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# **STABILITY AND PROSPERITY**

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## **THE BENEFITS OF INVESTMENT IN DEFENCE**



**Conference of Defence Associations**

**STABILITY AND PROSPERITY  
THE BENEFITS OF INVESTMENT  
IN  
DEFENCE**

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**STABILITY AND PROSPERITY:  
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Preface

The Conference of Defence Associations (CDA), comprising fourteen core associations and sixteen associates, totaling some 600,000 members, is Canada's leading pro-defence organization. Over the past decade, and in conjunction with the Conference of Defence Associations Institute (CDAI), CDA has made important contributions to defence policy formulation.

In 1994, CDA and CDAI were active participants in the government-sponsored Defence Policy Review, which resulted in publication of Defence 94, a white paper that specified combat-capable armed forces for Canada. CDA advocated this policy and its position was presented in two documents: Canadian Security: A Policy for the 21st Century and, Canadian Security: A Force Structure Model for the 21st Century.

Thereafter, CDA stressed the need for adequate funding to implement the government's defence policy to modernize the Canadian Forces, in response to severe budget cuts and revolutionary change in the world at the end of the 20th century. CDA's case was stated in a study published in 1999: A Strategic Assessment: Canada's Response to the New Challenges of International Security.

Federal budgets tabled in 1999 and 2000 allocated additional funds to the Department

**STABILITÉ ET PROSPÉRITÉ:  
LES AVANTAGES D'INVESTIR DANS  
LE SECTEUR DE LA DÉFENSE**

Préface

La Conférence des associations de la défense (CAD), formée de quatorze associations de base et de seize associés, soit de quelque 600 000 membres, est la principale organisation qui fait la promotion de la défense au Canada. Au cours des dix dernières années, et de concert avec l'Institut de la Conférence des associations de la défense (ICAD), la CAD a beaucoup contribué à l'élaboration des politiques en matière de défense.

En 1994, la CAD et l'ICAD ont participé activement à l'Examen de la politique de défense parrainé par le gouvernement, qui a abouti à la publication de Défense 94, un livre blanc prescrivant que le Canada se dote de forces armées aptes au combat. La CAD préconisait cette politique et elle a énoncé sa position dans deux documents, La sécurité canadienne : une politique pour le 21<sup>e</sup> siècle et La sécurité canadienne : un modèle d'une structure des forces armées pour le 21<sup>e</sup> siècle.

La CAD a par la suite insisté sur la nécessité de l'injection de fonds suffisants pour mettre en oeuvre la politique de défense gouvernementale visant la modernisation des Forces canadiennes, en réaction aux compressions budgétaires draconiennes et aux profonds changements qui s'opéraient sur la scène internationale à la fin du XX<sup>e</sup> siècle. La CAD a fait valoir son point de vue dans une étude publiée en 1999, Analyse stratégique : réaction du Canada face aux nouveaux défis de la sécurité internationale.

Dans les budgets fédéraux de 1999 et de 2000, des crédits supplémentaires sont

of National Defence (DND) for the first time in almost a decade. The increase in funding, although welcome, fell some fifty per-cent short of what most experts considered necessary to establish and maintain the armed forces specified in the 1994 White Paper. The additional amount required would be approximately \$2 billion. It is, therefore, necessary to raise public awareness of national security issues in the new world of globalization and non-traditional threats, so as to generate support for increased investment in defence.

Canadians need to be assured that national security, and commensurate spending on defence, remains one of the first priorities of government. This new CDA study illustrates this reality by showing how the defence budget and the Canadian Forces contribute to national well-being and prosperity. It shows that investment in defence at home preserves national sovereignty and the money itself is largely redistributed into the Canadian economy. Overseas, Canadian military operations build international peace and security to assure beneficial trade relations, which are Canada's lifeblood. They also achieve humanitarian objectives under a new policy of international intervention.

This project is designed to serve as a vehicle for public information, and readers are encouraged to convey its contents to as wide an audience as possible. Questions and comments are encouraged by any of the means listed in the letterhead. This document as well as additional information and analyses of defence topics can be found on the CDA/CDAI website: [www.cda-cdai.ca](http://www.cda-cdai.ca).

attribués au ministère de la Défense nationale (MDN) pour la première fois depuis près de dix ans. Cette injection, quoique bienvenue, est de presque cinquante pour cent inférieure au montant que la majorité des experts jugeaient nécessaire à l'établissement et au maintien des forces armées envisagées dans le Livre blanc de 1994. On aurait besoin en fait de quelque 2 milliards de dollars de plus. Il faut donc sensibiliser les citoyens aux questions de sécurité nationale en cette ère de la mondialisation et de menaces non traditionnelles, de façon à gagner des appuis en faveur de l'injection de crédits dans le secteur de la défense.

Il faut rassurer les Canadiens que la sécurité nationale, et l'investissement en conséquence dans le secteur de la défense, demeurent en tête de la liste des priorités du gouvernement. Cette nouvelle étude de la CAD témoigne de cette réalité en faisant ressortir l'apport du budget de la défense et des Forces canadiennes au bien-être et à la prospérité du Canada. Elle montre qu'investir dans la défense a pour effet de préserver la souveraineté nationale et que les sommes engagées sont en grande partie redistribuées dans l'économie canadienne. À l'étranger, les opérations militaires du Canada établissent un climat de paix et de sécurité pour assurer des relations commerciales avantageuses qui sont vitales pour notre pays. Ces missions permettent aussi la réalisation d'objectifs humanitaires, en exécution d'une nouvelle politique d'intervention à l'échelle mondiale.

La présente publication a pour but de renseigner le public, et les lecteurs sont invités à en diffuser le message au plus vaste auditoire possible. On encourage les intéressés à nous transmettre leurs questions et commentaires par tous les moyens indiqués dans l'en-tête. Ce document ainsi que de plus amples renseignements et des analyses de la défense se trouvent sur le site Web de la CAD et de l'ICAD : [www.cda-cdai.ca](http://www.cda-cdai.ca).

The project leader and principal author was Sean Henry, Senior Defence Analyst, CDA. Generous support by the following organizations is gratefully acknowledged: The Business Council on National Issues, The Molson Foundation, The Department of National Defence, and Queen's University, Chair of Defence Management Studies.

C.H. Belzile  
Lieutenant-General (Retired)  
Chairman

Ottawa, September 2000

Le responsable de la publication et auteur principal est M. Sean Henry, analyste principal de la défense, CAD. Nous tenons à remercier sincèrement de leur précieuse collaboration le Conseil canadien des chefs d'entreprises, La Fondation de la famille Molson, le ministère de la Défense nationale et la Chaire d'études en gestion de la défense de l'Université Queen's.

Le président,

Lieutenant-général (à la retraite) C.H. Belzile

Ottawa, septembre 2000

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## EXECUTIVE SUMMARY

The federal government Main Estimates for fiscal year (FY) 2000-01 allocate \$11.2 billion to the Department of National Defence (DND). This equates to six per cent of the total federal budget and 1.1 per cent of Canada's Gross Domestic Product (GDP).

The aim of this study is to examine Canadian security and to show that investment in defence is a necessary expenditure which benefits all Canadians either directly or indirectly. National defence, and the armed forces which implement it, ought to rank as one of the highest priorities of government.

**It is a central component of the national frame work which assures our security and well-being and promotes Canadian interests and values elsewhere in the world.**

With the sudden end of the Cold War, and collapse of its accompanying bi-polar framework, the world has entered a watershed of uncertainty. Globalization of economic and financial affairs is moving ahead quickly, assisted by the so-called information revolution. Future world security will still ultimately revolve around the interests of the most powerful nations, but a host of non-traditional threats such as crime, pollution, exploding populations, etc. will produce a complex and volatile mix. Overall, the situation is made more dangerous by the proliferation of nuclear and other weapons of mass destruction. Military forces must also grapple with the immense changes imposed by the Revolution in Military Affairs, generated by high technology. Finally, a doctrine of military intervention has evolved to address problems of instability within and between nations, and an assortment of humanitarian disasters.

## RÉSUMÉ

Le Budget principal du gouvernement fédéral pour l'exercice 2000-2001 alloue 11,2 milliards de dollars au ministère de la Défense nationale (MDN). Cela équivaut à 6 p. 100 du budget fédéral et à 1,1 p. 100 du produit intérieur brut (PIB) du Canada.

La présente étude a pour but d'examiner la sécurité au Canada et de montrer qu'il faut absolument investir dans le secteur de la défense, qui profite à tous les Canadiens d'une manière directe ou indirecte. La défense nationale, et les forces armées nécessaires à leur mise en oeuvre, devraient figurer en tête de la liste des priorités du gouvernement. **Il s'agit d'une pièce maîtresse de la structure nationale qui assure notre sécurité et notre bien-être et qui défend les intérêts et les valeurs du Canada ailleurs dans le monde.**

La fin abrupte de la guerre froide et l'éclatement de son cadre bipolaire ont plongé le monde dans une ère d'incertitude. La mondialisation de l'économie et des finances progresse rapidement, sous l'élan de la soi-disant révolution de l'information. La sécurité mondiale continuera de s'articuler autour des intérêts des pays les plus puissants, mais une foule de menaces non traditionnelles comme la criminalité, la pollution et l'explosion démographique, entre autres, produiront un climat complexe et volatile. La situation est devenue plus dangereuse à cause de la prolifération des armes nucléaires et d'autres armes de destruction massive. Les forces militaires doivent aussi composer avec les profonds changements qu'impose la révolution dans les affaires militaires, découlant de la haute technologie. Enfin, on assiste à l'émergence d'une doctrine d'intervention militaire visant à régler des problèmes d'instabilité interne ou interétatique et à apporter des solutions à toute une gamme de catastrophes humanitaires.

**To serve and advance its national interests, Canada needs to stay engaged internationally and play a leadership role, especially in enforcing and keeping the peace. This implies maintenance of flexible combat-capable armed forces, able to be deployed rapidly worldwide.** Canada has an economy more dependent than most on foreign trade. In fact, both exports and imports are equivalent to 70% of GDP, compared with 24% in the United States (US) and 21% in Japan. Moreover, some 85% of Canadian trade is with the US. This factor means that Canadian prosperity is linked closely with US prosperity. In turn, the latter depends on stable international security conditions to retain its vigour. **Hence, it is prudent for Canada to support US efforts to promote stability and humanitarian objectives in the world. Effective armed forces make a large contribution to the framework of stability.**

Canada contributes only 1.1% of its GDP to defence. This is one of the lowest rates in the world, and second lowest in NATO, where the average is 2.1%. There is a growing perception amongst allies that Canada has neither the will nor the resources to engage in anything more challenging than low-level peacekeeping, thus discarding the legacy built on the sacrifices of Canadians in the first half of the 20<sup>th</sup> century. Canada has become, in recent years, less influential in international affairs, which can be linked in part to its military shortfalls. This has impacted negatively on both Canadian diplomacy and trade.

