

ADDRESS BY ADMIRAL R.H. FALLS

TO

THE CANADIAN CLUB

TORONTO, ONTARIO

13 FEBRUARY, 1978

THANK YOU MR CHAIRMAN. I AM VERY PLEASED TO HAVE BEEN INVITED TO SPEAK TO YOU TODAY BECAUSE I HAVE ALL TOO FEW OPPORTUNITIES TO TALK TO THE PEOPLE WHO PROVIDE THE TAX DOLLARS. (I SEEM TO DEVOTE MOST OF MY TIME TO PEOPLE WHO SPEND THEM!)

MY SPEAKING TO YOU TODAY GIVES ME AN OPPORTUNITY TO LET SOME OF THE LEADERS OF SOCIETY KNOW WHAT'S GOING ON IN DEFENCE. NOT ONLY TO LET YOU KNOW WHAT'S GOING ON, BUT TO TELL YOU WHY WE THINK WHAT WE'RE DOING IS ABSOLUTELY NECESSARY, AND WHY WE THINK THAT YOU'RE GETTING GOOD VALUE FOR YOUR TAX DOLLARS.

I WOULD ALSO LIKE TO OUTLINE JUST WHAT WE'RE DOING WITH OUR RATHER LARGE BUDGET AND SOME OF THE CHALLENGES WE ANTICIPATE IN THAT AREA.

AS I'M SURE YOU ALREADY KNOW, THE WARSAW PACT HAS MOVED FROM A POSITION OF RELATIVE INFERIORITY IN 1950 TO BEING NOW, IN TERMS OF NUMBERS OF MEN, AND QUANTITY OF MILITARY EQUIPMENT THE LARGEST MILITARY FORCE EVER ASSEMBLED. DURING THE FIFTIES AND SIXTIES WE WATCHED THE WARSAW PACT FORCES GROW, WE WATCHED

THEM INTRODUCE NUCLEAR WEAPONS, INTER-CONTINENTAL BALLISTIC MISSILES, NUCLEAR SUBMARINES, SUBMARINE LAUNCHED MISSILES WITH NUCLEAR WARHEADS; AND BATTLEFIELD TACTICAL NUCLEAR WEAPONS. WE WATCHED THEM INTRODUCE GENERATION AFTER GENERATION OF NEW AND STRIKINGLY IMPROVED AIRCRAFT. WE EVEN WATCHED THEM USE MASSIVE MILITARY FORCE TO CRUSH THE FEW DESPERATE ATTEMPTS OF SOME OF THEIR EUROPEAN SATELLITES TO GAIN SOME SMALL DEGREE OF FREEDOM.

WE IN THE WEST WATCHED ALL THIS WITH VARYING DEGREES OF APPREHENSION. THE COLD WAR WAS SOMETIMES VERY COLD, WITH OCCASIONALLY A WELCOME JANUARY THAW. BUT IF ONE WERE TO DRAW A GRAPH REPRESENTING OUR DEGREE OF APPREHENSION SINCE (SAY) 1950, THE SLOPE - THE GENERAL TREND - WOULD BE DOWNWARD TOWARD COMPLACENCY.

THERE ARE SOME GOOD LOGICAL REASONS FOR THIS: - THE STRATEGIC ARMS LIMITATION TALKS AND AGREEMENTS, THE GENERAL FEELING OF DETENTE, THE NEGOTIATIONS RELATED TO MUTUAL AND BALANCED FORCE REDUCTIONS IN CENTRAL EUROPE, THE HELSINKI AGREEMENTS, AND A HOST OF OTHER SMALL BUT SIGNIFICANT EVENTS. ALL THESE THINGS WERE STEADILY ABSORBED BY THE GENERAL PUBLIC IN THE WESTERN WORLD AND, THEREFORE, THE FEELING OF TENSION, THE UNDERCURRENT OF FEAR WAS STEADILY DISSIPATED.

I THINK THAT EVEN A LIMITED KNOWLEDGE OF HUMAN NATURE TELLS US THAT IN ADDITION TO ALL THOSE LOGICAL REASONS I JUST MENTIONED, THERE IS THE WELL-KNOWN FACT THAT HUMAN BEINGS FIND

IT VERY DIFFICULT TO MAINTAIN A STATE OF TENSION OR HOSTILITY OVER A LONG PERIOD OF TIME - IN THIS CASE, OVER A PERIOD SPANNING DECADES.

AND SO, (UNTIL VERY RECENTLY PERHAPS) THE GENERAL PUBLIC IN THE WEST HAS BECOME DULLED TO THE MILITARY ACTIVITY, THE MILITARY THREAT POSED BY THE WARSAW PACT. AS A MATTER OF FACT, I THINK THAT MOST OF THE PEOPLE IN NORTH AMERICA ALSO TEND TO TAKE OUR RELATIVE MILITARY SUPERIORITY FOR GRANTED, AND TO ASSUME THAT IT IS A STATE-OF-AFFAIRS THAT WILL AUTOMATICALLY CONTINUE - A SORT OF DIVINE BENEFIT TO GO ALONG WITH OUR VAST TERRITORY AND UNIQUELY HIGH STANDARD OF LIVING.

