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No. 52/4 CANADA'S MINERAL INDUSTRY IN NATIONAL DEFENCE

Text of an address by the Deputy Minister of Defence Production, Mr. M. W. Mackenzie, to the general meeting of the Canadian Institute of Mining and Metallurgy, made in Ottawa on January 23, 1952.

I was asked today to say something about Canada's mineral industry in national defence. I think, therefore, it might be well to start by examining what we mean by "national defence." In a period of total war, the meaning is pretty clear cut and the military aspects tend to override all other considerations. Today, however, we are not at war and we are not preparing for war. What we are doing is carrying out our part of an alliance which we have made with other like-minded nations to strengthen the defences of the free world, with all that that implies, so that any would-be aggressor will realize that his chances of success are not such as to merit the undertaking.

This approach to national defence must necessarily be many-sided. In the first instance, we have to build up our military strength; at the same time we must develop the resources that are needed to sustain a long struggle; and in addition, the civilian economy must be kept on an even keel. Nothing would suit better the purposes of those who believe in the complete supremacy of the state than to have the democracies of the Western world -- those who believe in the supremacy of the individual -- confronted with the serious domestic dislocations that would be caused by runaway inflation or a high level of unemployment. This is why, in considering our defence effort, we must keep in mind all the different aspects, for in this day and age there is little that goes on in the country that does not affect our common defence effort in one way or another.

There is, however, a special relationship in Canada between our direct military production effort on the one hand, such as the building of ships and aircraft, the equipping of our military force with weapons, clothing, and all the paraphernalia of war, and on the other, the development of our natural resources, particularly in the field of metals. This special relationship was recognized in the legislation setting up the Department of Defence Production and subsequently in its organization when it was established last April. In addition to the branches of the Department responsible for the procurement and production of military items, we have a Materials Branch responsible for the strategic materials needed to sustain a long-term defence effort -- steel, non-ferrous metals, petroleum, chemicals, and pulp and paper.

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The development of our resources is as much a part of Canada's defence effort as the building up of our direct military strength. Indeed, any comprehensive plan for strengthening the North Atlantic community of nations would not make sense unless it had regard to the development of our mineral and other strategic resources. Certainly, Canada has a greater potential resource development than any of its partners in the North Atlantic Pact. This is not to minimize our direct military effort, which is indeed substantial. The point is that our contribution to the common cause falls into these two parts. The fact that it is much more palatable to make a contribution to overall preparedness by the constructive work of developing natural resources than to have all our energies expended on making instruments of war and destruction does not alter the value of the total contribution. It would not be proper to have the whole Canadian effort devoted to one or other of these two parts. There must be a reasonable balance, but the fact remains that we have, in substantial measure, this more palatable course open to us. We are privileged in this regard, but like every other privilege, it carries with it related obligations.

Foremost among these is the very special obligation on Canada to see that the output of strategic materials in this country is used to the best possible advantage. Because we are large exporters in this field, our obligations do not stop simply with the use made of these materials in our own country. In developing our national policy on this matter we must give consideration to the destination and ultimate use made of the materials we export. Sometimes we find that our national policy and our commercial policy are to some extent in conflict. Fortunately, however, our principal customers are for the most part associated with us in the defensive alliance of the North Atlantic Treaty, so that any conflict in policies is not as great as it would be under different circumstances. This is especially true in the case of the United Kingdom, for that country has for years been the principal buyer of our primary metal exports.

In the case of the United States, the situation is different. The need to supply that market is just as great, but the United States has not been a traditional market for our primary metals. For years U.S. tariffs have been high, and for the most part the United States has looked to Canada mainly for "spot" purchases when their own domestic supplies were temporarily inadequate. It is difficult to make sudden and abrupt changes in the direction of our exports, particularly to increase the supply to a country that has not been a traditional customer and one that so far has not held out too much hope for sustained demand for our base metals. In the present emergency, however, it is essential to get increasing quantities of metals to the United States, because of the importance to all of us of that country's tremendous defence programme.

We also find that our national and commercial interests are sometimes in conflict where we have good commercial markets in countries which, for one reason or another, are not directly associated with us in the common defence effort. I think therefore that under today's difficult circumstances there will be no disagreement with the general proposition that the marketing and distribution

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of strategic materials cannot be based on commercial considerations alone. No producer on his own can assess all the facts and determine the proper course. There must be a balancing of his own interests and national interests which may or may not coincide. What is true of the individual producer in his relations to the country as a whole is also true of the country in its relations with its partners. Canada cannot in isolation consider all the many facets of these difficult problems. The situation calls for international discussion.

