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# STATEMENTS AND SPEECHES

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No. 51/45 SOME ASPECTS OF THE CANADIAN DEFENCE  
PRODUCTION PROGRAMME

An address by the Deputy Minister of Defence Production, Mr. M.W. Mackenzie, at the Annual Meeting of the Canadian Industrial Preparedness Association, made in Toronto on November 8, 1951.

...I thought that what I could do today would be first to say a few words about the progress that has been made so far in the programme on which we have embarked, to get into perspective what has been accomplished with what still remains to be done within the known programme, and then to say a word or two about what other steps can be taken towards the overall objective, thinking particularly of where we fit in to the overall North American programme as distinct from the Canadian programme.

Let us start with the \$5 billion which the Canadian government has announced as its programme for the three-year period from April 1, 1951, to March 31, 1954. Out of this total, provision must first be made for military pay and allowances, Department of National Defence administrative costs, rentals, purchases of land, and all other services which are dealt with by the Department of National Defence. Over a three-year period, these costs are estimated to amount to something over one and a half billion, which would leave just under \$3½ billion for the purchase of goods and materials. Orders for defence goods which were placed during the first half of the current fiscal year have totalled just over \$1,100 million, leaving something over \$2,300 million yet to be committed. While this large sum is still to be covered by the placing of specific contracts, it is a fact that the pattern in which it will be spent has largely been established.

For example, the largest part of our production programme is, of course, in aircraft, not only because of the responsibilities allocated to the Air Force itself, but also by reason of the fact that the Army's programme contemplates mobile airborne units, and Naval aviation is playing an increasing part in the operations of the R.C.N. The aircraft requirements of the three services constitute over one-third of the whole procurement programme, and will represent, over the three-year period, purchases amounting to some \$1,200 million. Only one-third of this is covered by actual orders, but the pattern of what is to come is pretty well known. As you all know, Canadair in Montreal is now producing the F86E in quantity, although it has not yet hit its maximum anticipated capacity. It is also preparing to produce the Lockheed T33 Jet Trainer and the

Beechcraft T36A, the latter for U.S. account. A.V. Roe at Malton will produce the CF 100 Jet Fighters and the Orenda Gas Turbine Engines. Canadian Car and Foundry at Fort William is now turning out Harvard Trainers, for which Pratt and Whitney in Montreal will shortly be producing the Wasp Engine, while DeHavilland is producing the general purpose Beaver aircraft. Added to this is the reconditioning and modification of Lancasters, Harvards, Mitchells, Expeditors, DC-3's and Avengers, as well as the repair and maintenance of all operating aircraft. It is pretty clear that the balance of \$1,200 million still to be placed in contracts in the aircraft programme will be a continuation of the pattern that has already been set. As you know, most of the facilities needed to support production of the Orenda and the aircraft I have mentioned have already been set up or are nearing completion: blades, fuel systems and combustion systems for the jet engine; ball-bearing facilities for both engines and air-frames; and a source of supply for instruments to be installed in the aircraft. There are, of course, many other sub-contracts still to be arranged by the prime contractors in this programme, and it may be necessary, as time goes on, to expand certain facilities to meet the monthly production rates which are being set for the prime contractors. The point I am making, however, is that, in the aircraft programme, industry is pretty well informed of what lies ahead and the manner in which the as yet uncommitted part of the programme will be spent.

In the field of shipbuilding, the programme contemplates new construction of naval vessels as well as the conversion and refitting of 34 minesweepers and frigates, at a total cost of between \$150 and \$200 million. The situation here is substantially the same as in aircraft, in that the nature of the programme and its magnitude is pretty well known to industry, although only about half of the total programme has so far been covered by contracts.

In mechanical transport our requirements are such that a good part of the programme has to be procured outside of Canada. The part of the programme that is to be placed in Canada, principally the partial manufacture and complete assembly of the  $\frac{1}{2}$  ton, the  $\frac{3}{4}$  ton, and the  $2\frac{1}{2}$  ton trucks, is now well in hand. In addition, of course, we are continuing to place orders with Canadian manufacturers for commercial-type vehicles and the repair and maintenance of existing equipment.