WITH PUBLIC OPINION IN THIS STATE OF MIND, WITH THE PUBLIC DISLIKE OF THE VIETNAM WAR, AND WITH THE ENORMOUS COSTS OF MILITARY HARDWARE, IT IS FAIRLY EASY TO UNDERSTAND WHY GOVERNMENTS FELT THAT DEFENCE BUDGETS COULD PERHAPS HAVE A LOWER PRIORITY THAN BEFORE.

AS SOCIAL PROGRAMS WERE INTRODUCED AND IMPROVED - AND BECAME INCREASINGLY EXPENSIVE - DEFENCE BUDGETS CAME UNDER EVEN MORE INTENSE PRESSURE THROUGHOUT THE WESTERN WORLD.

AS A RESULT OF ALL THIS, WE NOW FIND OURSELVES IN A POSITION WHERE THE WARSAW PACT, AND PARTICULARLY THE SOVIET ARMED FORCES, HAVE LONG PASSED THE POINT OF BEING ADEQUATE, OR INDEED OF BEING MUCH MORE THAN ADEQUATE, FOR THE DEFENCE OF THE COMMUNIST BLOC. BY ANY REASONABLE STANDARDS, EVEN

LEAVING A MARGIN FOR ERROR - THE WARSAW PACT FORCES ARE NOW FAR TOO LARGE AND FAR TOO WELL EQUIPPED FOR PURELY DEFENSIVE PURPOSES.

EVEN MORE WORRYING IS THE FACT THAT THEIR MILITARY FORCES ARE STILL GROWING AT AN EXTRAORDINARY RATE DESPITE THE DEMANDS THAT SURELY MUST EXIST IN THE CONSUMER SECTOR OF THEIR ECONOMIES.

DURING THE SPAN OF MY ACTIVE SEA-GOING CAREER, I HAVE PERSONALLY SEEN THE RUSSIAN NAVY CHANGE FROM A SMALL, INEPT AND INEFFECTIVE FORCE, BUMBLING ABOUT IN THE NORWEGIAN SEA, WHEN I FIRST CAME ACROSS THEM IN 1951, TO A MODERN, STRIKING FORCE WITH MODERN SHIPS, MANNED BY PROFESSIONALS WHEN I LAST SAW THEM IN 1971. AND IN THE SEVEN YEARS SINCE THEN, THEY HAVE CONTINUED THIS PROCESS OF IMPROVEMENT AT, IF ANYTHING, AN ACCELERATED PACE.

SO THIS IS THE PURE MILITARY SITUATION WHICH FACES THE WESTERN ALLIANCE. ----- OF COURSE, I KNOW THAT THE WARSAW PACT MAY HAVE NO INTENTION WHATEVER OF SEEKING ANY DIPLOMATIC OR IDEOLOGICAL ADVANTAGE BY THE THREAT OR THE ACTUAL USE OF MILITARY POWER. BUT THEIR CAPACITY TO DO SO IF THEIR INTENTIONS SHOULD CHANGE IS TRULY IMPRESSIVE.

IT IS THIS POTENTIAL FOR THE USE OF FORCE, THIS REAL CONCERN, WHICH LED LAST YEAR TO PRESIDENT CARTER'S PROPOSAL TO WESTERN HEADS OF GOVERNMENT THAT THEY AGREE TO TAKE BOTH SHORT AND LONG-TERM MEASURES TOWARD IMPROVING NATO'S CAPACITY TO DETER ANY SUCH ADVENTURE IN TERMS OF THE ALL-IMPORTANT CONVENTIONAL, OR NON-NUCLEAR TYPE OF WARFARE.

WITH THE PRESENT BALANCE OF STRATEGIC NUCLEAR FORCES, I THINK YOU WILL AGREE THAT ONLY A MADMAN WOULD WANT TO START A NUCLEAR EXCHANGE. BUT, IF WE IN THE WEST ARE NOT ABLE TO DEMONSTRATE THE CAPABILITY OF STOPPING A CONVENTIONAL ATTACK, THEN OUR CHOICE WOULD BE TO EITHER SURRENDER - TO HAND OVER EUROPE TO AN AGGRESSOR - OR TO USE TACTICAL NUCLEAR WEAPONS TO STOP THE ATTACKING FORCES. NO ONE CAN BE ENTIRELY CONFIDENT OF THE OUTCOME IN SUCH A SITUATION - BUT THE DANGERS OF A CATASTROPHIC ERROR OF JUDGEMENT ARE CLEAR TO EVERYONE.

THAT IS WHY IT SEEMS TO ME INFINITELY PREFERABLE TO ENSURE THAT THE WEALTHY AND INCREDIBLY PRODUCTIVE ALLIANCE OF WHICH WE ARE AN IMPORTANT PART, DEVOTES ENOUGH OF ITS WEALTH TO MAINTAINING AN ADEQUATE CONVENTIONAL MILITARY DEFENCE AGAINST ALL COMERS.