It was to meet this need that the International Materials Conference was set up. This is essentially a consultative and recommending body rather than a super international authority. For example, there is what is known as the Central Group of the Conference, composed of representatives from eight countries, as well as representatives of both the Organization of American States and the Organization for European Economic Co-operation--the OEEC it is generally called. This Central Group concerns itself primarily with decisions as to what commodities shall be the subject of special study. Individual commodity committees are then established and membership on such committees is composed of representatives of the countries that are the principal suppliers and users of the commodity in question. These committees are autonomous bodies within the I.M.C., meeting together to consider the situation and to make recommendations directly to the governments concerned.

Under difficult circumstances, the I.M.C. has already done some very useful work. It has effected some redistribution of materials in short world supply, as well as contributing to generalization of knowledge on possible conservation measures. It is not necessarily the ideal organizational structure for dealing with these matters, but it is working, and providing a forum where the problems can be aired. Sometimes we are prone to compare its operation with the very efficient distribution system that was developed by the Combined Raw Materials Board of the last war. We must remember, however, that the situation we are in today is very different. In the first place, many things can be done under the stress of all-out war that would be unacceptable under present conditions. Furthermore, in wartime there are ultimate sanctions such as control of shipping by which the decisions of a central body can be enforced. The great advantage of the present I.M.C. set-up is its flexibility. It has not attempted to set too rigid rules and regulations, nor has it attempted to establish fixed criteria which would apply equally to all the commodity committees. So long as it is necessary to maintain such an organization, it is to be hoped that it will avoid any stereotyped approach to problems that by their very nature are continually changing.

International discussion, however, is useful not only in trying to achieve the best possible division between member countries of strategic materials that are in short supply. It can be useful in the more positive role of assisting an increase in the supply of these materials. The I.M.C. can shape its policies in such a way as to encourage greater production, or it could, by too much concentration on the short-term problems--the problem of cutting up the existing cake--

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follow a course that would tend to discourage those things that would make the cake bigger. We all hope that a high level of demand will continue for all those materials--though we trust it will stem from more constructive use than many of those to which the present output of necessity is devoted--and if demand does remain high, increased supply is the only way of avoiding the need for international allocation. Canadian policy has recognized this need to encourage the development of resources, and so, fortunately, has United States policy. Charles E. Wilson, the U.S. Director of Defense Mobilization has said in one of his early public policy statements that military production is not the only criterion on which a country's requirements should be based. The production of materials essential to the strengthening of the free world, the maintenance and expansion of essential services and productive facilities, as well as minimum essential civilian requirements, must also be considered.

The Canadian situation illustrates the force of these principles. We have a rapidly expanding economy. Something like 22 per cent of our national effort was devoted last year to capital investment, and a large part of this will result in increased production of materials that are in critically short supply. Steps can and have been taken to assist and facilitate investment in the fields of direct defence and defence-supporting industries and to discourage less essential investment. But I suggest that the development that we have seen in the last few years in direct defence and defence-supporting industries could not have been accomplished to the complete exclusion of any expansion in industries not so directly related to defence but still necessary for a balanced economy.

How can all these factors be evaluated in an international forum attempting to make an equitable division of materials in short supply? It is not possible to lay down any hard and fast principles either to measure necessary use of existing supplies or to assess the benefits of various types of incentives to increase production. Most countries want materials in primary form so that they can do their own processing. Their natural inclination in thinking of international allocation is to consider only the export and import of materials in primary form. But increased production of primary materials is likely to be discouraged unless the producing country can keep its processing plants fully occupied, and under certain circumstances even allow some modest increase in processing capacity. All these conflicting claims and counter-claims have to be reconciled if international agreement is to be reached, so it is clear that standard patterns are not likely to produce satisfactory results. The important point, however, is that the need for incentives should be recognized and, in dealing with each commodity, all the factors that will increase supply of that particular commodity to be considered.

The other aspect of the international allocation of strategic materials--that of getting equitable distribution of what is currently available--must, of course, take into account the question of conservation and the effective control of supplies to ensure that such materials

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are going primarily into defence and essential civilian production, with a minimum for less essential uses. Canadian policy in this regard has relied on both direct and indirect controls. In the first place, the government's fiscal, monetary and credit regulations have effectively diverted resources to defence and defence-supporting requirements. The effectiveness of the consumer-credit restrictions need not be elaborated here. Higher direct taxes have also helped to relieve the pressure on civilian demand for capital and consumer goods. The reduction in the amounts loaned under the National Housing Act for building new houses reduced the number of starts during 1951 and the easing in this demand freed some construction capacity and materials for defence projects. The deferred capital cost allowance plan, by postponing depreciation allowances for income tax purposes, has been a contributing factor in cutting down on non-essential investment.

As far as possible, the use of direct controls has been kept to a minimum, and the Government has said that they will be discontinued at the earliest possible opportunity. So far, in the field of metals, these controls have been applied mainly at the primary level through an order approval system, which has enabled end-use restrictions to be kept to a minimum.