**Pour servir et promouvoir ses intérêts, le Canada doit rester engagé sur la scène internationale et jouer un rôle de chef de file, particulièrement pour le renforcement et le maintien de la paix. Il doit ainsi conserver des forces armées polyvalentes et aptes au combat, en mesure de se déployer rapidement partout dans le monde.** L'économie canadienne dépend plus que celle d'autres pays du commerce international. De fait, les exportations autant que les importations équivalent à 70 p. 100 du PIB, comparativement à 24 p. 100 aux États-Unis et à 21 p. 100 au Japon. De plus, quelque 85 p. 100 des échanges commerciaux du Canada se font avec les États-Unis. La prospérité du Canada est donc étroitement liée à celle des États-Unis. À son tour, la vigueur de l'économie américaine repose sur un climat de sécurité stable à l'échelle internationale. **Le Canada a donc intérêt à appuyer les mesures prises par les États-Unis afin de promouvoir la stabilité et des objectifs humanitaires dans le monde. Des forces armées efficaces contribuent largement au maintien de la stabilité.**

Le Canada ne consacre que 1,1 p. 100 de son PIB à la défense. Ce pourcentage compte parmi les plus faibles au monde. En fait, le Canada se situe à l'avant-dernier rang des pays membres de l'OTAN, dont le taux moyen est de 2,1 p. 100. On nombre croissant de membres de l'Alliance ont l'impression que le Canada n'a ni la volonté ni les ressources pour s'engager dans des missions plus exigeantes que de petites opérations de maintien de la paix. Cette perception fait fi de la renommée bâtie par les valeureux soldats canadiens de la première moitié du XX<sup>e</sup> siècle. Le Canada exerce depuis quelque temps moins d'influence dans l'arène internationale, ce qui peut être lié, en partie, à ses lacunes militaires des dernières années. Les répercussions ont été néfastes pour la diplomatie et les échanges commerciaux du

Canada.

The federal budget is central to the agenda of any Canadian government. Since the DND budget comprises 6% of federal government spending, and close to 30% of discretionary spending, it is not surprising that since 1995 it has suffered cuts of 23% (30% in purchasing power). This was largely motivated by the critical need to eliminate the federal spending deficit. The deficit has now been overcome, and in the last three years budget surpluses have been achieved. Nonetheless, the total national debt, a low Canadian dollar and heavy reliance on US trade make the Canadian economic situation fragile, thus reinforcing the need for stability.

It is therefore appropriate for government to rehabilitate and invest in the DND budget so as to restore the Canadian Forces to a reasonable level of operational effectiveness. A start was made in federal budgets for 1999 and 2000. In particular, the latter allocated an additional \$2.3 billion, over a four-year period, to DND. However, the range of shortfalls is so extensive and deep that this sum amounts to only 50% of what is needed to properly resolve the problems. It will address only the most critical items. **The additional funds are welcome, but another \$2 billion needs to be added over the next few years to halt the serious decline of the Canadian Forces, including the Reserves. Unless this is done, even the existing weak Canadian Forces will continue to be unaffordable, and further cuts to military capabilities will be necessary.**

The first priority of any national government is to provide security for its

Le budget fédéral est au coeur du programme de n'importe quel gouvernement canadien. Comme le budget du MDN équivaut à 6 p. 100 des dépenses de l'administration fédérale et comporte près de 30 p. 100 des dépenses discrétionnaires, il n'est pas surprenant que depuis 1995, il a été comprimé de 23 p. 100 (30 p. 100 du pouvoir d'achat). La principale raison était la nécessité impérieuse d'éliminer le déficit de l'État. Le déficit est maintenant chose du passé, et l'on obtient des surplus budgétaires depuis les trois dernières années. Néanmoins, la dette nationale globale, la faiblesse du dollar canadien et notre forte dépendance à l'égard du commerce avec les États-Unis rendent la situation économique du Canada fragile, ce qui renforce le besoin d'une stabilité.

Il convient donc que le gouvernement consolide le budget du MDN de façon à redonner aux Forces canadiennes un niveau raisonnable d'efficacité opérationnelle. Les budgets fédéraux de 1999 et de 2000 constituent un premier pas dans ce sens. Le dernier budget en particulier accorde au MDN un montant supplémentaire, échelonné sur une période de quatre ans, de 2,3 milliards de dollars. Mais il y a tellement de graves lacunes à combler que ce montant n'équivaut qu'à la moitié de ce dont on a réellement besoin. Il permettra de n'apporter des solutions qu'aux problèmes les plus critiques. **Les fonds supplémentaires sont bienvenus, mais il faudra injecter un autre 2 milliards au cours des prochaines années afin d'arrêter le périlleux déclin des Forces canadiennes, y compris de la Réserve. Autrement, nous n'aurons plus les moyens de nous payer même les Forces canadiennes dans leur piètre état actuel, et il nous faudra réduire encore nos capacités militaires.**

La priorité absolue de tout gouvernement national est de veiller à la sécurité de ses

citizens. The Canadian Forces are the primary instrument created to discharge this responsibility. The DND budget is disbursed in support of that mandate by having the Canadian Forces engage in domestic and international military operations. Domestically, the focus is on countering the threats noted earlier, and on maintaining national sovereignty over Canada's sea, land and air space, mainly in alliance with the US. The Canadian Forces also make numerous contributions to public safety by operating search and rescue facilities, and by rendering assistance during natural disasters, etc.

Internationally, the Canadian Forces engage in operations, normally under the United Nations (UN), North Atlantic Treaty Organization (NATO) or coalitions of allies, to reverse aggression and maintain the peace. These actions contribute to the well being and prosperity of Canadians by establishing peace and stability to support beneficial trade relations. They also contribute to humanitarian objectives in support of democracy and an end to human suffering.

In summary, there is a connection between international stability and national prosperity. International trade fuels prosperity and is dependent upon stability. Resolving humanitarian crises also requires stability. Armed forces are an important guarantor of international peace, thus contributing to national well-being and achievement of humanitarian objectives. For Canada, the link to the US in these matters is both positive and important. The DND budget is the key element in maintaining effective armed forces, and thereby directly serves national interests. For the past decade, the DND budget has been in steep decline, and even with the recent increases is still some \$2 billion short of what would be required to implement current defence

citoyens. Les Forces canadiennes sont le principal moyen par lequel le gouvernement assume cette responsabilité. Le budget réservé au MDN vise à soutenir ce mandat en permettant aux Forces canadiennes de participer à des opérations militaires au Canada comme à l'étranger. Sur la scène nationale, il faut avant tout faire obstacle aux menaces déjà mentionnées et préserver la souveraineté du Canada à l'égard de ses espaces maritimes, terrestres et aériens, principalement de concert avec les États-Unis. Les Forces canadiennes collaborent aussi à la sécurité publique grâce à leurs ressources de recherche et de sauvetage et aux secours prêtés par exemple en cas de catastrophe naturelle.

Sur la scène internationale, les Forces canadiennes prennent part à des missions, généralement sous l'égide de l'ONU, de l'OTAN ou d'une coalition de pays alliés, afin de contrer les agressions et de maintenir la paix. Ces mesures favorisent le bien-être et la prospérité des Canadiens en établissant un climat de paix et de stabilité qui est propice à des échanges commerciaux avantageux. Elles favorisent aussi la réalisation d'objectifs humanitaires visant à instaurer la démocratie et à apaiser les souffrances des populations.

Bref, il y a un lien entre la stabilité dans le monde et la prospérité d'une nation. Les échanges internationaux favorisent la prospérité et reposent sur la stabilité. Le règlement de crises humanitaires exige aussi la stabilité. Les forces armées sont un précieux gage de la paix dans le monde, ce qui fait qu'elles favorisent le bien-être des nations et la réalisation d'objectifs humanitaires. Les liens que le Canada entretient avec les États-Unis sur ce plan sont à la fois positifs et primordiaux. Le budget du MDN étant l'élément moteur du maintien de forces armées efficaces, il sert directement les intérêts nationaux. Depuis dix ans, le budget du MDN ne cesse de péricliter. Malgré les sommes injectées dernièrement, ce budget reste encore

policy. **Now that the government has achieved a surplus situation in its fiscal affairs, it should be possible to allocate additional money to DND over the next several years. As a leading industrial nation of the G-7 group, Canada can afford and should invest more in defence.**

d'environ 2 milliards de dollars inférieur à ce qu'il devrait être pour mettre en oeuvre la politique de défense. **Le gouvernement ayant réalisé un surplus budgétaire, il devrait maintenant pouvoir allouer des sommes supplémentaires au MDN. En tant que pays industrialisé parmi les meneurs du G-7, le Canada peut se permettre et devrait investir plus dans le secteur de la défense.**

**CONFERENCE OF DEFENCE ASSOCIATIONS  
STABILITY AND PROSPERITY:  
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**INTRODUCTION**

The federal government Main Estimates for fiscal year (FY) 2000-01 allocate \$ 11.2 billion to the Department of National Defence (DND). This equates to six per cent of the total federal budget and 1.1 per cent of Canada's Gross Domestic Product (GDP).

The aim of this study is to examine Canadian security and to show that investment in defence is a necessary expenditure which benefits all Canadians either directly or indirectly. National defence, and the armed forces which implement it, ought to rank as one of the highest priorities of government. It is a central component of the national framework which assures our well-being and supports promotion of Canadian values elsewhere in the world.

However, Canadian prosperity rests upon a fragile foundation. Although Canada continues to head the United Nations' list of best places to live, it also has one of the highest national debts in the world, a weak national currency, and a huge reliance on trade with the United States. These factors could, cumulatively, cause Canada's fortunes to decline rapidly in response to instability in the international milieu, flowing from radical change and pervasive conflict. Canadian military contributions assist in maintaining peace and stability which benefits everyone.

The study commences by examining the evolving international situation, and the place of Canada and the Canadian Forces within it. This is followed by an examination of the government's budgeting process, the allocation of funds to DND, and the current state and needs of the Canadian Forces. The disbursement of these funds is then analyzed to identify the benefits for all Canadians.

**PART I**

**CHANGE AND THE INTERNATIONAL MILIEU**

**A Strategic Overview: Instability and Diversity**

With the sudden end of the Cold War, and collapse of its accompanying bi-polar framework, the world has entered a watershed of uncertainty. Alliances shift and threats arise or recede as actors attempt to identify their new roles in international affairs. A new pattern of stability is being sought, and although some short term features are clear, those further away are not. In any case, future international security arrangements will differ from those of the past. While some components of national power, such as natural resources, geographical circumstances and demographics have changed little, important new forces are coming on scene. Globalization of economic and financial affairs is moving ahead quickly, assisted by the so-called *information revolution*. This is already increasing the power of individuals and raising the prominence of international corporations and interest groups.