AND "ENOUGH" OF OUR WEALTH TO ENSURE ADEQUATE DEFENCE, IS NOT REALLY A VERY GREAT DEAL, RELATIVE TO OUR PRODUCTIVE CAPACITY. INDEED, THE UNEMPLOYED MEN AND EMPTY FACTORIES IN THE WESTERN WORLD AT THE MOMENT REPRESENT MORE PRODUCTIVE CAPACITY THAN THE DEFENCE EFFORT THAT WOULD BE REQUIRED.

WHERE DO THE CANADIAN ARMED FORCES FIT IN ALL THIS? AS YOU KNOW, THE GOVERNMENT'S FIRST PRIORITY IS THE PROTECTION OF CANADIAN SOVEREIGNTY. NO ONE WOULD EVER DISPUTE THIS BEING THE MOST IMPORTANT TASK OF ANY NATION'S ARMED FORCES. THE DISCUSSION THEN MUST CENTRE ON HOW BEST TO ACHIEVE THIS END. AND HERE A GREAT DEAL DEPENDS ON HOW LARGE A VIEW YOU TAKE OF THE WORD - OF THE IDEA - OF SOVEREIGNTY.

I CANNOT, PERSONALLY, CONCEIVE OF ANY VIEW OF SOVEREIGNTY THAT DID NOT, AT THE SAME TIME, ASSUME A FREE AND VIABLE COMMUNITY OF NORTH ATLANTIC NATIONS.

THAT IS WHY I VIEW OUR CONTRIBUTION TO NATO AS AN ESSENTIAL ASPECT OF THE PROTECTION OF OUR SOVEREIGNTY, AND, THEREFORE, AS AN ESSENTIAL ELEMENT OF THE DEFENCE POLICY OF A PROUD AND SOVEREIGN NATION. THE ALTERNATIVES ALL GENERALLY AMOUNT TO THE SAME THING - THAT IS, LETTING THE UNITED STATES PROTECT US. NO SELF-RESPECTING PEOPLE CAN SERIOUSLY CONTEMPLATE SUCH AN ALTERNATIVE.

AND SO, OUR ESSENTIAL SOVEREIGNTY - WHICH REALLY MEANS THE MAINTENANCE OF OUR FREE AND DEMOCRATIC WAY OF LIFE - IS PROTECTED BY OUR MEMBERSHIP IN AND CONTRIBUTION TO AN ALLIANCE. HOWEVER, THERE REMAINS ANOTHER, MORE PRECISELY FOCUSED ASPECT OF OUR SOVEREIGNTY WHICH RELATES NOT TO DEFENCE AGAINST A POWERFUL ENEMY, BUT TO THE SURVEILLANCE, CONTROL AND PROTECTION OF OUR OWN VITAL INTERESTS; IN THE SPECIAL CONTEXT OF COMMERCIAL OR OTHER UNAUTHORIZED USE BY EITHER INDIVIDUALS OR NATIONS.

THIS IS CERTAINLY A VITAL ASPECT OF OUR SOVEREIGNTY; AND THE FACT THAT IT WOULD BECOME ALMOST IRRELEVANT IN THE EVENT OF ANOTHER MAJOR WAR DOESN'T MAKE IT ANY LESS IMPORTANT IN OUR CURRENT CIRCUMSTANCES. WE MUST BE ABLE TO CONTROL OUR

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AIRSPACE, OUR FISHERIES AND OTHER OFFSHORE RESOURCES, AND OUR NORTH. AND WE MUST BE ABLE TO EXERCISE THIS NATIONAL CONTROL WITHOUT CALLING UPON THE ALLIANCE FOR HELP. WE MUST HAVE THE ABILITY TO DO THESE THINGS BY OURSELVES.

AND THOUGH WE WOULD SELDOM HAVE TO USE FORCE, THE POWER TO USE FORCE AS A LAST RESORT MUST EXIST. POTENTIAL TRANS-
GRESSORS OF CANADIAN SOVEREIGNTY MUST BE CONVINCED THAT CANADA WILL USE FORCE IF ALL OTHER ALTERNATIVES ARE INEFFECTIVE.

THE CANADIAN FORCES ARE CAPABLE, AT THE MOMENT, OF CARRYING OUT ALL THESE VITAL TASKS. ADMITTEDLY WE HAVE LEFT OURSELVES VERY LITTLE MARGIN FOR ERROR, BUT WE ARE ADEQUATELY PLAYING OUR PART IN THE NATO ALLIANCE, BOTH IN EUROPE AND IN NORTH AMERICA; AND, MOST IMPORTANTLY, WE ARE MAINTAINING AN EFFECTIVE SURVEILLANCE AND CONTROL OVER CANADIAN TERRITORY AND OFFSHORE WATERS.