Our textile programme, which will involve some \$300 million, is well advanced, with the major impact from here on being on the clothing manufacturers as distinct from the producers of fabrics. The course of our textile procurement programme, particularly in woollens, has been quite interesting over the last few months. We started off with a very large requirement from the Services, which had to be superimposed on a high-price market that was short of supply of raw materials. To meet this situation, we entered the raw material market ourselves, and allocated production orders, working in conjunction with the industry Associations. Good progress was made and the market situation materially changed so we are now reverting to our basic principle of purchasing by tender, and expecting industry to provide their own raw materials. But here again the pattern of the orders still to be placed in the overall programme is pretty well known to industry.

These programmes that I have mentioned, when added to the amounts that will have to be spent for fuel, food, barrack-room stores, and all the other miscellaneous items which are required by the Services, account for the great bulk of the \$3½ billion that is planned for procurement in the three-year period. The remainder of the programme, which is not yet so firm, covers the fields of electronics, guns, and ammunition.

The first, and by far the largest, of these is the electronics programme, which will amount to some \$560 million over the three-year period. This programme has not developed as rapidly as some of the others due to the fact that so much depends on development work before orders can be placed, and on detailed plans and specifications which are not yet available. Consequently, the full impact on industry has yet to be felt. We are anxious to place as much of this business in Canada as is possible, and indeed, production of many items is now being developed in this country for the first time. However, it is obvious that we will have to depend, to some extent, on outside sources, particularly the United States and the United Kingdom. A substantial part of the programme represents electronics gear to be installed in the F86 and the CF 100 aircraft. Another large part of the programme is to produce the bulk of the equipment to be installed in the North American radar screen and to furnish the equipment necessary to complete the network of communications necessary for the defence of this continent. Still another part of the programme, which is of considerable importance to Canadian industry, is the requirement for Proximity Fuses, which are to be made here for the first time. The part of the programme that is best known to industry, of course, includes the No. 4 Mark VI Radar Sets, now in production, and the One-mile Infantry Pack Set, deliveries of which are expected to begin in December. So far, orders placed amount to approximately \$120 million.

The guns and ammunition programmes have presented particular difficulties. Having taken the decision to standardize on United States type guns and ammunition as far as is practicable, we have had to make a detailed study of the various types of ammunition and weapons in order to determine which we can usefully produce in this country. This involved securing from the United States detailed plans and specifications. It has also been necessary to make arrangements for production experts from this country to visit the various arsenals of the United States in order to survey production methods and techniques. Despite the fact that we have enjoyed the greatest co-operation from the United States military authorities, this has been, of necessity, a time-consuming operation. It will probably be another year before the full impact is made on Canadian industry.

I have not thought it necessary to go over the programme with you in great detail, particularly as a lot of information and statistics of orders actually placed were given by Mr. Howe in his speech on October 19 in the House. The fact remains, however, that for the great bulk of the three-year programme, the procurement pattern has been set.

In so far as it is consistent with our overall procurement policy, we are doing our best to spread this programme, for the obvious purpose of having as many manufacturers as

possible familiar with some part of our requirements. This is well illustrated in what has been done so far in the ammunition programme. This programme is essentially a series of individual contracts placed directly with industry by the Department, and with Canadian Arsenals doing the final assembly. Another illustration of the same objective is in the aircraft programme, in which prime contractors are encouraged to do as much as possible through sub-contractors. A.V. Roe, I believe, already has over 400 sub-contractors. In this way we are endeavouring not only to make the best use of existing facilities, and thereby minimizing the cost of establishing new facilities, but we are also bringing as many people as possible into direct contact with the defence production programme.

It has been pointed out before, but I believe it is worth reminding you again of the special nature of the whole programme and of the large element of insurance that is included in it. It is not a programme designed solely to produce great quantities of material in short order. That, of necessity, had to be the programme when the (Wartime) Department of Munitions and Supply was established, but our problem today is to build now for production levels in excess of anything that is included in the present planned procurement. Accordingly, when it becomes necessary for us to arrange for the creation of new facilities, the basic plans are always made to handle increased levels of production. I could give you numerous examples to illustrate this point, but one that comes to mind immediately is the new facility being erected by John Inglis for the manufacture of the propulsion units for the destroyer escorts. The present programme contemplates fourteen destroyer escorts to be produced in a period of three years, but the Inglis plant will have capacity to produce more than that number of turbines in a single year should the need arise. This principle needs no elaboration to this audience, because the very nature and, indeed, the name of your organization is based on preparedness.