But even in this altered context, future world security will still revolve around the interests of major players such as the United States, Russia, China, Japan, India, and a united Europe. Any number of possibilities exist for conflict within this group. Moreover, a number of flashpoints could in the short-term call for armed forces to supplement diplomacy to end aggression and restore peace. These include the Greater Middle East, South Asia, the Balkans, Korea and Central Africa. As well, new threats are emerging from the spread of crime, terrorism, pollution, population explosion, disease, and resource depletion. Overarching these concerns is a critical danger posed by the spread of Weapons of Mass Destruction (WMD).

Rampant conflict over the past decade has produced a doctrine of *intervention*, by UN and coalition military forces, to restore peace and implement humanitarian objectives. Intervention serves to quell public clamour to *do something* to alleviate horrendous human suffering served-up on television each night. Such operations range from conventional combat to counter-insurgency, and a variety of peace support missions. Examples of all of these types have occurred in the relatively short period from 1990 to 2000, and it is likely similar scenarios will persist into the medium term future.

Another factor adding to the complexity of national and international security is the rapid development of the so-called Revolution in Military Affairs (RMA), based largely on applications of the microchip, and comprising dramatic advances in target detection, weapon accuracy and firepower. It is assumed the RMA will spread quickly around the world, as did the globalization of telecommunications and information technology.

The RMA creates several important challenges for nations. The first is whether or not to respond to its demands. Failure to do so will quickly relegate a nation's armed forces to the second or third tiers of operational effectiveness. But if RMA developments are implemented, then the cost of defence will increase. Some argue this can be achieved by a trade-off between people and technology within armed forces. So far positive results of such a tradeoff have proven illusory. This is especially true for Canada, where armed forces' personnel strength is well below where it ought to be in the first instance.

In this rapidly evolving situation, security differs in many ways from what has been the norm for some 400 years. The essence of the new situation is captured as follows:

“Unlike the ideological based, correlation of forces model used during the Cold War, or its balance of power predecessor, today's security challenges are multi-dimensional and often transcend the power and authority of affected nation-states...Therefore, security is derived from an aggregate of political, economic, cultural and military factors...Today, >instability' constitutes the primary threat to security in all its dimensions. Instability anywhere affects everyone in a global economy. Moreover, with global communications and permeable borders, it can overcome nearly every effort to contain it... (modern) strategy requires multi-faceted engagement at all levels.”

Marine Corps)

**To prosper in an environment of rapid technical, social and economic change Canada needs to select carefully a route that will allow it to realize its immense national potential, as well as to pursue its traditional role in the world. To advance on that route, will require the services of modern armed forces able to engage in a wide variety of military operations.**

### **The Security Environment: Threats Old and New**

From a geographic perspective Canada is one of the most secure nations in the world. It is isolated from conventional threats by oceans, the Arctic, and a benevolent super power. However, in the past Canada's security interests were served by making major military contributions in two world wars, Korea, and during the Cold War in NATO. The payoff was that by the end of the 1950s, Canada had emerged as an important player on the international stage.

Today, Canada's security demonstrates new vulnerabilities as a result of exponential change in the realms of technology and economics. New weapon systems can now overcome Canadian geographic isolation. Perhaps more important, Canadian prosperity relies heavily on foreign trade. In this respect it must treat two related abnormalities: its small domestic market; and, an overwhelming dependence on the large United States (US) market.

Canada's well-being is, therefore, strongly aligned with the well-being of the US. In turn, the latter relies extensively on international peace and stability to maintain its own standard of living and pre-eminent position of power. Ensuring an uninterrupted supply of overseas oil heads the list of reasons why this is so.

Another important aspect of Canadian policy is partnership with the US and other allies to assist in the establishment of democracy and human rights throughout the world. Again, that world has become more unstable while combining factors both old and the new. Specifically, the following conditions constitute its components:

- \$ traditional economic interests of major and emerging powers.
- \$ the weakening sovereignty of states.
- \$ the increased importance of non-state actors, such as international agencies and non governmental organizations (NGOs).
- \$ increased competition for strategic resources such as oil and water.
- \$ environmental degradation and population explosion.
- \$ the breakdown of nations under pressures from ethnic minorities and economic cartels.
- \$ ecological disasters and mass viral infections, notably the AIDS epidemic in Africa.
- \$ the proliferation of Weapons of Mass Destruction (WMD), in conjunction with ballistic and cruise missile capabilities.
- \$ the dangers of cyberwar in all its aspects, including the militarization of space.

\$ the increase in low-intensity conflict, including terrorism and drug traffic.

\$ the reduction of funds available for defence budgets.

The major implication falling out of this list is that *the threat* is multi-faceted and includes a variety of possibilities at any one time - many of which may be contradictory in terms of the military capabilities needed to deal with them. Nonetheless, nations today, particularly developed nations such as Canada, must recognize this challenge and overcome it, in order to preserve the peace and stability necessary to maintain their well-being.

**In that vein, to serve and advance its national interests, Canada needs to stay engaged internationally and play a leadership role, especially in enforcing and keeping the peace. This implies maintenance of flexible combat-capable armed forces, able to be deployed rapidly worldwide.**

### **Emerging Global Economic Trends: Everything Everywhere**

In broad terms, *globalization* refers to the worldwide adoption of certain shared values, including electoral democracy, market-oriented economic systems, and more open, liberal social and cultural systems. People, ideas, information, money and products are beginning to pass freely across borders. Economic globalization refers specifically to the establishment of more integrated worldwide markets for technology, investment, production, distribution and consumption. Implications include increased mobility of factors of production, including capital, human and other resources, knowledge, and expanded high-speed telecommunications and transportation networks which make it possible for businesses to operate efficiently in many countries at the same time.

Economic globalization includes around-the-clock operation of financial markets, and integrated production systems controlled by multi-national enterprises. Resource extraction, manufacturing, Research and Development (R&D) and corporate management may all reside in different countries, according to comparative and competitive advantages of each location. A major feature of economic globalization is the promotion of initiatives by governments to accelerate the liberalization of trade, investment and associated rules under the World Trade Organization (WTO).

This process has been referred to as the emerging condition of *everything everywhere*. For it to succeed an environment of widespread international peace, security and stability is required. An essential component of this condition is the maintenance of modern armed forces to enforce peace and deter or reverse aggression.

Globalization raises fundamental issues for national security strategy and armed forces, such as:

- \$ creation of new patterns of interstate relations in economics and security;
- \$ reduction of state sovereignty and permeation of state borders;
- \$ production of effects that are both stabilizing and destabilizing;
- \$ creation of the need for new national policies and institutions, and new roles and missions for the armed forces.

A note of caution is warranted, however, since Utopia has not yet been established. Wealth has been created, but unevenly, as the pace of technological change has caused

income gaps to widen both between countries and within them. Widespread poverty, disease and ignorance continue to prevail in most parts of the world. There is a real and growing danger that adherence to the international liberal system by the developing countries may be eroded, possibly lost, as their populations feel alienated by the proposed imposition of new rules by the industrialized group. In particular they feel discriminated against by the continued use of anti-dumping measures, and frustrated by failing to gain market access in products where they may have comparative advantage, and insufficiently integrated in the policy process in defining world economic needs.

As a consequence, a sense of drift, of policy paralysis, of intellectual incoherence has recently appeared on the international scene. Some of these trends have appeared, for example, in recent meetings of the WTO. Overall, there are questions emerging as to whether the international political economy, rather than being reinforced by centripetal forces, is witnessing an intensification of centrifugal forces.

**Until the disparities between rich and poor are satisfactorily addressed, there is likely to be turbulence in both international and intranational affairs; hence, the need for modern armed forces to provide part of the framework for peace, security, and stability so that coordinated beneficial social and economic forces may succeed in the end.**

## PART II

### CANADA'S INTERNATIONAL RELATIONS

#### **Canadian International Trade Relations: Lifeblood of the Nation**

Since Confederation, Canada has always been closely linked to the wider global economy as it existed at any given point in time. In this respect it was an early practitioner of globalization within the British Empire. Later, Canada moved progressively into the American orbit as part of Western hemisphere continental trade, technology, and investment flows.

The last stages of protective Canadian economic policy were played out in the early 1980s. They largely ended with entry into the Canada/United States Free Trade Agreement (FTA) and the North American Free Trade Agreement (NAFTA). Since then the country has been looking for new ways to assert its international economic strengths and to serve and protect its vital interests. The latter applies to jobs, domestic competition, innovative technologies, Canadian identity, cultural industries, social programmes and environmental security.

To achieve these objectives Canada must rely on strong international relationships, especially in the vital sector of trade. In this respect, Canada has joined an extensive framework of international associations and organizations related to trade and other economic variables. The most important include: The Group of Seven most advanced industrialized democracies (G-7 'G-8 with Russia); The World Trade Organization (WTO); The Organization for Economic Co-operation and Development (OECD); The World Bank; and, The International Monetary Fund (IMF). In particular, the G-7 has come to act as the world's *inner cabinet*, and has been focusing increasingly on the challenges posed by the rapid pace of globalization.

Canada has an economy more dependent than most on foreign trade. In fact, both exports and imports are equivalent to 70% of GDP, compared with 24% in the US and 21% in Japan. Although commodities and raw materials have fallen from 60% of exports in 1980, they still account for some 35%. But, the perception abroad persists that Canada's economy is still resource-based. Hence, with the fall in commodity prices in the 1990s,

downward pressure on the Canadian dollar increased, and foreign investment slowed. Further details on Canadian economic data are presented at [Annex A](#).

One of the factors that has contributed to the growth of trade has been the low Canadian dollar. This has provided a major boost for exports. But, in conjunction with low interest rates, it can be counter-productive since the international currency trading market will re-invest elsewhere where the return is better.

**Overall, Canada's economic prosperity is thus highly dependent on international factors, especially the degree of peace and stability within an increasingly globalized community. In 1999 some 38% of Canadian GDP was generated by exports. This is more than double the average for all other G-7 countries. It is estimated that one in three Canadian jobs depends on trade.**

### **Canada - United States Relations: Unique and Complex**

The Canada-US relationship is unique in its complexity and scope. The two nations share an extensive web of ties in areas ranging from free trade to defence and the environment. They also enjoy a similarity of interest in the economic, foreign policy, and national security areas. Recently, Canada and the US have worked closely together to resolve issues involving Iraq, Bosnia, Haiti, NATO enlargement, and bilateral trade practices. Although differences do exist in a number of areas, the two nations share the same broad objective of increasing democratization and advancing human rights.

Canadian trading relations with the US are the most significant in the world. They account for more than \$1 billion per day in two-way trade. Some 85% of Canadian exports and over 70% of imports are with the US. With the implementation of NAFTA, Canada has become increasingly dependent on exports to the US to maintain its national well-being. A further source of imbalance is the fact that over 60% of the trade with the US originates with the automobile industry and its associated fields. In this respect, Ontario has recently become the world leader in terms of concentration of automobile production B producing some three million units annually.