TO ENSURE OUR ABILITY TO CONTINUE THESE TASKS, THE GOVERNMENT HAS RECENTLY APPROVED A SERIES OF MEASURES TO RE-EQUIP THE CANADIAN FORCES. PROPOSALS HAVE NOW BEEN RECEIVED TO REPLACE OUR AGING FIGHTER AIRCRAFT; AND THE CABINET HAS GIVEN US APPROVAL IN PRINCIPLE FOR A NAVAL SHIP REPLACEMENT PROGRAM. AND SO WE WILL BE ABLE TO REPLACE OUR OLDEST SHIPS AS THEY BECOME OBSOLETE, AND WE WILL BE ABLE TO MAINTAIN AND EVEN IMPROVE OUR ABILITY TO FULFIL OUR RESPONSIBILITIES IN CANADA'S OFFSHORE WATERS - DESPITE THE VAST INCREASE IN THESE RESPONSIBILITIES STEMMING FROM THE NEW 200-MILE LIMIT.

OUR SHIPS WILL BE ASSISTED IN THIS TASK BY THE NEW LONG RANGE PATROL AIRCRAFT (THE AURORA) WHICH WILL REPLACE THE ARGUS IN THE EARLY 80s. THE AURORA WILL ALSO GREATLY IMPROVE OUR ABILITY TO CARRY OUT SURVEILLANCE IN THE ARCTIC - IN ALL CLIMATIC CONDITIONS - BUT IT WILL HAVE MOST IMPACT OFF OUR ATLANTIC AND PACIFIC COASTS. ITS SUPERB SENSOR SYSTEM WILL ADD VERY SIGNIFICANTLY TO OUR ABILITY TO DETECT ANY TYPE OF INTRUSION INTO OUR WATERS.

OF COURSE, ALL THIS NEW EQUIPMENT ALSO ENABLES US TO PLAY A RESPONSIBLE PART IN AT LEAST MAINTAINING NATO'S CONVENTIONAL MILITARY STRENGTH.

NOW LET'S TAKE A LOOK AT WHAT THIS RE-EQUIPMENT PROGRAM MEANS IN DOLLAR TERMS. AS YOU MAY KNOW, IN NOVEMBER 1975 THE GOVERNMENT AGREED TO INCREASE THE ARMED FORCES CAPITAL BUDGET BY 12% A YEAR FOR FIVE YEARS. THAT IS, 12% REAL GROWTH AFTER HAVING MADE APPROPRIATE ALLOWANCES FOR INFLATION.

OUR CAPITAL BUDGET FOR THE FISCAL YEAR 78/79 COMMENCING IN APRIL IS APPROXIMATELY \$700 MILLION DOLLARS. IN ADDITION TO THIS WE WILL SPEND ROUGHLY \$450 MILLION IN THE OPERATIONS AND MAINTENANCE PORTION OF THE BUDGET FOR SUCH THINGS AS CONTRACTED REPAIR AND OVERHAUL, AND TO PURCHASE A HOST OF MANUFACTURED PRODUCTS SUCH AS SPARE PARTS.

THIS IS A GREAT DEAL OF MONEY, BUT I THINK THE POINTS I MADE EARLIER SHOW THAT IT IS A REASONABLE PRICE TO PAY TO PROTECT ALL THAT WE CONSIDER MOST IMPORTANT IN LIFE - INDEED OUR VERY WAY OF LIFE.

BUT, ASSUMING THAT WE ALL AGREE THAT THE PRICE IS REASONABLE, THE NEXT STEP IS TO DETERMINE HOW BEST TO SPEND THE MONEY SO AS TO NOT ONLY RE-EQUIP THE ARMED FORCES AS EFFECTIVELY AS POSSIBLE, BUT ALSO TO ACTUALLY ADD TO THE LONG-TERM WEALTH OF THE COUNTRY. I BELIEVE THAT OUR CAPITAL PROGRAM OVER THE NEXT TEN TO TWENTY YEARS IS LARGE ENOUGH TO ACCOMODATE BOTH OBJECTIVES. BUT IT WON'T JUST HAPPEN. WE MUST PLAN AND WORK TO MAKE IT HAPPEN.

WE PLAN OUR EQUIPMENT PURCHASES IN A FIFTEEN-YEAR PROGRAM. AND IT IS A REALISTIC PROGRAM THAT COULD BE USED TO ASSIST CANADIAN INDUSTRY TO TAKE ADVANTAGE OF THE OPPORTUNITIES IT PRESENTS. THREE MAJOR CONTRACTS UNDERWAY RIGHT NOW - THE AURORA LONG RANGE PATROL AIRCRAFT, THE LEOPARD TANK, AND THE ARMOURED VEHICLE - ARE ON OR AHEAD OF SCHEDULE, ARE MEETING OUR QUALITY SPECIFICATIONS, AND ARE WITHIN THEIR ALLOCATED BUDGETS - WHICH, TOGETHER, TOTAL NEARLY \$2 BILLION DOLLARS. I CITE THESE EXAMPLES MERELY TO ILLUSTRATE THE FACT THAT WE NOW HAVE A PLANNING AND PROGRAMMING SYSTEM - A MANAGEMENT SYSTEM - THAT CAN BE RELIED UPON TO PRODUCE THE GOODS.

