imported from the United States. The Harvard training plane is being built in Fort William, and it is planned to produce its engine, propeller and other components in Canada as well. It is noteworthy that this will be the first time that complete aircraft have been built in this country with all components Canadian-made. It is expected that Canada may be able to supply the United States and Commonwealth countries with their requirements for this aircraft and its spare parts. As you know, the Canadian Beaver was chosen by the United States authorities in competition with eight United States aircraft manufacturers, and orders have been placed for 109 planes to be used by the United States air force. A further and larger order is expected.

I have just recently received word that Canada will participate in the production of the United States air force twin engine trainer, the Beechcraft T-36A. Negotiations are not yet completed, but plans are also under way to produce in Canada the Lockheed T-33 dual controlled jet trainer.

The division is also engaged in placing orders and arranging for the production of a number of components required by the aircraft industry. Another important phase of its work is the allocation of orders for maintenance and repair of aircraft. For some years it has been the government's policy to allocate this work to various sections of the country in order to ensure that adequate repair and maintenance facilities are strategically located across Canada. At the present time we have repair and overhaul requisitions from the R.C.A.F. amounting to approximately \$35 million, with some programmes extending over two years.

We now come to the Electronics Division. This is one field in which Canadian production will make a substantial contribution, not only in producing for our own requirements but also for the requirements of the United States and our NATO allies. A great deal of research has been carried out by the Defence Research Board, the National Research Council, and industrial research workers as well as universities, and it is hoped that much of this research can be carried through the development field and into the production field in order to meet allied military requirements. It is difficult to describe major electronics projects because of their complexity, variety and interrelation with the aircraft, shipbuilding and other programmes.

Our present electronic programme for the armed services is already under way and will eventually total more than \$400 million. As about one-quarter of the programme has been placed with prime contractors, the impact of this work on

subcontractors will soon be felt.

A third division is the Shipbuilding Division. As has been announced, contracts have already been allotted by this division for one icebreaker, fourteen minesweepers, fourteen escort vessels and five gate vessels, as well as a number of harbour craft. It is expected that this programme will amount to approximately \$200 million.

These are new types of minesweepers and escort vessels of which no prototypes are yet afloat. This means that certain capital assistance is necessary, and that some delays and difficulties at the shipyards may be expected from time to time. Although Canadian shipbuilding costs are somewhat higher than European costs, it has been government policy to maintain key personnel and essential equipment in all our major Canadian yards for strategic reasons. The growth of this programme is shown by the employment figures in the shipbuilding industry: October, 1950, 8,440, and April, 1951, 12,147.

In addition, I released a statement last week which referred to the conversion and refitting of thirty-four ships. This is a two-year programme and includes eighteen minesweepers and sixteen frigates. The Shipbuilding Division is also developing the production of propulsion machinery and auxiliary equipment.

Another division is the Ammunition and Gun Division. The general remarks which I have already made concerning problems in our production programme are particularly applicable to the work of this division. Nevertheless some pieces of equipment and kinds of ammunition are now planned for production in this country. For example, 60 millimetre and 81 millimetre mortars of United States design will be manufactured here. These will replace the 2-inch and 3-inch mortars used previously. In addition, the 3.5 inch rocket launcher anti-tank weapon, replacing the Piat as a standard, will be made in Canada. In artillery the American 105 millimetre and 155 millimetre howitzers will now be standard weapons replacing the old 25-pounder and the 5.5 inch howitzer. Both guns will be made at the Sorel plant, which is also engaged in the production of the 3-inch 50 calibre naval gun for the United States and Canada.

Ammunition for the types of small arms and artillery which we have adopted will be produced in Canada. At the moment the bulk of the ammunition and small arms programme is being carried out by Canadian Arsenals Limited, and the howitzers and naval guns are being made at Sorel.

Yet another division is the Mechanical Transport Division. The present programme in mechanical transport is small relative to our contribution to allied requirements during World War II. On April 27 I released a statement in which I advised that preparations were being made for the partial manufacture and complete assembly of 456 three-quarter ton military trucks and 780 two-and-a-half ton military trucks by Chrysler Corporation of Canada Limited and General Motors of Canada Limited, respectively. I pointed out at that time that full tooling and production to meet the limited requirements of the three Canadian services is out of the question at present.