Canadian dependence on the US economy and US markets is well illustrated by the situation emerging from the recession of the early 1990s. One of the major developments that allowed Canada to recover was the new boom in exports to the US. For example, in 1994 alone there was an increase of 46% in exports to the US market. On the other hand, the Asian monetary crisis of 1998 showed that parts of Canada are still vulnerable to dependence on raw materials exports elsewhere in the world. These exports still account for a quarter of overall exports. When the Asian slump occurred, falling commodity prices undermined resource industries and farmers, and weakened both economic growth and the Canadian dollar.

Canadian defence arrangements with the US are more extensive than between any other two countries. The Permanent Joint Board on Defence (PJBD) provides policy-level consultation on bilateral defence matters, and there are over 200 individual bilateral agreements ranging from Canada/US (CANUS) defence plans to mutual weapon testing facilities. Canada and the US also share mutual collective defence arrangements through NATO. Since 1958 Canadian and US forces have cooperated on continental air defence through The North American Aerospace Defence Command (NORAD). The latter was extended in 2000 for a further five years. A major defence issue being debated in both nations at this time is the American plan to deploy a National Missile Defence (NMD) system to protect US and, by extension Canadian, territory from limited intercontinental ballistic missile attacks.

In the US, the missile defence issue raises the most profound strategic questions. Is US security, and by extension global security, best served by continuing to keep the nuclear peace exclusively, or mostly, through deterrence B ensured by the credible threat of a devastating retaliation to an enemy first strike B as during the Cold War? Or have geopolitics, proliferation and technology evolved to the point where a stronger element of defence should play a central role in US plans? President Clinton, as witnessed by his decision of September 01, 2000 to delay development of NMD, could not quite *square these circles*.

The decision has thus been deferred into the first term of the next president. The pause will provide the US with more time to refine its NMD technology and hopefully to resolve differences with its NATO allies, Russia and China. The real question about NMD remains, when but not whether, it will be deployed. The decisive requirements B and they are geopolitical as well as technical B are that Americans must first be convinced that anti-missile defence is at least part of the solution to a fast-changing missile threat. For Canada, it then becomes a question of trust. So far the Canadian government has not taken a decision on the matter. A negative response by Canada to a US request for support would, however, have a serious impact on the very close bilateral security relationship. As well as arms control concerns, NMD also re-introduces Canadian caution over national sovereignty issues in relations with the US, as well as the militarization of space.

Positive aspects of the Canada/US relationship are often offset by their disagreements, such as differences in approaches to international diplomacy, including Canada's pre-occupation with human security and soft power. In this respect, the American Ambassador to Canada has criticized the weak state of Canada's defence establishment. Other areas of tension include, relations with Cuba, the Iraq/Iran sanctions, NATO nuclear policy, the international criminal court (ICC) initiative, and Canadian initiatives to eliminate landmines and control the international trade in small arms. As well, disputes persist over trade related items, such as softwood lumber and alleged Canadian subsidies to agriculture and other industries.

**Overall, the Canada/US relationship is being redefined under the influences of trade and exponential advances in information technology and communications. Although Ottawa and Washington hold the reins in the realm of major policy issues, increasingly there is a complex political and economic web being built between businessmen, politicians and officials at state and provincial levels. This has been fostered as well by the continuing development of progress under NAFTA, and includes increasingly important geographically centred modules. For example, Ontario alone does more business with the US than does Japan. It is therefore vital for Canadian national interests that differences with the US be overcome so as to continue to foster vital economic benefits for Canada. Defence issues, such as the proposed NMD, are an important factor in the equation.**

### **Canada's National Interest: Prosperity and Well-Being**

The national interest is embodied principally in security and the related prosperity and well-being of the population. In the words of the report of the Standing Joint Committee on Canada's Defence Policy (1994): **“Our national interest ... is in a stable international system, governed by the rule of law, and a global economy in which all countries can prosper...”** Thus the defence establishment, including the Canadian Forces, plays a key role in an international policy which provides the insurance and the means which allow the national interest to flourish. It contributes stability at home and abroad, thus supporting development of an environment congenial to trade.

Since access to foreign markets is vital for Canada - a nation with a small domestic market, but with a high standard of living to maintain - it follows that Canadian contributions to international peace and stability is a vital issue. Moreover, as noted, the well-being of Canadians is linked to the well-being of the US, its largest foreign market. This heavy reliance on a healthy American economy creates obvious vulnerabilities for Canada which need to be addressed by diversification and expansion into other world markets. Western Europe will likely regain some importance, as will recovering Southeast Asian nations. **But overall Canada's security policy will still need to be aimed at supporting and assisting US initiatives to maintain the international stability necessary for US prosperity and progress.**

For Canada, the military factor in national interest has two dimensions. The first is to exhibit a willingness to share with its major allies the burdens of defence. The second is the ability to actually participate credibly and usefully in foreign military operations. Since 1970 Canada has been found, at times, wanting in both cases. Often words have not been followed by effective action - the steady rundown of forces committed to NATO being a prime example. Late in 1999, the Secretary General of NATO, Lord George Robertson, took the unprecedented step of criticising in public Canada's defence weaknesses.

Canada contributes only 1.1% of its GDP to defence. This is one of the lowest rates in the world, and second lowest in NATO, where the average is 2.1%. There is a growing perception amongst allies that Canada has neither the will nor the resources to engage in anything more challenging than low-level peacekeeping, thus discarding the legacy built on the sacrifices of Canadians in the first half of the 20<sup>th</sup> century. Charts showing declining Canadian defence spending, and comparisons with spending in other nations, are at [Annex B](#).

In the modern era of global trade, a nation's reputation and ability to forge beneficial relations with others is of great importance. This applies in double measure to a nation carrying the responsibilities of a member of the G-7 group of most industrialized nations. As well, in a post-Cold War world, power politics will likely increase in importance, rather than decrease. **Canada has become less influential in international affairs, which can be linked in part to its recent military shortfalls. This has impacted negatively on both Canadian diplomacy and trade.**

For example, although Canada made a reasonable military contribution to the Balkan peacekeeping operations under the UN in the early 1990s, it was excluded from the Contact Group (comprising the US and major European countries) and its diplomatic influence was therefore marginal. It has been suggested that exclusion occurred because European allies were unhappy over the Canadian decision, taken without prior consultations, to withdraw its NATO army and air force contingents from Europe. Similarly, although Canada made a substantial contribution to the Gulf War, its apparent inability or unwillingness to engage in ground combat operations caused its visibility and influence to shrink. As a result, Canada was largely excluded from post war business opportunities in Kuwait and elsewhere.

Since 1995, Canada has made stronger contributions, in terms of numbers and combat power, to the peace enforcement operations in the Balkans conducted by NATO, culminating in a very credible participation in the NATO bombing campaign in Kosovo. This may indicate a growing recognition by the Canadian government of the value and importance of strong military contributions to maintain international peace and stability, and corresponding benefits accruing to national reputation and national interests. In this context, there is also a new Canadian willingness to contribute combat-capable military forces to operations under Chapter VII of the UN Charter, in order to enforce peace rather

than merely keep it. These operations are becoming necessary and more frequent due to the new threats outlined at the beginning of this study.

In relations with the US, Canadian paucity of defence effort has earned few friends among politicians and government officials, thus indirectly prejudicing solutions to ongoing problems in the crucial realm of trade. In addition, lack of reasonable Canadian military contributions increases the risk of erosion of national sovereignty, inasmuch as the Americans will often proceed with defence plans involving Canada's interests without Canadian consultation or agreement. Once again, the contentious NMD proposal could prove to be a case in point.

**Perhaps most important of all, the national interest centres on the public well-being emerging from progressive social programs. It is false logic to make defence on the one hand and social programmes on the other part of a zero-sum equation. In fact, a healthy defence establishment and an effective social assistance framework go hand in hand to serve the national interest. Without domestic and international peace and stability, the engine of economic activity cannot produce benefits in terms of prosperity B and without prosperity there are clearly limits on the extent of social programs. A wealthy country such as Canada can afford to maintain a high quality of life for its citizens at the same time as it fulfills its international peace and security obligations.**

### PART III

#### THE FEDERAL BUDGET PROCESS AND THE RESULTS FOR DEFENCE

##### The Federal Budget: A Major Policy Instrument for a Fragile Economy

The budget is central to the agenda of any Canadian government, and its leadership is vitally interested in budget preparations. Budgeting becomes, therefore, the most important annual ritual of government. Since the DND budget comprises some 6% of federal government spending, and close to 30% of discretionary spending, it is not surprising that it is a focus of attention, and a prominent source of cuts, when governments are seeking savings to fund non-discretionary items, such as social programs.

Whereas, budget-making procedures and budgets have always been a focus of government, their scope has widened considerably in recent times. The cause of this may be traced to the complex and politically explosive Program Review exercises of 1995 and 1996. These were made necessary by the parlous state of the Canadian fiscal situation brought about by over 20 years of serious deficit spending, mainly to support extensive social programs and a multitude of other government activities. In due course the accumulated debt (federal/provincial/municipal) became almost equal to Canada's GDP, and the Canadian dollar was falling to a dangerous level. Today, the federal portion of that debt still stands at 65% of GDP -- well ahead of Canada's G-7 partners (except for the special case of Italy where most of the debt is held internally by Italians). Details are provided at [Annex C](#).

Because of the rise in size and complexity of government that occurred in tandem with the rise in spending, the Program Review process was initially seen as a necessary plan to *reinvent* government. In the cold world of reality, it soon became an exercise in fiscal restraint. This occurred in no small measure because of the Mexican currency crisis and the increase in interest rates in early 1995. Both developments called for crisis management to avoid serious damage to Canada's national-well being. In the final

analysis the review process was controlled and enforced by the Prime Minister, acting on advice provided by officials of the Department of Finance.

An important result of the Program Review process, aside from the funding cuts themselves, which in the case of DND were extreme, has been that budgets have tended to evolve into policy-making documents. Budgets now delve into any policy area a minister and his department deem necessary. In fact, the budget is now the government's major policy statement, with directions applied to almost all departments. Everything from introduction of new programs to chastising departments for administration of existing programs is now included.

The federal budget has come to dominate policy and decision making in the federal government as never before. This provides great advantages for the so-called *Central Agencies* (Privy Council Office, Treasury Board, Department of Finance). It enables the Prime Minister and the Minister of Finance to introduce new measures and policies under the cover of budget secrecy and thus avoid debate in Cabinet.

Most importantly, it avoids long interdepartmental consultations and attempts to define consensus. For defence policy and DND there are both advantages and disadvantages in these circumstances. On the one hand, voices speaking against defence funding can be muffled or eliminated. However, to assure support for defence in the federal budget it is necessary to obtain support at prime ministerial level, and within the Central Agencies. For Federal Budget 2000 it would appear that this process was successful.