AS YOU KNOW, WHEREVER POSSIBLE WE BUY WHAT WE NEED FROM CANADIAN SOURCES; AND THIS AMOUNTS TO A SUBSTANTIAL SUM EACH YEAR. BUT FOR MANY OF OUR PROGRAMS IT IS QUITE IMPOSSIBLE TO BUY IN CANADA. OF THE THREE PROJECTS I JUST QUOTED, ONLY ONE, THE ARMoured VEHICLE, IS BEING BUILT IN CANADA (UNDER LICENSE FROM THE SWISS DESIGNER).

THE NAVAL SHIP REPLACEMENT PROGRAM WILL BE CARRIED OUT IN CANADIAN YARDS, BUT A CONSIDERABLE AMOUNT OF EQUIPMENT AND MACHINERY WILL HAVE TO BE BOUGHT OFFSHORE -- PROBABLY FROM EUROPE OR THE UNITED STATES.

THE NEW FIGHTER AIRCRAFT - A $2\frac{1}{2}$ BILLION DOLLAR PROGRAM WILL BE ALMOST ENTIRELY AN OFFSHORE PURCHASE.

LET ME SUM-UP SOME OF THESE NUMBERS. BETWEEN NOW AND 1991 WE EXPECT TO HAVE TO SPEND ROUGHLY

12.5 BILLION ON MAJOR CAPITAL EQUIPMENT PROGRAMS

8.2 BILLION ON MINOR EQUIPMENT PLUS R&D AND
CONSTRUCTION

7.2 BILLION ON OPERATIONS AND MAINTENANCE GOODS
AND SERVICES

AND 3.2 BILLION ON REPAIRS BY CIVIL CONTRACT. THIS IS THE DEFENCE BUDGET ALONE; ADD OTHER GOVERNMENT PROCUREMENT EXPENDITURES AND THE TOTALS BECOME ENORMOUS.

AS I SAID, A SIGNIFICANT AMOUNT OF THIS SPENDING IS DONE OFFSHORE. IN RETURN, WE INSIST ON THE WINNING CONTRACTOR PURCHASING GOODS AND SERVICES IN CANADA UP TO A SPECIFIED

PERCENTAGE OF THE TOTAL CONTRACT AWARD. THESE OFFSET PURCHASES ENSURE THAT MOST OF THE MONEY FLOWS BACK TO CANADA IN ONE FORM OR ANOTHER. AND, OF COURSE, OUR DEFENCE PRODUCTION SHARING AGREEMENT WITH THE U.S. PLAYS A BIG PART IN THIS TWO WAY FLOW OF FUNDS.

BUT -- AND I'M STEPPING OUTSIDE MY FIELD NOW -- I HAVE AN UNEASY FEELING THAT WE COULD BE DOING CONSIDERABLY MORE THAN WE ARE TO ENSURE THAT THESE VERY LARGE EXPENDITURES ACHIEVE MORE THAN VERY SHORT TERM BENEFITS TO THE ECONOMY. THE POTENTIAL FOR USING EVEN JUST DEFENCE EXPENDITURES IN SUPPORT OF A CANADIAN INDUSTRIAL STRATEGY IS SELF-EVIDENT. INDEED THIS IS COMMON PRACTICE IN MOST DEVELOPED NATIONS, BUT IT HAS NOT BEEN EXERCISED TO ANY SIGNIFICANT EXTENT SO FAR IN CANADA.

I DON'T MEAN THAT DEFENCE EXPENDITURES HAVE NOT STIMULATED CANADIAN INDUSTRIAL DEVELOPMENT, ALL STUDIES SHOW THAT THEY HAVE. BUT THESE SAME STUDIES LEAD ME TO BELIEVE THAT MORE COULD BE DONE.

I KNOW THAT I'M AN AMATEUR IN THIS AREA -- SPEAKING TO EXPERTS - BUT IT SEEMS TO ME THAT IF INDUSTRY AND GOVERNMENT TOGETHER WERE TO TAKE A COLLECTIVE, COHERENT APPROACH TO THE SITUATION WHICH IS DEVELOPING AS A RESULT OF OUR RE-EQUIPMENT PROGRAM, THEN WE COULD DO SOME REMARKABLE THINGS TO STIMULATE INDUSTRY.

BEFORE I GO ANY FURTHER LET ME EMPHASIZE THAT I DON'T FOR A MOMENT MEAN TO IMPLY ANY FORM OF CENTRAL GOVERNMENT CONTROL OF INDUSTRIAL DEVELOPMENT. THERE IS NO EVIDENCE TO

INDICATE THAT WE SHOULD FOLLOW THE RUSSIAN FIVE-YEAR PLAN ROUTE. INDEED, I THINK THAT ANY CANADIAN GOVERNMENT WOULD WANT TO TREAD VERY CAUTIOUSLY IN THIS AREA SO AS TO AVOID ANY APPEARANCE OF MOVING TOWARD A CENTRALLY PLANNED ECONOMY.