The possibility of securing United States orders for our Canadian factories was carefully examined but there is excess capacity in that country for producing these types of vehicles. Nevertheless we were satisfied that some production must be undertaken in Canada in order to encourage

the production of components in this country and to ensure the highest possible Canadian content in these vehicles. It is also important to make arrangements for some tooling up in Canadian plants and to give Canadian industry an opportunity to become familiar with these types of vehicles. Since my announcement the Ford Motor Company of Canada has been studying the possibility of Canadian production of the one-quarter ton 4 by 4 jeep. It is expected that these engineering studies will be completed very shortly.

The Machine Tools Division has been established to ensure that there is available to every production project, such as the manufacture of aircraft, radar, guns and ammunition, shipping, etc., an adequate supply of machine tools and the necessary allied equipment. This division has started on a three-year, \$40 million machine tool purchasing programme. Of this amount, it is estimated that \$12 million will be spent in Canada, \$4 million in the United Kingdom, and \$24 million in the United States. In addition, an attempt is being made to rationalize the Canadian machine tools industry in order to achieve an increase in output and efficiency by having certain plants concentrate on the production of specific sizes and types of machines. In this way we avoid duplication of effort and at the same time achieve manufacturing economies.

Defence Construction Limited, which is a Crown company set up as part of the Production Branch, is responsible for construction required by our armed forces. By the end of May, Defence Construction Limited was administering contracts with a total value of \$110 million, of which \$44 million worth were taken over from the Canadian Commercial Corporation. Defence construction requirements have increased sharply in recent months, and the present rate of contract awards exceeds \$4 million per week. It is estimated that by the end of the current fiscal year Defence Construction Limited will have under administration over \$200 million in construction contracts. Such an extensive programme is making heavy demands on critically short materials, particularly reinforcing steel.

The last division of the Production Branch is the Small Industries Division. Briefly, the functions of this division are to gather and distribute information on contracts so that subcontractors can get in touch with the prime contracting firms quickly for possible orders; second, to inform prime contractors of available industrial capacities as needed; and third, to act as a representative in Ottawa of small industry across Canada for whatever problems may arise in its dealings with the Defence Production Department. In order to ensure close liaison with small industry, it is planned that this division will have representatives in the department's offices in Toronto and Montreal. The division will have special maritime and prairie province liaison officers on its staff in Ottawa, with the understanding that these individuals will spend considerable time in their respective territories. It is also planned to work closely with industry in British Columbia and Newfoundland through the Department of Trade and Commerce offices in Vancouver and St. John's. We are anxious to see that every section of Canada, and small industry as well as large, has an opportunity to participate in our defence production programme.

Another main unit of the department is the General Purchasing Branch which is carrying on most of the work of the former Canadian Commercial Corporation. It is responsible for purchasing all the defence supplies outside the field of those for which production divisions have been created. These cover a wide range of commodities and include

such things as hardware, barrack stores, fuel, photographic equipment, medical supplies, food, petroleum products, etc. The branch also places contracts for repair and maintenance work on National Defence property.

One of the largest programmes being handled by the General Purchasing Branch is in the clothing and textile field. It is expected that about \$150 million will be spent on uniforms, blankets, boots and other items needed by the armed forces in the current fiscal year. Because of the size of this programme the Government, after consultation with the textile industry, decided to proceed with the orderly placing of contracts for about half of the woollen textile requirements. To ensure sufficient wool to meet this volume of orders before the fall sales open in Australia and New Zealand, the Wool Division of the Canadian Commercial Corporation has already ordered 7,100,000 pounds of raw wool and tops. This in turn will be sold to mills manufacturing fabrics and blankets for military use. In this way it is hoped that there will be no undue disruption of civilian requirements in the textile field, and at the same time the defence programme can move ahead in an orderly fashion. In the case of cotton goods, industrial demands are heavy, and as Canadian mills are finding it difficult to fill all our defence needs a good deal of yardage will have to be purchased outside Canada if we are to avoid heavy impingement on the civilian market. Synthetics are being incorporated into cotton and woollen fabrics with excellent results, and this is particularly useful in view of present shortages and high prices of natural fibres.

The majority of contracts awarded by the general purchasing branch are placed as a result of competitive tenders. In certain cases, however, contracts placed by the branch have been allocated throughout industry. This has usually been done because of delivery requirements and the quantities needed, and to make sure we were not placing too heavy a burden on a limited number of manufacturers. For instance, orders are being placed for one million pairs of military footwear with firms located throughout Canada, in order to make the best use of open capacity. Many supplies are bought and services contracted for in the area where the armed forces are located, and purchases of these items have been made from coast to coast by district purchasing offices.