**Possibly the most important single aspect of federal government budget planning, over the past three years, is the fact Program Review cuts to government expenditures, combined with a growing economy (GDP), have reversed the trend of serious deficit spending and brought forth three consecutive years of spending surplus since FY 1997/98. This new situation ought to make it easier for the federal government to continue rehabilitating the DND budget, and make further allocations beyond those assigned in Budget 2000.**

An overview of federal government expenditures, and the emerging budget surpluses, is provided at [Annex D](#).

### **Federal Budget 2000: Some Good News for Defence**

Federal Budget 2000, tabled on February 28, 2000, made a significant allocation of new funds to defence for only the second time since the onset of Program Review in the mid-1990s. A relatively limited amount of new money had been applied in Budget 1999, but earmarked in advance for Quality of Life (QOL) objectives. Prior to that massive cuts had been applied to the budget of DND. By 1999 budgetary reductions amounted to 23 percent of planned expenditures (30 percent in buying power), and military personnel strength had fallen from 87,000 to less than 60,000.

Moreover, equipment was in a very poor state, with entire systems missing, and many others worn out - Sea King helicopters in the navy being the prime example. **In short, while the 1994 White Paper on Defence called for a reasonable level of military capability, continuous budget reductions have prevented that policy from being implemented.** As well, while the DND budget was falling over the past decade, the operational missions of the Canadian Forces were increasing significantly, see **Annex E**.

The result has been creation of a severe mismatch between military capabilities and defence commitments. This was reflected in the 1998 Report of the Auditor-General. For example, even though Canada is a leading industrial nation, it is only able to deploy and

sustain overseas one army battalion battle group of 1500 people, plus an additional 900 people employed as individuals or in small groups. This makes minimal contributions to international peace and security, and earns little respect among friends and allies. Many less prosperous nations are able to do more.

Federal Budget 2000 allocated some \$2.3 billion of new money to DND over a four year horizon. Of that amount, only \$1.7 billion comprises *hard* funds not designated in advance for expenditures elsewhere. This money represents a welcome step in the direction of recovery and rehabilitation for the Canadian military. However, it falls at least fifty per cent short of what would be needed to address extensive shortfalls in defence capabilities, and allow compliance with the policy in the 1994 White Paper on defence. Allocations to defence in Budget 2000 will only provide relief for some of the more critical items. It will also allow a few additions to the equipment acquisition (Capital) budget. Details of this situation are provided in the DND document, *Defence Planning Guidance 2001*, listed on the DND website: [www.dnd.ca](http://www.dnd.ca)

**The increase in money in Federal Budget 2000 should permit the Canadian military to make a modest start at participation in the Revolution in Military Affairs, and to conduct training in preparation for modern operations. In the short term, however, it will likely still be necessary to implement further arbitrary reductions in the capabilities of the Canadian Forces.**

### **The DND Budget: The Devil Is In The Details**

Notwithstanding the welcome increase announced in Federal Budget 2000, several fundamental problems remain regarding the DND allocation:

- \$ the total amount of money is insufficient to cover the costs of the operational missions of the Canadian Forces, and at the same time provide money for the modern equipment, training and support required to execute those missions. The current overall shortfall is some \$2 billion.
- \$ A significant amount of the \$11.2 billion allocated to DND in the FY 2000 - 2001 Main Estimates is not available for the Canadian Forces to prepare for or to conduct the military operations and other tasks assigned in current defence policy. This amounts to another \$2 billion and comprises items such as employment insurance contributions and inflation offsets, necessary expenses, but unproductive in terms of military capabilities.
- \$ A further internal diversion of funds is generated by the inclusion in the Estimates of so-called *flow through* funds, which are destined for expenditure outside DND, or which have been spent in advance on government-directed projects having little or no military significance or value. Payments to provinces for natural disaster costs, and the Y2K project serve as examples.

As an example of the impact of these factors, an analysis of the DND budget for FY 99/00, performed by the Conference of Defence Associations, showed that out of a gross increase of \$900 million over FY 98/99 the net increase was only some \$540 million. Moreover, claims in advance on that amount meant that *new* money actually available to address the many defence shortfalls, was only \$27 million. (See Budget 1999 analysis on website: [www.cda-cdai.ca](http://www.cda-cdai.ca)).

Details of the DND Budget are complex and the amount of funding seems to vary between several publications: namely, the Federal Budget, the Main Estimates, and the

DND Report on Planning and Priorities. Adding further complexity to the situation is the fact Supplementary Estimates at the end of each FY often increase the total amount of money allocated to DND. In FY 99/00 these provided an apparent additional \$1.4 billion. However, over one-half of that amount was allocated to costs already incurred on overseas operations such as those in Kosovo and East Timor, and for Canadian Forces operations related to Y2K national contingency plans. The remainder was applied to Quality of Life projects and to economic and technical adjustments (See Chart 1)

The Supplementary Estimates also comprised an amount of \$350 million “backdated” from DND Budget 2000 into FY 99/00 expenditures (See Chart 1). This was necessary to maintain the integrity of capital projects, and other activities, which remain in train over a number of years. The need to allocate Supplementary Estimates funding, especially in the manner just described, reinforces the fact DND is forced to operate in a deficit mode simply *to keep its head above water*. One could also describe it as *a juggling act*. **In any case, the result is the same: there is not enough money in the current defence budget to build and operate a modern military force commensurate with Canada’s defence commitments.**

The following table provides a comparison between FY 99/00 and FY 00/01 funding levels for DND, showing items relating to the above analysis:

### CHART 1

	\$M	<u>1999-2000</u>	<u>2000-2001</u>
<b><u>1999-2000 Main Estimates</u></b>		\$10,304.5	\$10,304.5
Disaster Financial Assistance (incremental)		---	64.5
Economic Adjustments		125.3	120.5
Carry Forward		37.9	C
Year 2000 Loan		80.0	(44.4)
Quality of Life (QOL)		140.8	150.9
CF Presence in Kosovo		249.2	143.7
ABACUS (Year 2000 Contingency)		317.1	C
Net Miscellaneous Technical Adjustments		33.1	(15.2)
Onetime Funding Reprofile		---	(71.4)
Operation TOUCAN (East Timor)		31.8	---
<b><u>Annual Reference Level Update</u></b>			
Statutory Adjustment (2000-01)			36.8
1.5 Percent Inflation Adjustment			134.5
Long Term Disability Cost of QOL			(25.4)
<hr/>			
<b><u>Budget 2000</u></b>			
Programme Integrity		350.0	400.0
<hr/>			
<b><u>Total Funding as at 31 Mar 2000 (incl Supp Est)</u></b>		<b><u>\$11,669.7</u></b>	
<b><u>Main Estimates 2000-01</u></b>			<b><u>\$11,199.0</u></b>

The **Federal Budget 2000** figures (\$9.4 billion) for DND do not correspond to the amount in the **Main Estimates 2000** (\$11.2 billion, as shown in Chart 1) For those familiar with the government accounting system, this does not come as a surprise. The disparities are due to a series of technical accounting measures undertaken by the Department of Finance, which have the effect of reducing the DND budget figure well below the Estimates level. This is done in order to avoid duplication in the accounts of the Government of Canada, as these spending items are depicted elsewhere in Public Accounts. A sample of the items and the amounts involved, which are not available for Defence Program Spending, are:

\$ Pension Adjustment	\$1,136 million
\$ Employment Insurance	\$86 million
\$ Disaster Financial Assistance Arrangements	\$441 million
\$ Transfer payments	\$179 million

**This indicates that the Budget figure normally reflects more accurately than the Estimates figure the amount of money actually available for the Canadian Forces to spend on military capabilities and operational readiness. Too often, critics quote the higher Estimates figure in support of their arguments that spending on defence is adequate.**

The following chart shows a comparison between FY 99/00 and FY 00/01, by Votes, in the Main Estimates, and is also presented graphically at [Annex F](#).

## CHART 2

	\$M	<u>1999-2000</u>	<u>2000-2001</u>	<u>Increase</u>
Vote 1 - Operating		\$6,995.3	\$7,724.1	\$728.8
Vote 5 - Capital		2,026.6	2,081.7	55.1
Vote 10 - Grants and Contributions		553.7	602.8	49.1
Statutory Items		<u>728.9</u>	<u>790.4</u>	<u>61.5</u>
Total DND		\$10,304.5	\$11,199.0	\$894.5

However, **the apparent increase of \$ 894 million** (Chart 2) is significantly reduced by the incremental amounts allocated to Inflation Adjustment and Program Integrity (Chart 1: \$134 M + \$400 M = \$534 M). Program Integrity refers to projects underway or soon to come on line, such as the Maritime Replacement Helicopters, and to operations such as the increased Canadian Forces presence in Bosnia announced in Budget 2000 - for which the funding is earmarked in advance. **This means that the real increase in new money from FY 99/00 to FY 00/01 is only \$894 M - \$534 M = \$360 M.**

The significance of this reduced amount stands out more starkly when considered against the fact DND and the Canadian Forces have been operating in a *deficit* mode for at least five years. The deficit applies mainly to the Operating and Capital accounts. Whereas the latter can be handled by continually delaying or deferring projects, the former exerts immense and immediate pressure, much the same as creditors pressing a person who spends beyond their means. A credible estimate of the DND Operating deficit prior to Budget 2000 was \$1.1 billion. For this reason, it is not surprising that the largest increase shown in Chart 2 above is applied to Vote 1.

A specific example concerns the army. It is estimated the army share of the DND deficit amounts to some \$300 million -- comprising repayment of \$175 million to the Capital account, and a running shortfall of some \$125 million in its Operating account.

Close examination of the data in *Defence Planning Guidance 2001*, and *Report on Plans and Priorities* shows that the funding of many Capital projects is unclear beyond the current Fiscal Year. This is because it is necessary to continuously re-allocate funds between projects from year to year in order to survive in the *deficit* milieu. Moreover, the list of Capital projects shown is only a fraction of the complete list of requirements needed to modernize the Canadian Forces according to the demands of the RMA. **It is the list of unfunded projects in the Capital account that, when added to the Operating account deficit, quickly make up the estimated \$2 billion shortfall in new money.**

Finally, it must be noted that even the Budget 2000 figure of \$9.4 billion is reduced, in terms of money available for military purposes, by the fact that DND must pay to implement programs directed by government for all departments B but which add nothing to the operational capabilities of the Canadian Forces. These are linked to legislation and cannot be avoided, but there is no recognition DND must spend money on them when the Central Agencies are preparing the Federal Budget.

**The cumulative impact of these factors leads to the conclusion that funding allocated to DND in federal Government Budget 2000 remains \$2 billion short of what would be required to rehabilitate and rebuild the Canadian Forces into an effective organization commensurate with Canada's defence commitments.**

### **The Current Situation of Canadian Defence: Far Short of Recovery**

In analyzing the impact of Budget 2000 on DND and the Canadian Forces, the best that could be said is that the increased funding provides some stability and allows a modicum of rational planning to occur over the next two to three years. It will also address a few of the more critical problems, such as the alarming deficits in the operating budgets of the three services, as well as allowing a start to be made on important equipment items, such as the maritime helicopter replacement.