GIVEN THAT NATURAL WARINESS ON THE PART OF GOVERNMENT, I BELIEVE THAT IT SHOULD BE THE BUSINESS COMMUNITY WHICH TAKES THE FIRST STEP TOWARD GREATER GOVERNMENT/INDUSTRY CO-OPERATION. I'M SURE THAT THIS AUDIENCE WOULD SUPPORT THE VIEW THAT IT SHOULD NOT ALWAYS BE GOVERNMENT WHICH TAKES THE LEAD. GOVERNMENT IS A VERY NECESSARY PARTNER, HOWEVER, AND IT IS THE LEVERAGE OF GOVERNMENT PURCHASING POWER WHICH I SEE AS THE ESSENTIAL ELEMENT OF A NEW INDUSTRIAL STRATEGY FOR CANADA.

AT PRESENT, ALL GOVERNMENT DEPARTMENTS AND AGENCIES MAKE THEIR PURCHASES IN CANADA WHERE POSSIBLE. BUT EACH DEPARTMENT HAS A BUDGET AND MUST WORK WITHIN IT. THE NATURAL TENDENCY IS FOR EACH DEPARTMENT TO BUY FROM THE CHEAPEST GOOD QUALITY SOURCE. ON THE FACE OF IT, THIS IS THE MOST EFFICIENT AND ECONOMICAL WAY TO CONDUCT PUBLIC AFFAIRS. BUT THIS MAY WELL BE AN ILLUSION - IT MAY BE MORE EFFICIENT FROM A NATIONAL POINT OF VIEW TO PURCHASE IN CANADA EVEN IF THE INITIAL COST IS SOMEWHAT HIGHER.

EASILY SAID. BUT CONSIDER THE PROBLEMS INHERENT IN SUCH AN APPROACH. THERE ARE NO ARRANGEMENTS IN PLACE TO ASSIST ANY DEPARTMENT TO PAY A "MADE-IN-CANADA" PREMIUM. IF THERE WERE AN ARRANGEMENT OF THAT SORT, GOVERNMENT EXPENDITURES WOULD NECESSARILY BE HIGHER IN ABSOLUTE DOLLAR TERMS. OF COURSE, GOVERNMENT REVENUES WOULD ALSO BE HIGHER AND OTHER PUBLIC

EXPENDITURES MAY BE SOMEWHAT LOWER. IN OTHER WORDS, THE NET ECONOMIC BENEFIT WOULD BE POSITIVE; BUT GOVERNMENT EXPENDITURES WOULD APPEAR TO BE GREATER. PERHAPS SOME OF YOU GENTLEMEN WOULD BE AMONG THE FIRST TO COMPLAIN ABOUT SUCH A STATE OF AFFAIRS.

IN ANY EVENT, THE PRESENT SYSTEM STRONGLY MOTIVATES GOVERNMENT PURCHASING AGENTS TO BUY FROM THE CHEAPEST SOURCE EVEN WHEN THAT IS NOT A CANADIAN SOURCE. MY PROPOSITION IS THAT PERHAPS WE SHOULD THINK ABOUT CHANGING THIS SITUATION.

I RECALL HEARING ONCE THAT THE FAMOUS ASTRONAUT NEIL ARMSTRONG WAS ASKED IF HE WAS EVER SCARED WAY OUT THERE IN SPACE. HE REPLIED "ONLY WHEN I REALIZED THAT MY SPACECRAFT WAS BUILT BY THE LOWEST BIDDER".

IN MY OWN DEPARTMENT THERE IS ALREADY A STRONG MOTIVATION TO USE CANADIAN SOURCES BECAUSE WE BUY MAJOR EQUIPMENTS HAVING USEFUL LIVES OF FROM 15 TO 20 YEARS ----- SOMETIMES A LOT LONGER! AND DURING THIS SERVICE LIFE WE NEED A CONSTANT SUPPLY OF SPARE PARTS, REPAIR AND OVERHAUL, MODIFICATION AND MODERNIZATION PROGRAMS, UPDATED MANUALS AND A HOST OF OTHER SERVICES. WE PREFER THAT THESE SERVICES BE PROVIDED BY CANADIAN CONTRACTORS, FOR SUCH REASONS AS OPERATIONAL EFFECTIVENESS, STABILITY, SECURITY OF THE DEFENCE INDUSTRIAL BASE ETC. WE NEED A VIGOUROUS COMPETITIVE INDUSTRY TO MEET THESE REQUIREMENTS.