The suggestion has been made recently that there is something unfair about the way in which defence contracts are being awarded to the different provinces; and I refer especially to our friend from Moose Jaw (Mr. W.R. Thatcher, CCF-Moose Jaw). For example, it is claimed that Saskatchewan is not getting its reasonable share of the defence programme. Before commenting on this, I would like to emphasize the fact that capacity for making defence goods is not spread evenly over the country. Modern weapons are made in specialized factories by skilled workers, and it is a basic fact that the bulk of Canada's potential for making munitions is in Ontario and Quebec. It is not necessary for me to dwell on the economic influences which have brought this about, but the fact remains. It is true that the volume of defence contracts for such things as aircraft, military vehicles, weapons, ammunition and electronics will be relatively small outside the central provinces.

However, when other military purchases are examined the provincial distribution seems to be quite reasonable. Not counting the items just mentioned, the prairie provinces got defence contracts in the last fiscal year amounting to about \$25 million, or nearly 13 per cent of total contracts

let in Canada for these items. When account is taken of the fact that the net value of manufacturing in the prairie provinces was only about six per cent of the total in the latest year for which figures are available, the prairies appear to have done rather well.

Particular reference has been made to the lack of defence contracts in Saskatchewan, and I want to outline some recent developments to correct the mistaken impression that Saskatchewan is being left out of the defence programme.

In the month of April of this year, defence orders worth nearly half a million dollars were placed by the Department of Defence Production in Saskatchewan. In May, Defence Construction Limited awarded contracts for over \$4 million for work in Saskatchewan, and there are other defence contracts which are now being tabulated. Mention should also be made of the expenditures in this fiscal year by the Department of Transport on behalf of the Department of National Defence for landing strips and runways in Saskatchewan.

It is planned to spend \$965,000 for military landing strips and runways, and another \$440,000 for similar civilian facilities. Such direct government expenditures do not fully reflect the impact of the defence programme on Saskatchewan. For example, Eldorado Mining and Refining Limited plans to spend about \$2 million this year on uranium production in Saskatchewan. This is not a part of the government's defence vote, but it is a defence expenditure which will contribute substantially to employment and income in that province.

Before concluding my references to the general purchasing branch, I should just like to say a few words about the Canadian Commercial Corporation. As I mentioned at the beginning, most of the personnel of the old Canadian Commercial Corporation has been absorbed into the department proper. However, the Government has decided that it would be useful to maintain the corporate entity of Canadian Commercial Corporation, although its staff has been reduced to approximately twenty-five. The main task of the Canadian Commercial Corporation, as now organized, is to act as a purchasing agent for foreign governments securing supplies in Canada. It will also be used by the Government for the purchase of strategic and other materials for stockpile.

One of the most vexing problems facing us today is the over-all shortage of strategic materials. Before referring to what we are doing in this field in Canada, I might mention some of the international studies that have been made or are being made.

For some months the Organization for European Economic Co-operation has been devoting considerable time to this question, as has the North Atlantic Treaty Organization. There have been special rubber and tin conferences, and at the last meeting of the Commonwealth Prime Ministers it was agreed to extend the terms of reference of the Commonwealth Liaison Committee so that this group could keep the special Commonwealth aspects of the raw material situation under review. I might explain that the Commonwealth Liaison Committee is a standing committee composed of all the Commonwealth High Commissioners in London, and includes senior representatives of the appropriate United Kingdom ministries.

However, the most important work currently being carried out in the materials field is being done in Washington by the International Materials Conference. This conference

is organized into a central group with a number of commodity committees. The central group's main responsibility is to select the commodities that are to be studied, and to invite the countries which are the principal producers and consumers of the selected commodities to establish commodity committees. The central group includes Canada, the United States, the United Kingdom, France, India, Italy, Brazil, Australia, and a representative from the OEEC and a representative from the Organization of American States. To date, the central group has established the following commodity committees: wool; cotton, sulphur; tungsten and molybdenum; manganese, nickel and cobalt; copper, lead and zinc; and pulp and paper. All these committees have similar terms of reference, and, in general, these are: (1) to establish as accurately as possible the supply and demand position; (2) to encourage increased production; (3) to stimulate conservation and substitution wherever possible; (4) if it is apparent that there is an inevitable gap between available supplies and essential requirements, to recommend reallocations of supplies. It should be noted that these committees have authority only to recommend redistribution of supplies to governments.