However, the new money for DND in Budget 2000 was fifty percent less than what would be required to address the broad range of shortfalls in the Canadian Forces. The most important implication of this is that it will still be necessary to *re-prioritize* the organization and capabilities of the CF by implementing a number of so-called *desperation options* to eliminate or reduce important military functions and capabilities. **The current Canadian Forces model is still unaffordable even after application of the new money in Budget 2000. Translated, this means that the overall operational effectiveness of the Canadian Forces will remain on a downward curve.**

Beyond the current budget problems, DND and the Canadian Forces are also in the early stages of a process of rapid and fundamental change which is responding to the factors outlined at the beginning of this study. In this respect, DND has created over the past two years an improved framework for force development, including organizations and doctrine -- covering both joint and single service operations. The framework is presented in a number of related documents, the most important of which are the *1994 Defence White Paper*, which remains the approved government policy, and *Strategy 2020* which extrapolates that policy into the future B and attempts to deal with the challenges of the RMA. A common shortcoming of both these documents is that they do not accept the possibility of significant regional conflict (for example, in the Middle East) in the foreseeable future, and thereby create the impression of a self-fulfilling prophecy; **ie, a threat analysis designed to fit limited Canadian Forces capabilities.**

Of more immediate importance are two other documents: *DND Estimates Part III - Report on Plans and Priorities (RPP)*; and, *Defence Planning Guidance 2001 (DPG 2001)*. (Both are available on the DND website: [www.dnd.ca](http://www.dnd.ca)). The former is produced in response to Treasury Board direction, and gives details of departmental expenditures and plans over a four year period, starting with FY 99/00. The latter is a DND in-house product, and is especially important as it deals with hard fiscal realities. It gives direction to senior leaders in DND as to how they are to spend their limited funds over the next three FY B while attempting to stay on track with the White Paper and Strategy 2020.

**It is in *DPG 2001* that the smooth transition from the *White Paper* to *Strategy 2020* breaks down in the face of the fifty per-cent shortfall in new money.** It could be said that it changes the *Strategy 2020* document to a *Avison* rather than a “strategy.” Moreover, this situation forces adoption of additional and arbitrary reprioritization measures outside the direction given in *DPG 2001*, thereby undermining the credibility of that document. As an example, the navy, army and air force had to borrow money from their Capital accounts over the past several years to address a mounting deficit in their Operating accounts. This money must now be returned to Capital. The only way this can be done without increasing the shortfall in the Operating account is by accepting a significant reduction of manpower B which partly explains why Canadian Forces’ manpower has shrunk to 59,000 (from the authorized figure of 60,000) and why the army cannot sustain more than one battalion battle group of some 1500 people on overseas operations.

Despite the bold roadmap to the future provided in *Strategy 2020* the persistent funding shortfall forces *Defence Planning Guidance 2001* to focus mainly on existing commitments (e.g. peace support operations in Bosnia). This means that although the future Canadian Forces might be modernized in limited operational functions, they would still not be able to generate and sustain indefinitely more than one infantry battalion battle group lightly equipped for peace support operations. A few ships and aircraft could be added to legitimize the concept of joint operations. The liberal use of terms such as *affordable*, *hard choices*, and *low intensity* in the planning guidance document reinforces this interpretation. As well, close study of what is affordable and actually funded in the Canadian Forces’ Capital (equipment acquisition) plan also leads to this conclusion.

**Even with the limited additional funding in Budgets 99 and 00, the existing Canadian Forces structure is not affordable. This means that DND will continue to operate in a deficit situation. That will remain the case unless the government injects new money into DND for it to continue its rebuilding initiative, and takes seriously the factors discussed in this study -- particularly the important role the military has played and will likely play in supporting Canadian economic prosperity and humanitarian influence in the modern unstable world.**

## PART IV

### DISBURSEMENT OF THE DEFENCE BUDGET

#### **Disbursement of the DND Budget: The Benefits of Investment in Defence**

**General.** It has already been noted that a large part of the DND budget is not available to maintain or update military capabilities which support national security. The DND budget needs, therefore, to be assessed in light of several factors:

\$ the total funds allocated to DND as a department of the Government of Canada.

- \$ the amount within the total funds allocated to DND which is available to raise and maintain the Canadian Forces, the *raison d'être* of the department.
- \$ the many and varied expenditures of DND's funding across a wide spectrum of functions both inside and outside of Canada.

The first two factors have been addressed in Part III. This section will examine the third factor and constitutes, therefore, a focal point of the benefits of defence spending. It shows in broad terms how the \$11.2 billion in the DND Estimates is spent -- and why those expenditures are useful to all Canadians. For ease of reference disbursement of DND funds will be considered under the following headings:

- \$ domestic expenditures.
- \$ overseas expenditures.
- \$ defence industry and research and development.

Consolidated data (for FY 98/99) for the first two of these headings, further subdivided by province, is provided on the chart at [Annex G](#). The first point of interest is to note that 83% of DND funds are spent in Canada, with only 7.1% disbursed outside the country. This ratio fluctuates, however, as overseas military commitments expand or contract. Once again, it is worthy of note that some 18% of the budget is spent on a variety of non-operational functions. These include: pension contributions, other benefits and allowances, and contributions to employee benefits.

The *Operations and Maintenance* (O&M) heading includes all expenditures paid in relation to upkeep of facilities, equipment and personnel. **It also comprises money spent on operational training -- a vital activity to keep complex modern military forces ready to engage in a multitude of diverse missions.** *Capital* comprises all expenditures associated with the acquisition of assets (mainly weapon systems and other military equipment), and construction and maintenance of facilities. *Grants and Contributions* represent payments such as Canada's share of NATO budgets as well as funds provided to organizations such as the Cadet Leagues, the Canadian International Peacekeeping Centre, etc. It also comprises mutual aid transfers (to developing nations), provincial and municipal capital asset projects, and payments made under the auspices of Disaster Financial Assistance Arrangements.

Once again, it should be noted that a high percentage of the DND budget consists of so-called *flow through* money that does not contribute *per se* to military effectiveness. This is not to suggest that activities such as disaster relief, pension contributions and initiatives to support quality of life and human rights are not important. Rather, the point is that military operations, and the equipment and training of the Canadian Forces necessary to engage successfully in military operations, must occupy the top spot on DND's list of priorities. Provision of enough money for these functions must be the dominant factor when compiling the DND budget. That approach has not been evident for many years.

**These are the so-called *core capabilities* of the Canadian Forces. If there is not enough money left to maintain them in satisfactory fashion once the non-military obligations are served, then clearly there is not enough money in the DND budget. This is especially important today when the fast pace and rising costs of technological developments under the RMA are in full force.**

**Domestic Expenditures:** The first priority of any national government is to provide security for its citizens. The Canadian Forces are the primary instrument created to

discharge this responsibility. The Canadian Forces are the *ultima ratio regis* of the state B the last power of coercion available to enforce its sovereign writ, either unilaterally, or more likely in conjunction with like-minded states. The essential role of the military is the *controlled application of maximum force*, which the state possesses under an *unlimited liability*.

The Canadian Forces constitute the largest, most powerful and flexible instrument available to Canadians to ensure their protection from threats of whatever origin from within or without, environmental or human. They maintain sovereignty over the second largest country in the world, and cooperate with US forces in the defence of North America. This includes the identification of, and defence against, weapons of mass destruction, which may well constitute the most serious of the military threats remaining after the end of the Cold War.

Although direct conventional attacks against Canada are unlikely today as noted at the beginning of this study, a whole host of new threats to national security and sovereignty are emerging. These include drug smuggling, entry of illegal aliens, environmental threats, and the operations of organized crime. Increasingly the Canadian Forces are providing protection against these threats in cooperation with other government agencies and police forces. Military contributions include surveillance, interception and provision of materiel.

Other vital domestic services rendered by the Canadian Forces include search and rescue operations, assistance to federal penitentiary staffs, and major assistance to provinces during natural disasters. Recently these have included ice storms in Ontario and Quebec, and floods in Winnipeg and the Saguenay region.

Another important object of domestic expenditure is the Canadian Forces' Reserve Force. Recently, the Reserves have absorbed a disproportionate share of the cuts to the DND budget. The 1994 Defence White Paper states new policy regarding the Reserves. It declares that their primary role is to augment and sustain deployed operational forces under a Total Force concept in conjunction with the Regular Force. Their second role would be, as in the past, to provide the base for mobilization of the Canadian Forces to meet the demands of escalating hostilities.

Although their numbers were to be reduced, it was anticipated that their level of training and readiness would improve. This has not happened. A recent special report to the Minister of National Defence notes that Reserves, especially the army Militia, are in a state of crisis. Strength is 60% of the level directed by government, and training and equipment levels are too low. In spite of this, the Reserves have been called upon in greater numbers to augment and sustain the increased number of operational deployments of the past decade. In this respect the Reserves reflect a part of the mismatch between commitments and capabilities noted earlier.

The important role of the Reserves in contributing to Canada's total defence capability cannot be overstated. As well, expenditures on Reserve training and utilization of Reserve services have a direct positive impact on local communities across Canada. At the same time, the RMA is also impacting on the Reserves so that their training will become more sophisticated and expensive. Finally, the Reserves are an important force supporting national unity.

A special component of the Reserves is the Canadian Rangers. They comprise several thousand, mainly indigenous people, organized into small groups across the North and in other remote parts of Canada. They are a surveillance force that maintains national sovereignty and provides expertise to other Canadian military elements -- for example, in search and rescue operations.

DND also provides funds and other resources, in conjunction with civilian leagues, to operate the highly successful Navy, Army and Air force cadet programmes for some 60,000 young Canadians. It is the largest and most successful program of its type, developing good citizenship and confidence-building life skills.

**The Canadian Forces are an essential component of the framework of the nation. They assist in defining Canada as a sovereign nation, and provide an array of vital services to the Canadian population.**

**International Expenditures:** Expenditures of DND funds to support international military operations are more difficult to explain in terms of direct benefits to Canadians, and yet they may be the most important in the long run. The arguments to support this contention have been developed extensively in earlier sections of this study and centre on the vital function of maintaining peace and stability to protect trade and support humanitarian objectives.

The extent of these overseas commitments is outlined on the chart at [Annex H](#). It should be noted as well that the number of these missions has increased significantly ([Annex E](#)) over the past decade, at the same time as the Canadian Forces have been subjected to a radical program of reduction of capabilities (military strength cut from 87,000 to 59,000; and, the DND budget cut by some 23%, or some 30% in terms of purchasing power). Current assessments indicate that the requirement for armed forces to intervene in areas of war, strife, and other forms of human suffering will likely increase in the near-term future.