I THINK IT'S OBVIOUS TO ALL OF US THAT IN THE LONG RUN CANADA MUST COMPETE INTERNATIONALLY IN THE HIGH TECHNOLOGY, CAPITAL INTENSIVE FIELD. WE HAVE THE EDUCATIONAL PLANT TO PRODUCE A HIGHLY COMPETENT WORK FORCE, AND WE HAVE THE ABILITY TO RAISE LARGE AMOUNTS OF INVESTMENT CAPITAL. I BELIEVE THAT WE SHOULD BE WORKING NOW AT THE NATIONAL AND REGIONAL LEVELS TO ENSURE THAT GOVERNMENT EXPENDITURES CONTRIBUTE TO THAT GOAL; THAT THEY SERVE NOT ONLY TO ACQUIRE NEEDED GOODS AND SERVICES, BUT ALSO SERVE TO FURTHER A STEADY IMPROVEMENT IN THE COMPETITIVE AND TECHNOLOGICAL CAPACITY OF CANADIAN INDUSTRY.

SO FAR I HAVE MERELY OUTLINED WHAT CONCERNS ME. HAVING ALREADY STEPPED SO FAR OUTSIDE MY FIELD IT WOULD BE COWARDLY NOT TO AT LEAST HINT AT THE PATH I THINK WE COULD FOLLOW OVER THE NEXT FEW YEARS.

IF, AT THE INSTIGATION OF THE BUSINESS COMMUNITY, WE WERE TO FORM A SPECIALIZED HIGH LEVEL INDUSTRY/GOVERNMENT ADVISORY COUNCIL (WITH A PERMANENT STAFF) WE COULD USE THAT BODY AS A SOURCE OF CONSISTENT ADVICE TO BOTH PURCHASERS AND SUPPLIERS. WE COULD TAKE ALL OUR MAJOR OFFSHORE CONTRACTS OVER A GIVEN TIME PERIOD AND ATTEMPT TO DIRECT THE INCOMING OFFSET PURCHASES -- OR A SUBSTANTIAL PART OF THEM -- TOWARDS SELECTED HIGH TECHNOLOGY CANADIAN INDUSTRIES. AND I DON'T MEAN JUST CANADIAN DEFENCE INDUSTRIES --- IT MAY WELL BE THAT WE WOULD PREFER TO DEVELOP

OR EXPAND CENTRES OF EXCELLENCE IN FIELDS QUITE OUTSIDE DEFENCE, BUT WE COULD VERY EASILY USE OFFSHORE DEFENCE PURCHASES TO ACHIEVE SUCH A GOAL.

AS A MATTER OF FACT, WHAT WE WOULD ALSO LIKE TO SEE AS QUICKLY AS POSSIBLE IS THE DEVELOPMENT OF MECHANISMS WHEREBY SECONDARY INDUSTRIES WHICH ARE NOT IN THE DEFENCE RELATED FIELD ARE ABLE TO COMPETE FOR SOME OF THE EXPORT BUSINESS BEING GENERATED BY OFFSET PURCHASES. BECAUSE IF THIS KIND OF INDUSTRY FAILS TO GET A PIECE OF THE ACTION, THEN THE DEFENCE INDUSTRIES COULD QUICKLY BECOME SATURATED, AND WOULD BE UNABLE TO BREAK THE RESULTING CYCLE OF BOOM AND BUST.

DEFENCE EXPENDITURES ARE RAPIDLY BECOMING OF SUFFICIENT MAGNITUDE TO WARRANT SOME NEW AND CREATIVE THINKING. THE KIND OF THINKING THAT WOULD INTEGRATE THE TRIAD OF FACTORS THAT I'VE MENTIONED: DEFENCE EXPENDITURES IN CANADA; THE INDUSTRIAL OFFSETS TIED TO OFFSHORE PURCHASES; AND THE INVOLVEMENT OF THE ENTIRE SPECTRUM OF CANADIAN INDUSTRY.

THERE ARE ALSO SIMPLER GOALS TO AIM AT. TO CITE JUST ONE: GOVERNMENT CONTRACTING REGULATIONS REQUIRE THAT REPAIR AND OVERHAUL CONTRACTS BE TENDERED EACH YEAR AND AWARDED TO THE LOWEST BIDDER. VERY COMPETITIVE, OF COURSE. BUT DOES THAT REALLY SERVE THE BEST LONG TERM INTEREST OF GOVERNMENT OR BUSINESS? -- PERHAPS IT DOES. BUT I SUSPECT THAT IF THERE WERE A LITTLE MORE ASSURANCE OF LONG-TERM STABILITY, SOME FIRMS MIGHT FIND IT ADVANTAGEOUS TO INVEST IN EXPANSION AND MODERNIZATION AND TO COMPETE FOR OFFSHORE BUSINESS FROM A STABLE DOMESTIC BASE.