The work of the International Materials Conference is for the most part in its early stages. They have made only one recommendation, which was that North America ship 3,000 tons of newsprint to France.

...As a country which is one of the most important exporters of many strategic materials and a significant importer of others, Canada has been active in nearly all the commodity committees. Because North America controls a large share of the free world supplies of scarce materials, I welcomed a statement released on May 29 by United States defence mobilization director Charles E. Wilson, in which he outlined a set of priority principles designed to assure supplies of scarce materials to the United States and her allies. I say I welcomed this statement because it is one in which we can readily concur. It is completely in line with the instructions which we have been giving our representatives on the International Materials Conference for the last few months. In his statement on guides to be followed in allocating resources devoted to foreign needs, Mr. Wilson stated in part:

When there are competing requirements of similar high essentiality in terms of over-all objective, allocations policy should attempt to satisfy such requirements according to the degree to which they will contribute to the following results:

(a) military production of the free world, and direct support for the expansion or improvement thereof;

(b) promotion of increased supplies of all materials essential to strengthening the free world, and in particular the production and acquisition of those materials required for the current mobilization effort;

(c) maintenance and necessary expansion of essential services and production facilities, and maintenance of minimum essential civilian consumption requirements in the free nations, and in areas which they control.

Mr. Wilson went on to say:

Allocations form part of a wider give-and-take among the free nations. Among the countries sharing in such allocations the principles of self-help, mutual aid, and similarly effective application of internal policies governing the allocation and use of scarce materials should prevail.

After requirements of high essentiality have been met, the inter-country allocation of remaining supplies should take into account the effects upon the respective civilian economies of the broad contribution of each area or country toward common defence, in direct military production or in increased political and economic strength, including the common aid of controlling inflation of world prices. Individual countries differ widely in their ability to make such contributions; the objective should be to bring about an equitable distribution of the resulting burdens and sacrifices. This objective clearly excludes any mechanical formula, or any mere levelling down to a uniform standard of lowered consumption.

The foregoing principle is admittedly difficult to apply, since standards of consumption in different areas of the world are determined by a complexity of factors, such as normal levels of real incomes, customs, cultures and climate. But its application is of high importance for the attainment of the overall objective of economic strength and morale in the free countries.

To return to the Canadian scene, I think the most orderly way to discuss our materials situation would be to review the work of the Materials Branch. The problem of short supply in relation to rising Canadian and world demand affects the work of the six divisions of the Materials Branch.

In the Steel Division the task is two-fold: to facilitate increased supplies, and to make sure that preference is given to essential requirements. This year, as a result of a rise in production and an increase in imports, we have had more steel in Canada than we had last year. But the demands of Canadian users have increased much more sharply, with the result that we still have a tight supply situation. While the expansion plans of the Canadian steel industry are an encouraging part of the picture, we shall still have to obtain substantial quantities of steel from outside sources to meet our own defence needs. An important task assumed by the Steel Division is to demonstrate these needs to the United States authorities in order to have steel released to Canada.

In order to ensure the best possible distribution of the steel that is available in this country, limitation orders have been placed on certain non-essential types of construction. Last January the supply of steel for certain types of less essential building was restricted, and these restrictions were extended to additional types of buildings in March. In recent months the requirements of steel for defence projects have increased sharply, and we are now faced with a critical situation with respect to supplies of reinforcing steel, plates and structural steel. It has, in fact, been necessary to direct Canadian mills to defer shipments of less urgent projects. In co-operation with the Priorities Division every effort has been made to obtain increased supplies from the United States. I am pleased to be able to tell you that our representations have been well

received in Washington. However, in spite of this, defence requirements are so large there will be only limited quantities of steel available during the next few months for projects that are not closely related to the defence effort.

The Non-ferrous Metals Division has also been faced with the problem of increasing production and making sure that defence needs receive first claim on materials in short supply. In the case of some of the more common metals produced in Canada--copper, lead, zinc, nickel and aluminum--expansion of production by the industry has enabled us to meet essential demand in this country, and at the same time, keep up our exports to our traditional customers. Special steps have been taken to increase our own supplies of some of the less common metals, and I thought that hon. members might be interested in some of these measures.