Hence, the trend of Canadian defence reductions is flying in the face of the evolving need for armed forces to meet increasing commitments. Predictions of the latter are found in recent statements by the UN Secretary General, and in the recommendations of the new *Report on United Nations Peace Operations*, the so-called *Brahimi Report*. In particular, both sources call for *robust* armed forces to *enforce* peace arrangements as and when necessary.

The focus of overseas military commitments is on ending and reversing aggression, thereby assuring peace and stability essential to human progress. International stability in turn fosters international trade and prosperity. Canada, as a major trading nation benefits more than most in that context --in its own right, plus the fact US prosperity depends on trade and accessibility to overseas resources such as oil; and as US prosperity goes, so goes Canadian prosperity. The Canadian Forces also provide the framework for implementation of a wide variety of humanitarian aid programs.

At the high end of the operational spectrum, Canadian Forces' members have recently participated in operations of war B in the Persian Gulf and in Kosovo. At the lower end, they continue to provide some troops for a small number of surviving UN classical peacekeeping operations, although these are rapidly being eclipsed by the tough new realities in international security affairs.

Today, the largest Canadian overseas contributions are engaged in the middle range of military operations, collectively termed *Operations Other Than War (OOTW)*. More precisely, these are *peace enforcement* operations, and require combat-capable armed forces to apply, if necessary, hard military power. Examples include operations under NATO in Bosnia and Kosovo. In the latter case, the Canadian contingent was equipped with Leopard main battle tanks.

Again, it is often difficult to show how overseas military operations, such as those in the Balkans, improve the well-being and prosperity of individual Canadians. To do so, one

must understand what is really at stake in those areas. For example, UN and NATO operations in Croatia, Bosnia and Kosovo were justified as being in support of humanitarian objectives. There was validity in this, and it garnered wide public support for military action. However, there were also important underlying strategic objectives aimed at maintaining Balkan stability so that Europe remains secure. The Balkans are an historic European security vacuum, made more so today in light of lingering Russian interests, and an assertive Muslim population. The latter has the potential to influence events in the volatile Middle East and Trans-Caucasus regions, thus endangering critical oil supplies.

A similar case could be made to illustrate the pragmatic reasons for Canada's peace enforcement contributions to the Australian-led coalition dispatched to East Timor. In this case the strategic objectives included preservation of regional stability, including access to Indonesian oil, limiting Chinese influence and so on. As was the case for the Balkans, these objectives were pursued in conjunction with humanitarian aims.

Finally, it is significant that Canadian contributions to international operations have been in steady decline since the mid-1990s. The symbolic turning point was withdrawal of the army brigade and air squadrons from NATO Europe. Although this was partly made up by larger contributions to peace support operations, which peaked at over 4000 troops in 1995 and 1999, it has been impossible to sustain this level of commitment due to funding shortfalls and the concurrent drop in Canadian Forces' personnel strength. Most recently, Canada has had to reduce its Balkan contribution from two battalion battle groups to one, and the East Timor contingent comprised only a token force of a few hundred soldiers supported by a supply ship and two air transport aircraft B and was terminated after only six month's service.

Canadian troops deployed overseas today total about 2400, and will likely remain at that level for some time. Canada is a rich nation, and a member of the G-7 group of leading industrial nations. Canada could well afford to deploy overseas and sustain indefinitely a joint task force (Sea, Land, Air and Logistics components) of some 8000 people, formed around an army brigade group.

**Canadian military contributions to overseas military operations have multiple value. They maintain and reinforce international peace and stability, thus assuring Canada's vital trade relations. As well, they enhance Canada's reputation as useful ally, willing to assume its proper share of international responsibilities, including those relating to humanitarian and human security objectives.**

**Defence Industry and Defence Research.** Canada's defence industry is a national asset. It contributes directly to national security and, through its support of the Canadian Forces, is an instrument of both domestic and international policy. At the same time it makes a very significant contribution to Canada's economy, generating over 44,000 jobs, mainly in the high technology sector, and including over 16,000 export-related jobs. The money in the DND budget, mainly in the Capital category, makes an important contribution towards maintaining and sustaining the defence industry sector of the Canadian economy

Similarly, cuts in the defence budget in the past decade serve to weaken it, with inevitable negative consequences for Canadian national interests. These comprise direct impacts domestically, when jobs disappear, and indirectly overseas when Canadian security is impaired by erosion of the defence industrial base.

The Canadian Defence Industries Association (CDIA) undertakes biennial studies of the Canadian defence industry sector and its economic impact. The initial study in 1997 determined that 1,500 firms had revenues of \$100,000 or more from the defence markets

of Canada, the United States and/or the rest of the world. It identified more than 50,000 jobs generated or supported by those defence revenues.

The 1999 study provides an update based on 1998 data, and analyzes changes from the earlier version. Results show between 1996 and 1998 the number of firms selling into the defence market declined by over 11 per cent. Revenues from the Canadian defence market declined by 14.6 per cent, reflecting the diminishing level of Canada's defence procurement budget and delays in approving major capital projects. However, in the same time frame, Canadian firms did increase their export revenues, but not enough to offset the decline in Canadian business. Overall, defence industry employment declined by nearly 12 per cent. The majority of these lost jobs involved people with skills in high technology. No doubt most of them sought and found employment elsewhere in high technology industries in Canada or the US. This does not avoid the fact that shrinkage of Canadian defence industry capability has negative effect on national security and sovereignty.

A number of charts illustrating data related to defence industry in Canada, and the changes noted above, are attached at [Annex J](#).

Another factor impinging on the defence industry sector has been the imposition of the so-called Alternate Service Delivery (ASD) program upon federal government departments. This involves contracting-out many activities that had previously been performed in-house by civil servants and military personnel. These range from provision of base or installation services to greater reliance on industry for equipment maintenance, and for certain specialized training such as for pilots.

These activities had the effect of generating new opportunities for Canadian firms to participate in the defence market, while offering the potential for DND to acquire enhanced levels of services at reduced costs. Such a policy would normally increase the revenues and employment levels of Canadian industry. However, these potential increases have been more than off-set by the reductions in the defence budget, reductions in operations and maintenance procurement, and delays in approving planned capital projects. The net result is that, while DND relies more on the Canadian economy to meet its requirements, there are in fact fewer opportunities available. Although DND budgets have increased incrementally in the past two years, the positive impact on defence industry will be small. Also, it will not be able to be applied quickly as the available money will be applied to capital projects already approved, and to offset deficits in CF operations and training activities.

The amount of funding available for capital acquisitions has declined in recent years, reaching a low point of \$1.7 billion in the Main Estimates for FY 98/99. This decline occurred because the Capital account was used as a source of funds to meet other critical priorities within the Operating account, including the wage increases provided military members to align them with public service rates. This practice continued in FY 99/00 until Supplementary Estimates allowed an appropriate re-investment in Capital. As DND begins to experience a moderate increase in its funding base, it will be possible to address pressing Capital priorities by returning some of the funds removed from that account in recent years.

For more than 50 years, DND and the Canadian Forces have been an important source of Research and Development (R & D) in Canada. Each year, DND invests some \$170 million in R & D, which constitutes 5 per cent of the federal government's total research and development funding. Eighty-five per cent of this amount is spent in Canada. As well, DND employs close to 1,000 of Canada's scientists, engineers and technicians. This results in DND being one of the largest producers of patents in the country, and a worldwide leader in defence science and innovation.

In recent years, DND research people have teamed-up with private sector researchers to develop cutting-edge solutions to problems that affect not only defence, but the Canadian public at large. Together, they are helping to build the knowledge and information infrastructure for the 21st century.

Recently, strategic partnerships with Canadian industry have been expanded. For example, the Defence Industrial Research program promotes research by providing up to 50 per cent of the funding a company might require for military related projects. Defence R & D has links with many private sector partners that extend beyond simple defence products to include technological spin-offs into commercial products. Collaboration with the private sector allows DND to take advantage of rapid technological advances in the commercial marketplace. The reverse is also true: civilian industries often benefit from R & D originated by DND.

**Expenditure of the funds allocated to DND covers a broad spectrum of activities and functions both at home and abroad. These range from establishing and maintaining national sovereignty and providing services directly to Canadians at home, through to indirect benefits accruing from implementing objectives related to stability and humanitarianism overseas. In the end the aim is the same: to serve Canadian national interests, and to contribute to Canadian security and prosperity.**

## PART V

### FINDINGS AND CONCLUSIONS

#### **Findings: Connecting Stability and Prosperity**

The findings of this study support a stream of logic along the following lines:

- \$ Social upheavals and technological advances are placing national security at risk by contributing to instability.
- \$ There is a connection between international stability and Canada's prosperity.
- \$ International trade fuels prosperity and is dependent upon stability.
- \$ Resolving humanitarian crises also requires stability.
- \$ Credible Armed forces are an important guarantor of international stability, thus contributing to national prosperity and achievement of humanitarian objectives.

Other findings include:

- \$ Canada's security and well-being are closely associated with those of the US, since some 85% of Canada's trade is with the US.
- \$ It is beneficial for Canada to support US initiatives to secure and maintain international stability and to achieve humanitarian objectives.
- \$ It is also important for Canada to support security initiatives sponsored by the UN, and regional organizations such as NATO.
- \$ The Canadian Forces are the main instrument through which Canada applies its contributions to international security.

- \$ The DND budget is the key element in maintaining effective armed forces, and is thereby related directly to international stability, national well being and prosperity.
- \$ For the past decade, the DND budget has been in decline and even with recent increases is still some \$ 2 billion short of what would be required to implement current defence policy.
- \$ Moreover, a large percentage of the money allocated to DND in its budget is not available to raise and maintain combat-capable armed forces.
- \$ Translated, this means that the overall operational effectiveness of the Canadian Forces, both Regular and Reserve, will remain on a downward curve, thus prejudicing the well-being of Canadians.
- \$ A wealthy country, such as Canada, can afford to maintain a high quality of life for its citizens at the same time as it fulfills its international peace and security obligations.
  
- \$ The Canadian Forces, both Regular and Reserve, are an essential component of the framework of the nation.
- \$ With the federal government now generating budget surpluses, it will be easier to continue the rehabilitation of DND and the Canadian Forces by investing more money in defence. The extra amount needed to arrest armed forces' decline is estimated at \$2 billion.

### **Conclusions: Money Well Spent**

The watershed of change underway in world affairs is bringing pressure to bear on Canada to change and improve its economic and defence policies. The nation has reached a new level of maturity and responsibility, symbolized by its membership in the G7 group of most advanced industrial countries. One of the obligations that goes with that status is to maintain credible armed forces and the national will to use them to achieve national and common goals. Nations that shirk their duties in this respect may anticipate loss of influence and unfavourable treatment in the international domain.