These steps that have been taken in Canada have served domestic as well as international purposes, but certainly one aspect of them is the discharge of the obligations we have to our partners-- the obligations I mentioned earlier as arising from the privilege of our position. But let me add that recognizing such obligations to others does not imply that we automatically surrender our right of decision as to the course we will follow. By way of illustration, Canadian defence policy, i.e. the determination of the size and composition of our armed forces, is essentially a matter for determination by the Canadian Government and the Canadian Parliament; but this does not minimize the importance of the strategic discussions and consultations that are first held with our partners in the North Atlantic Pact. Similarly, in the field of strategic materials, international discussion precedes, in many cases, the making of Canadian policy decisions.

I do not want to leave the impression by the comparison I have just drawn that, in the field of materials and resource development, there is any master plan for the development of Canada's resources. We are, after all, living in a free country where business men make their decisions as to when, where and how the money in their control will be invested. It remains true, none the less, that Government policy is not without substantial influence in encouraging or discouraging certain courses of action. Taxation policy has for some years provided direct encouragement for mining development and the search for oil. Materials in particularly short supply, such as steel, can be and are diverted to important resource development projects. Accelerated depreciation has recently been offered to encourage an increase in the supply of certain critical materials. Another example is the offering by the Government of a guaranteed market at announced prices for uranium and cobalt.

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Still another field in which current Government policies have an effect on these matters is in prices. Under the Defence Production Act, as you know, a number of materials have been declared as essential, one of the consequences of which being that prices of such materials may not be increased without prior consultation with the Government. Canadian industry and Canada generally has, over the years, built up an enviable reputation as a dependable supplier of quality materials at reasonable prices. This reputation is now one of our great assets in world markets and one that must be guarded jealously. I think that any fair comparison will show that, even in recent years when many markets have offered extraordinarily attractive prices, Canadian industry has followed a moderate pricing policy and has avoided getting into the unenviable position of leading the parade for higher prices.

It is not my purpose in mentioning these various policies that are being followed, either by the Government or by industry, to attempt any assessment of whether or not they represent all that could or should be done under the circumstances. Rather, my purpose is to outline the high-lights of these policies and then to have a look at what is being accomplished under them.

I have said that the development of our resources is as much a part of the defence effort as the building up of our direct military strength. The two are related and must both be considered together. So it is interesting, I think, to see how the two compare. It is not a question of which is the more important -- but what is the measure of the national effort devoted to each? May I then in conclusion just refer to a few such comparisons.

At the beginning of last year it was pointed out that the Government was then embarking on a five billion dollar defence expenditure programme which would be spread over a three-year period. Of this amount, it was estimated that something approximating three and one-half billion dollars would be spent for the purchase of goods and materials required by the services, as distinct from military pay and allowances and the other costs of the Department of National Defence. The biggest single element in these purchases is the aircraft programme. Canada has embarked on the building of six different types of airframes and, for the first time in our history, two types of aircraft engines. In addition, plants are being erected to produce aircraft instruments and to provide the supply of many components that heretofore had to be imported into the country. This is our biggest production programme, and has been generally described as a twelve hundred million dollar programme over the three-year period. It is an interesting coincidence that twelve hundred million dollars is the present estimate of what will be spent in approximately the same period on the development of hydro-electric power in the country, apart from specialized projects such as those relating to aluminum, and apart from any investment made possible by the development of the St. Lawrence.

The second biggest part of the defence production programme is in the field of electronics. Today practically every piece of important military equipment has a large electronic component. Radar, asdic, gun-laying and tracking devices, and communications equipment play an ever-increasing part in the whole field of armament. Our

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electronics programme is estimated to amount to close to five hundred million dollars, which is about the same amount as is planned for expenditure on the exploration, development, transmission, and refining of petroleum and natural gas.

Shipbuilding is an important part of Canadian defence procurement. Fourteen new-design destroyer escorts are planned, together with a substantial number of smaller vessels and the refitting of the so-called "mothball fleet". This programme will involve something approximating 250 million dollars, which is not dissimilar from the amount that is now planned for increasing the facilities for aluminim smelting.

Tank and automotive requirements will involve expenditures of about the same magnitude as are planned for iron ore mining--something between 225 and 250 million dollars over the period. Similarly, other major expenditures on resource development--in non-ferrous metals, in primary iron and steel, in pulp and paper and in the field of chemical products--could be related to important parts of the defence procurement programme.

In all, it appears that something of the order of 3 billion dollars is already planned for expenditure on projects for completion in 1955 or before to increase the supply of hydro-electric power, of metals, chemicals, oil and gas and pulp and paper. This is an ambitious programme for Canada, but one that is well designed, well in hand, and one that will make a significant contribution, through increased production, to the needs of a material-hungry world and the more immediate and pressing defence requirements of this country and the other like-minded nations associated with us.

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