I know that many of you in the past have, and perhaps not without some reasons, been impatient of the apparent lack of planning in Ottawa to meet the production problems with which we would be faced in the event of an emergency. A great deal of planning along these lines has been undertaken in the United States, and much has been made of the shadow orders that were to be placed with industry. The nature of our programme in Canada, at least so far, has not been such as to persuade us of the usefulness of following a similar course here. Little could profitably be done until firm decisions had been made as to the size and nature of our requirements. These are now beginning to clarify, and we are getting on with placing orders, as evidenced by the very rapid increase in the value of orders placed in the first and second quarters of this fiscal year which, in the aggregate, are almost half as much again as the total placed in the year 1950-51.

Our present preoccupation, however, is to get on with the placing of orders for the balance of the programme and to get actual production rolling. Although the pattern has been largely set, there is still a good deal of work to be done. As and when we--and in that I include not only our Department but also industry--have digested the programme that is before us, it may be possible to take some useful

steps in the direction of specific plans for the increase in production that would be necessary in the event of an emergency.

This does not mean, however, that nothing more can be done in the general direction of preparedness. There is much that Canadian industry that is not fully occupied on the Canadian defence programme can do, particularly in the field of fitting in with the vast United States programme. There has been quite a lot of talk about our reciprocal military procurement with the United States, and I think it might be useful if I were to spend the remaining time at my disposal in discussing this phase of the programme.

Our present reciprocal purchasing programme can be said to date from October 26, 1950, when Canada and the United States signed the "Statement of Principles for Economic Co-operation" which replaces the Hyde Park Agreement of the last war. In this Statement both countries agreed to develop a co-ordinated programme of requirements, production and procurement in order to achieve a maximum production of goods essential to our common defence. As you know, the initial U.S. objective for reciprocal purchasing was between \$15 million and \$25 million. This was later raised to \$100 million for the U.S. fiscal year 1951, and to \$300 million for the current fiscal year.

We have every evidence that the United States administration is sympathetic to Canada's needs in this field. This has been shown time and again in Mr. Howe's talks with such men as General Marshall, when he was Secretary of Defense, Secretary Sawyer, and Mr. Charles Wilson, Director of Defense Mobilization. The American government has recognized that the United States will benefit from increased U.S. procurement in Canada. The Statement of Principles is not just a pious hope; it is an acknowledgment of a most important principle to which both governments genuinely subscribe. But this does not mean that every time we find a situation in which we think the U.S. should buy something that we can produce, that they must disregard all other considerations and accept our suggestion. Naturally, the Americans have to give first consideration to their own industries in placing orders. If, other things being equal, they find there is excess or idle capacity in the United States, it would be unreasonable for us to expect them to give a contract to a Canadian firm at the expense of a U.S. company. We must realize that orders will be placed in Canada only when there is a sound and logical reason for doing so; when delivery dates cannot be met by U.S. firms; when facilities exist in Canada that would otherwise have to be created in the U.S.; when it is strategically desirable to set up a second source of supply in Canada; when a Canadian product is more suitable; and, of course, if the Canadian price is more favourable.

Before giving you the figures on the reciprocal procurement that has been undertaken so far, I would like to point out certain factors which must be taken into account whenever these figures come up for discussion. In the first place, the Canadian figure is heavily weighted by purchases made in the United States as a result of the government's decision to standardize on U.S. type equipment. This necessitated heavy purchases in the United States, where the equipment was readily available, in order to secure rapid

replacement of British-type equipment given to NATO countries. These expenditures should taper off as we get into production in this country of American-type equipment.

On the other hand, the United States orders that have been placed in Canada are largely for items being produced here for the first time. Consequently, the initial orders actually placed are in the nature of development orders which will be followed up by more substantial demands. Take, for example, the United States decision to have T36A Beechcraft produced at Canadair. Just last week the United States placed an initial development contract covering forty planes, but when the preliminary engineering work is done and production can be got under way, this number will be considerably increased. Another example is in the case of the Beaver, being produced by DeHavilland. In this case the initial order was for one hundred and nine planes. It is expected that this number will be approximately doubled in the very near future and, indeed, it is indicated that the United States will place further orders for even larger numbers. Further examples could be given such as the production of three inch, fifty calibre guns for the United States Navy at Sorel, Harvard Trainers at the Canadian Car and Foundry plant at Fort William, etc.