I'M SURE THAT YOU APPRECIATE THE DIFFICULTIES INHERENT IN CHANGING THE REGULATIONS TO PERMIT THIS SORT OF THING. BUT IF A FRESH AND NOVEL APPROACH WERE DEVELOPED, WE COULD CONSCIOUSLY AIM AT SOLVING SUCH PROBLEMS, AND INDEED COULD MEET THE CHALLENGES OF OUR NEW MAJOR PROCUREMENT PROGRAMS IN THE PROPER CONTEXT. WE COULD DIRECT OUR EFFORTS TOWARD BUILDING CENTRES OF EXCELLENCE IN MODERN HIGH TECHNOLOGY FIELDS. WE COULD ENSURE THAT THESE GOVERNMENTAL EXPENDITURES CONTRIBUTED TO THE FUTURE WEALTH OF THE COUNTRY BY STIMULATING THE GROWTH OR THE COMPETITIVENESS OF HIGH TECHNOLOGY INDUSTRIES IN CANADA.

I OFFER YOU THESE IDEAS, NOT AS AN EXPERT BY ANY MEANS, BUT OUT OF CONCERN THAT WE IN THE ARMED FORCES ARE DOING EVERYTHING THAT CAN BE DONE, NOT JUST TO SPEND MONEY EFFICIENTLY AND ECONOMICALLY FROM OUR OWN RATHER NARROW POINT OF VIEW, BUT ALSO TO SPEND IT WISELY FROM A NATIONAL POINT-OF-VIEW. AND HERE I THINK THAT I SHOULD ADD A CAUTIONARY NOTE: AS FAR AS THE ARMED FORCES ARE CONCERNED THE FIRST PRIORITY MUST ALWAYS BE TO GET THE RIGHT EQUIPMENT FOR THE MILITARY REQUIREMENT -- NOT CADILLAC STYLE AND NOT GOLD PLATED -- BUT EQUIPMENT WHICH CAN DO THE JOB. I WILL NOT COMPROMISE IN THIS. AND I HAVE NO DOUBT WHATEVER THAT THE GOVERNMENT AND THE PEOPLE OF CANADA SUPPORT THAT VIEWPOINT. IT IS ONLY AFTER THE MILITARY REQUIREMENT HAS BEEN MET THAT WE SHOULD SEEK TO MAXIMISE THE INDUSTRIAL BENEFITS.

I KNOW THAT THERE IS NO EASY SOLUTION. I KNOW, FOR EXAMPLE, THAT THERE WOULD BE POLITICAL, REGIONAL AND INDUSTRIAL PRESSURE GROUPS THAT WOULD SEEK THEIR OWN SELF-INTEREST UNDER

THE CLOAK OF THE NATIONAL GOOD. BUT WE'VE SOLVED DIFFICULT PROBLEMS BEFORE IN CANADA, AND I SUSPECT THAT THIS PROBLEM, THIS CHOICE OF WHAT INDUSTRIAL ROAD TO FOLLOW OVER THE NEXT FEW DECADES, MAY NEED A SOLUTION MORE URGENTLY THAN HAS BEEN GENERALLY RECOGNIZED SO FAR.

THE NEXT FEW DECADES ARE GOING TO BE VERY CHALLENGING FROM AN INDUSTRIAL POINT OF VIEW: INTERNATIONAL COMPETITION WILL BE FEROCIOUS. AND I WOULD LIKE TO ENSURE -- AS A CITIZEN WHO HAS SOME MODEST INFLUENCE ON THE DISPOSITION OF LARGE AMOUNTS OF GOVERNMENT MONEY -- THAT WE ARE DOING EVERYTHING THAT CAN BE DONE TO ASSIST CANADIAN INDUSTRY.

IF I'M TO BE HONEST I SHOULD ADD THAT THERE IS A GREAT DEAL OF SELF-INTEREST UNDERLYING MY CONCERN. YOU PROBABLY SUSPECTED THAT ANYWAY! OBVIOUSLY THE MORE PROSPEROUS CANADA BECOMES, THE EASIER IT WILL BE TO BEAR THE BURDEN OF A PRUDENT AND RESPONSIBLE DEFENCE PROGRAM.

EQUALLY IMPORTANT, IT WOULD BECOME VERY DIFFICULT TO GET SUPPORT FOR LARGE MILITARY CAPITAL EXPENDITURES IF THE INDUSTRIAL FRUITS OF THESE EXPENDITURES ALWAYS RIPENED BEYOND OUR BORDERS. AND SO MY CONCERN IS BASED FUNDAMENTALLY UPON A MILITARY RATIONALE, BUT I THINK THAT MY GOALS MUST PROBABLY BE YOUR GOALS AS WELL. I PERSONALLY HOPE THAT WE CAN ALL DO MORE THAN WE'RE DOING NOW.

FINALLY, I WOULD BE VERY INTERESTED IN KNOWING YOUR REACTION TO SOME OF THE IDEAS I HAVE EXPRESSED TODAY, BECAUSE I SUSPECT THAT

IF THIS AUDIENCE WERE TO DECIDE THAT SOMETHING SHOULD BE DONE -
THEN SOMETHING WOULD BE DONE, AND QUICKLY!

I THANK YOU FOR YOUR ATTENTION AND PARTICULARLY FOR
LISTENING SO QUIETLY TO AN AMATEUR SPEAK OF BUSINESS!

THANK YOU MR CHAIRMAN.