In the case of tungsten, the Government is erecting a 230-ton mill at the Emerald property in British Columbia which should be in production late this year. Under contract for export to the United Kingdom, the Red Rose property, also in British Columbia, is being put into production by the owners.

In addition, the Hollinger mine, and possibly some of the other gold operations, are planning to undertake the recovery of scheelite, one of the tungsten ores, in order to supplement supplies obtained from the United States. Every effort is being made to obtain our requirements of molybdenum from traditional sources in the United States. However, impending shortages have resulted in further restrictions on United States consumers, which will have a corresponding effect in Canada. To meet this situation, negotiations are now under way to reopen the La Corne mine in Quebec which was a producer during the last war.

In the case of cobalt, an incentive price schedule was announced last February, and the Deloro Smelting and Refining Company was appointed as the Government's buying agent under this bonus price plan. The company's smelter facilities will be used to convert into metal the ores and concentrates purchased under the plan. I might say that this plan is producing results.

As a further step in increasing our supplies of essential materials, stocks of tin and antimony were purchased some months ago, and further purchases are now under consideration. Arrangements have also been made to obtain quartz crystals from Brazil, and steps are being taken to explore a Canadian source of this scarce material. Reasonably good stocks of manganese and chrome ore are being maintained by the Canadian consumers of these minerals.

A long list of metals and minerals has been declared essential under the Defence Production Act. The informal "producer ration" system that was in effect earlier in the year has now been replaced by an "order-approval" system for such metals as nickel, copper and aluminum. Similar orders covering lead, zinc and cadmium will be issued shortly. Through these orders we hope to regulate the rate of metal consumption for commercial purposes in order to support our expanding defence programme. The operation of these orders will also prevent surplus buying to build up abnormal inventories. This "order-approval" system was very effective in the last war.

Because of its flexibility, we feel we will be in a much better position to meet changes in over-all supply and demand, and in the United States priorities picture, than we would be if a more rigid system were adopted.

In the Chemicals Division, efforts are being made to assist industry with some of its supply problems and in arranging the mechanics of handling Canadian requirements for chemicals and chemical equipment to be secured in the United States. As a first step, a number of chemicals were placed on the essential list under the Defence Production Act. So far, it has been possible to work out satisfactory arrangements without formal control. However, in view of proposed international allocations, it will be necessary to place sulphur under control in the near future.

The continuing shortage of sulphur is a problem that is not confined to Canada, and, as part of our contribution to the over-all situation, every effort is being made to reduce our dependence upon the United States sources of elemental sulphur. Plant expansion has been approved to increase production of sulphuric acid in this country, as well as new capacity to produce elemental sulphur from natural gas in Alberta and liquid sulphur dioxide from the operations at Copper Cliff. Studies are also being made to increase our production from smelter gases and pyrites.

Expansion is taking place in other parts of Canada's heavy chemical industry, and many new chemical processes are being planned in this country for the first time, including the manufacture of nylon intermediates, polyethylene for plastic and electrical insulation, cortisone, and important new petrochemicals, the latter in Alberta. Altogether, priority assistance has been given for expansion amounting to more than \$150 million.

On the supply side, arrangements have been made with the United States for the allocation of chemicals to Canada, with distribution to be made where necessary under the direction of the Chemicals Division.

The development of the oil resources of Canada has assumed new importance with our defence programme placing increasing demands on available supplies. The Petroleum Division is doing everything possible to increase our own production and to work out with the United States authorities a satisfactory distribution of North American supplies. Since the division has been in operation, a survey has been made of tubular steel requirements in this country and a system of allocation set up to fit in with United States procedures. Canada was granted an allotment of 13,000 tons of steel for the oil industry for the the third quarter of 1951, and distribution of this will be supervised through the Calgary office. A system of reserve supply depots, and the method of withdrawal from these depots, have now been established and will go into operation on July 1.

The division has also worked out, in co-operation with the United States authorities, a system of allocation of tetraethyl lead to Canadian refiners in order to conserve supplies and build up inventory. In addition to a number of surveys on the supply and consumption of certain petroleum products, the division has given assistance to the industry in obtaining materials for urgent projects already under way.

Some weeks after the department was in operation it was decided to establish a Pulp and Paper Division. The main reason for this move was the likelihood of some international allocations being recommended by the International Materials Conference.