There is another point, and that is that the reciprocal procurement figures do not show heavy United States purchases in Canada for the stock-piling of strategic materials. Another thing to remember is that the figures represent direct government purchases only and in neither case are sub-contracts shown. As you know, a number of defence sub-contracts have been placed in Canada by U.S. prime contractors and Canadian sub-contracts have been placed in the United States. Undoubtedly these would be of substantial proportions, but we cannot say just what effect they would have on our reciprocal procurement figures.

For the figures on reciprocal purchasing, I have gone back to July 1, 1950, which marks the beginning of a United States fiscal year. In fifteen months the Canadian government placed \$500 millions worth of contracts in the United States. Aircraft requirements form the major portion of this total and amount to around \$221 million. Over \$103 million was committed for electronics; another \$84 million for military vehicles; and over \$64 million for weapons and ammunition.

During the same period, the United States government placed orders in Canada amounting to some \$95 million. The largest portion of the orders, around \$40 million, was for the radar screen programme. Weapons, chiefly the 3" 50 calibre naval guns, accounted for another \$27 million, aircraft requirements for some \$14 million, while smaller items included \$5.3 million for Arctic huts and \$6.7 million for explosives.

Canadian industry will have to take a greater part in the U.S. defence programme if we are to make the fullest use of our Canadian productive facilities and if we are to reduce the gap in our international balance of payments. There are two approaches to the problem. One is to secure more prime contracts from the U.S. government, which, in the case of large contracts, would also mean sub-contracts for our smaller companies. The other is for Canadian firms to go out after sub-contracts from U.S. prime contractors.

Work has been done on both of these approaches to the problem. The first that I should mention resulted from discussions between Mr. Howe and Mr. Charles Wilson, when it was agreed to re-activate the Joint Industrial Mobilization Committee. Mr. Howe and Mr. Wilson are the joint-chairmen, with Mr. S.D. Pierce, the Director of our Washington Office, and the Co-ordinator of Production being the two Canadian members. I act as Mr. Howe's alternate in the event of his being unable to attend a meeting. As in the case of the Joint War Production Board of the last war, it is not expected that this Committee will meet frequently, but the work that it will accomplish will be carried out by sub-committees which, in effect, provide an arrangement whereby the Directors of the various divisions of the Department of Defence Production can meet with their opposite numbers in the United States. This type of co-ordination between the two countries does not give rise to spectacular announcements, but by bringing together our respective senior procurement officers, it does provide an excellent means of meshing the programmes of the two countries.

These sub-committees deal not only with direct procurement problems such as aircraft, machine tools, and electronics, but also cover the field of essential materials. Some very useful discussions were held, for example, in connection with the problems arising in lead and zinc prices. As you know, the open market price for these two metals was causing concern to both governments. On the one hand, the United States was finding it difficult to secure sufficient supplies at the domestic price, while Canadian suppliers felt, justifiably, that their position was unsatisfactory if they had to continue to sell in the American market at prices far below what was being paid to other suppliers. This problem was raised through the Joint Industrial Mobilization Committee, as a result of which the United States came forward with a proposal, which they have since acted upon, designed towards stabilization of the price of these two metals.

Much of the work which is being carried on in this general field is handled by the Department's staff in Washington. As you know, we have set up a Washington office, with Mr. S.D. Pierce as Director. More recently, Mr. Roy Peers was appointed Vice-President of the Canadian Commercial Corporation and stationed in Washington, for the express purpose of making known in the appropriate quarters in the United States the availability of facilities in Canada. You will probably not hear very much in the nature of formal activities of the Joint Industrial Mobilization Committee, but it is a very necessary part of our overall arrangements between the two governments. Already we are beginning to see the results of this endeavour, and more inquiries from the United States will undoubtedly be forthcoming.

It is one thing to get inquiries from the United States, either for supply of major items through prime contracts to be awarded in Canada or for Canadian industry to stir up inquiries for sub-contracts. It is another matter to deal with the problems that are met between the receipt of an inquiry and the signing of a firm order. Two of the most common problems which are met concern United States tariffs and the Buy American Act. I think, therefore, that you will be interested to learn that arrangements have been made which will go quite a long way to dealing with both of these problems.



Taking tariffs first, it is clear that when the United States government enters into a prime contract for the purchase of supplies from a Canadian firm, no duty is paid. The procedure is that a certificate is issued by the U.S. procurement officer concerned to the effect that the goods are to become the property of the United States government, and this document authorizes the U.S. Customs to pass the goods duty free.

A similar certificate can be issued in respect of imported components to be incorporated by a U.S. prime contractor in goods destined for delivery to the U.S. government. I am told that heretofore not many such certificates have been issued but that, in view of the present state of national emergency declared by the President, a much freer use of these certificates is to be expected. The justification for this is to overcome the short supply of materials and components needed for the defence effort, and to carry out the spirit of co-operation formalized in our Statement of Principles for Economic Co-operation. Evidence of this willingness to make greater use of this provision of the law is the fact that the U.S.A.F. have already authorized certain of their regional representatives to issue these certificates in connection with U.S.A.F. contracts, and appropriate instructions have been issued. The Army, I am told, have similar arrangements under study.

It may take a little time for this procedure to become known to local procurement officers and to U.S. prime contractors. If you experience any difficulties in connection with tariffs, I am told that you ask the U.S. contractor to refer the matter to his contracting officer, who in turn can refer the case, if it is a U.S. Air Force item, to Wright-Patterson Air Force Base, Dayton, Ohio, which I understand is the official name for Wright Field, and to Detroit Ordnance District, if the contract relates to Army equipment.

On the Buy American Act, there appears to be a good deal of confusion, not only on the part of Canadians but also on the part of Americans, as to just what the Act provides. It should be made clear at this point that all U.S. military procurement in Canada--the \$95 million worth of orders to which I have referred--is being carried out within the terms of the Buy American Act....

There are certain instances in which the Buy American Act does not apply, as well as certain exceptions which are provided for by the Act or which can be granted by the Secretary of one of the three Armed Services Departments. For example, the Act only applies to government purchases for use in the United States, its territories and possessions, and does not apply to items which are to be delivered elsewhere; for example, in Korea or Western Europe.

Then there is a general provision that if the best U.S. price quoted is 25 per cent higher than a bid from outside the United States, the U.S. procurement officer can, if he wishes, award the contract to the outside bidder without reference to any other authority.

On reference to the Secretary of any one of the three Armed Services, exceptions to the Act can be granted when it is in the national interest to do so or when it would



unreasonably increase the cost to place the contract in the United States. An instance of an exception in the national interest is the determination made by the Assistant Secretary of the Air Force, and now in effect, that Air Force purchases in Canada, other than food and clothing, will be exempt from application of the Buy American Act. On the question of "unreasonable increase in cost", I suppose the 25 per cent I have just mentioned is the ultimate criterion, but the Secretary has authority to decide in favour of the outside supplier where the best U.S. price is \$5,000 or more in excess of the outside supplier's price.

For Canadians seeking sub-contracts in the United States, the most relevant section, apart from the general exception for Air Force purchases, is the one which permits a sub-contract to be placed in Canada without any special authorization if the Canadian content, together with all other non-U.S. material, does not exceed 25 per cent of the total cost to the U.S. contractor in manufacturing the end item.

There is nothing new in what I have just been telling you about the Buy American Act, but as I said before, there has been a lot of confusion in people's minds as to what it means, and in some cases undue delay has been experienced because of insistence that cases had to be referred to Washington. To clear up this matter, the U.S. Air Force recently asked its regional officers to advise all their U.S. prime contractors of the position with respect to Canada in so far as the Buy American Act is concerned. If you still find that you are having trouble with U.S. Air Force contracts, you should ask to have the case referred through the regional office to Wright Field at Dayton, Ohio. In the case of U.S. Army contracts, difficulties should be referred to the Detroit Ordnance District, which has been designated to deal with all Canadian contracts.

That is the report that I bring, and which I hope you will find encouraging. There is still a substantial volume of direct contracts to be let in our own programme, though the pattern of the expenditures to be made is pretty well established. Some new facilities still have to be provided, and a few new programmes commenced; and undoubtedly there will be more sub-contracts to be arranged. Apart from our own programme, however, arrangements have been made which provide an opportunity for Canadian manufacturers to participate more readily in the United States programme. There can be no doubt of the willingness of the United States authorities to assist us in this, as evidenced by the steps that they have already taken, designed, I might add, not only for this purpose but also to help themselves. It is now up to us to take advantage of these opportunities.

Let me remind you that we do not have in our programme any large reservoir of business that can be placed just to suit local conditions or just to take up slack in manufacturing capacity that has developed. When plant capacity and labour become available, we will do all we can to help, but the real initiative must rest with industry itself. Some things can be done by government--some depend on industry initiative. With your help a good deal has been accomplished and some real progress made, but much still remains to be done.

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