The pulp and paper committee of this conference has now recommended one allocation of newsprint to France and it is possible that there will be others during the next few months. I think that no one will quarrel with the desirability of North America assuring that our allies have at least minimum amounts of newsprint available in order to combat the claims of communism. It seems that in the free countries where communism is the greatest threat, the communist papers in one way or another get newsprint. It is important that we ensure that the free press of these countries also secure supplies.

As I mentioned, the International Materials Conference has recommended an emergency allocation of 3,000 tons of newsprint to France, 2,500 tons of which is to be supplied by Canada. I have, under the powers granted me by the Defence Production Act, instructed the director of the Pulp and Paper Division to make an equitable levy on all Canadian newsprint producers for the purpose of providing the aforesaid 2,500 tons of newsprint. This purchase will be made by the Canadian Commercial Corporation on behalf of France, at prices not inconsistent with contract prices prevailing in North America, but having regard to any additional costs involved in this transaction.

I do not believe that it will be necessary to divert a large tonnage of newsprint from North America in order to satisfy these emergency requirements, but with our mills already over-committed it is obvious that North American users, who are by far the heaviest consumers of newsprint, must expect some cutback in order to provide this tonnage. Every precaution will be taken to requisition in such a way as to minimize the impact on producers and consumers in this country.

I have left the Priorities Division to the last because so much of its work cuts across that of other divisions in the department. One of the major tasks of the Priorities Division has been to see that Canadian requirements on the United States economy are fully recognized when it comes to the allocating of materials, components, and productive capacity by the United States authorities. So far, the single band "defence order" priority rating system has been used in that country, and its use has been extended to include defence-supporting and essential civilian requirements in addition to defence contracts. This has placed undue pressure on the defence order system, and plans are being made in the United States to introduce a controlled materials plan to regulate material requirements in a more equitable manner. There has been a good deal of delay and uncertainty about the controlled materials plan in the last few weeks, but I would like to say at this time that Canadian officials have done everything possible to try to minimize the effect of this on Canadian industry.

Some of the difficulties have arisen from the fact that decisions on policy implementation and operations have not been forthcoming from the United States national production authority in sufficient time to meet the original plans, and a great deal of confusion at the industry level has ensued. Canadian firms have been supplying firms south of the border. A number of stop-gap methods have been

employed in national production authority to avoid dislocations in important defence supporting industries, and in general we have been successful in arranging for parallel measures to be applied to the corresponding Canadian industries in respect to their United States supplies. For example, there is conflicting advice as to what steps will be taken in connection with the truck manufacturing industry in the United States. The necessary information has been obtained from the Canadian automotive industry, so that their priority interests can be protected quickly, no matter which way the situation moves in the United States.

During this unsettled period, it has been most difficult to put in final readiness the rather comprehensive administrative procedures which will be necessary, assuming that controlled materials plan comes into full operation in the United States. It would seem most inadvisable to put any method of operation before Canadian industry until such time as we can be sure that it affords at least a relatively satisfactory short-run basis of operation.

My colleague, the Minister of National Defence, has described in some detail the programme of the armed services. It is the role of the Department of Defence Production to ensure that the armed services have the equipment and supplies that they require. In the remarks which I have just made, I have indicated how the department is organized to procure these supplies. I have referred to the three main branches of the department and to their various programmes. I have touched briefly on our activities in the international field. I have mentioned some of the inducements which we are using to encourage production in Canada of articles or commodities that are needed for the defence programme. I have said previously in this House and in other public statements, that I am satisfied that we can fulfil the programme on schedule. I have admitted that we could not carry out this task without the complete co-operation of Canadian industry, but that in co-operation which we have enjoyed in the past, and I have no doubts as to the role that Canadian industry will play in the future.

There is another important element in the defence production programme, and that is manpower. We have a tight manpower situation. As civilian producers, with exceptionally heavy stocks, run into consumer resistance, they may find it necessary to cut back staff. I am satisfied, however, that such personnel will be absorbed quickly into defence or defence-supporting industries. There will be minor dislocations, but I am satisfied that there is sufficient labour of the right kind in Canada to support our defence programme as well as a flourishing civilian economy.

DEPARTMENT OF
DEFENCE PRODUCTION
ORGANIZATION
AS AT 15 JUNE 1961