For the last seven years, Canada has headed the United Nations' list of countries most desirable to live in. However, this attractive status ignores the fact that Canada's prosperity rests upon a fragile base. The nation possesses one of the highest accumulated debts in the world, its currency is weak, and its trade relations rely too much upon the United States. The latter issue should be of concern, as it means that the prosperity of the US impacts directly upon the prosperity of Canada. In turn, the US is highly dependent upon a stable international order to maintain its own healthy trade relations, and to assure access to vital resources of which oil heads the list. To put it simply, as the US goes, so goes Canada. Twice in the recent past, economic slow-down in the US has spawned a severe recession in Canada. Combined with the vagaries of international fiscal trends, Canada could easily face severe erosion of its prosperity as debt payments claimed an ever-larger share of its tax base, and the market for its products constricted sharply.

The world continues to face rampant disorder and conflict as the period of watershed after the end of the Cold War runs its course. Even now, great power strategic aims are

re-emerging as potential threats in areas such as the Greater Middle East, South Asia, and the Far East. In concert with them, peace and stability are threatened by internal disorder in many countries as they move away from the strictures of the bi-polar world that existed from 1945 to 1989. Moreover, a host of new threats related to factors such as resource depletion, over-population, drug traffic and crime are on the rise. As well, the implications of high-technology, embodied in the so-called *revolution in military affairs*, presents its own set of challenges in terms of national security. Finally, the proliferation of weapons of mass destruction is of major concern.

For two decades after the end of World War II Canada occupied a well-earned leading position amongst developed Western nations. This status had been built on exceptional contributions to the war effort and was maintained by substantial military contributions to collective defence, resulting in containment of Soviet aspirations and contributions to international stability. At the same time, Canada's economic situation blossomed in an unprecedented era of growth which benefitted all Canadian citizens.

Over the past thirty years, Canada's outstanding reputation for military contribution has diminished with the erosion of its armed forces. This has partly contributed to the parallel deterioration of national sovereignty and fiscal health. The launch of the Federal Budget 2000 gave some hope to a possible recovery. However, the situation will not improve until the Canadian government understands and addresses how the rundown of the Canadian Forces impacts negatively on Canada's well-being and prosperity, by not supporting international peace and security, and by not earning the confidence of friends and allies all within the crucial realm of international trade.

Today, we can say that Canada's prosperity is at a relatively high level and growing. However, any number of factors at home or overseas, from natural disasters to serious conflicts that threaten trade, as well as threats to essential resources such as oil, could suddenly impact on the country's prosperity. To avoid these circumstances and to be able to effectively deal with such situations, it is necessary to invest in Canada's defence and the Canadian Forces. Canada, as a wealthy nation can afford to do more than it is presently doing to reinforce its own well-being and the well being of others less fortunate in the world.

**The Canadian Forces, both Regular and Reserve, are an essential component of the framework of the nation. The Canadian Forces assist in defining Canada as a sovereign nation and provide an array of vital benefits to the Canadian population. In this light, and in view of the budget surplus, the Canadian Government can and should provide an additional \$2 billion to DND, without negatively affecting other social programmes.**

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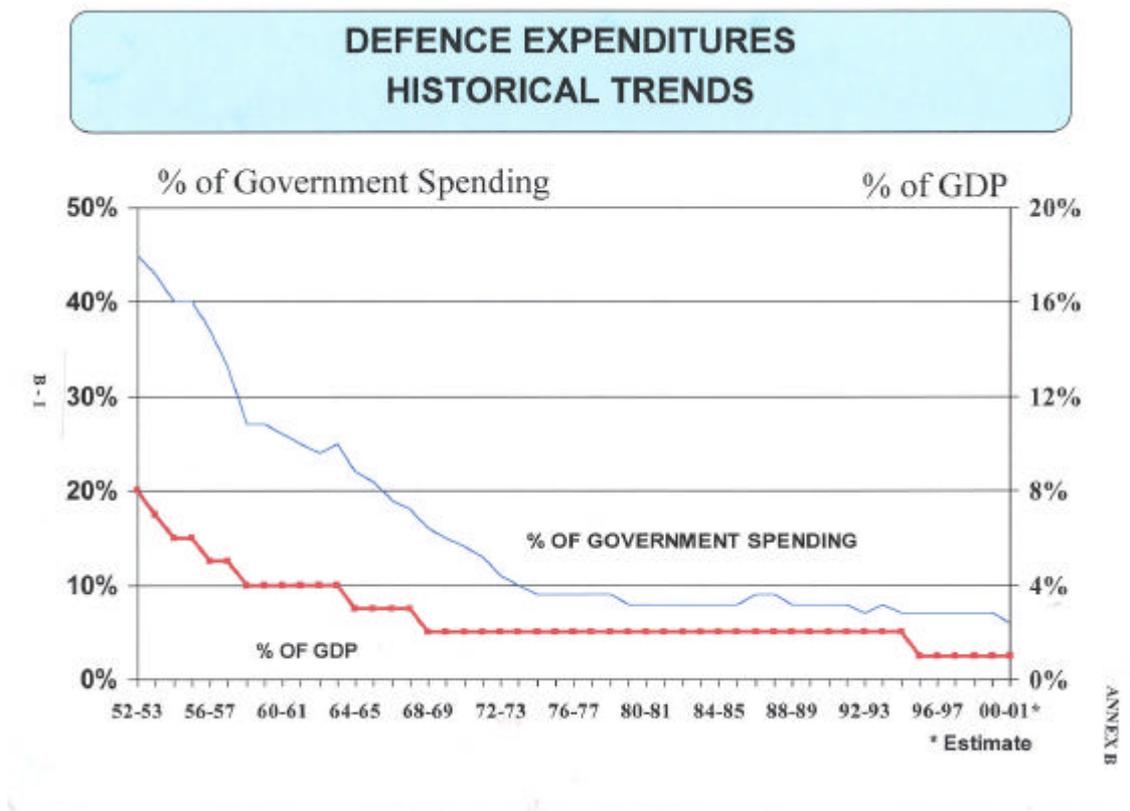
## CANADA – ECONOMIC DATA ANNEX A

<b>Sources: IMD The World Competitiveness Yearbook 2000,</b>		
<b>OECD in Figures, 2000 edition, and Canadian Economic Observer, July 2000</b>		
<b>Budget 2000, Department of Finance</b>		
<b>Industry Canada</b>		
<b>GDP</b>	<b>\$997.0 bln</b>	<b>1999</b>
<b>GDP/capita</b>	<b>US\$20,890</b>	<b>1999</b>
<b>GDP/capita (PPP)</b>	<b>US\$23,583</b>	<b>1998</b>
<b>GDP Growth</b>	<b>3.7%</b>	<b>1999</b>
<b>Unemployment</b>	<b>6.6%</b>	<b>Jun-00</b>
<b>Total Debt (Fed.)</b>	<b>\$576.8 bln</b>	<b>1999</b>
<b>As % of GDP</b>	<b>64.40%</b>	<b>1999</b>
<b>Gov' t expend. % of GDP</b>	<b>27.0</b>	<b>1999</b>
<b>Taxes as % of GDP</b>	<b>36.8</b>	<b>1997</b>
<b>Sources:</b>		
<b>Personal Inc. Tax</b>	<b>46.6</b>	<b>1999</b>
<b>Corp. Income Tax</b>	<b>13.9</b>	<b>1999</b>
<b>Goods/Services Tax</b>	<b>24.4</b>	<b>1997</b>
<b>World Competitiveness</b>	<b>11<sup>th</sup> World</b>	<b>2000</b>
<b>Imports</b>	<b>\$326.7 bln</b>	<b>1999</b>
<b>Exports</b>	<b>\$360.6 bln</b>	<b>1999</b>
<b>As % of GDP</b>	<b>37.31%</b>	<b>1999</b>
<b>Trade Balance</b>	<b>\$33.9 bln</b>	<b>1999</b>
<b>GDP by Sector</b>		
<b>Agriculture</b>	<b>2.9%</b>	<b>1996</b>
<b>Industry</b>	<b>33.0%</b>	<b>1998</b>
<b>Services</b>	<b>64.0%</b>	<b>1998</b>
<b>Primary Energy Supply</b>	<b>234.33 Mtoe</b>	<b>1998</b>
<b>Production</b>	<b>365.67 Mtoe</b>	<b>1998</b>
<b>Consumption</b>	<b>182.54 Mtoe</b>	<b>1998</b>
<b>Total Labour Force</b>	<b>15,930,000</b>	<b>1999</b>
<b>Research &amp; Development</b>		
<b>Expenditure as % of GDP</b>	<b>1.61%</b>	<b>1998</b>

Expenditure per capita (PPP)	US\$309.0	1998
Gov' t financed	31.9%	1998
Industry financed	49.4%	1998
Researchers/10,000 Labourer force	54	1996
Foreign Aid as % of GDP	0.28	99 GNP
Health Care		
As % of GDP	9.1	1997
Per Capita (PPP)	US\$2171	1997
Education as % of GDP	6.6	1997

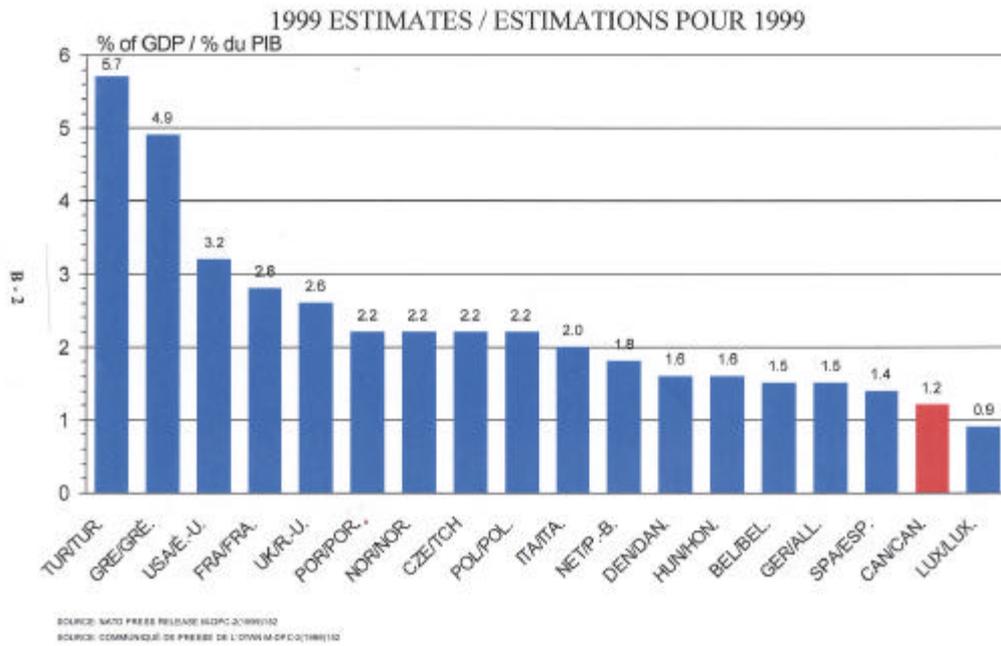
- Mtoe ' Millions of tons of oil equivalent

## ANNEX B – 1



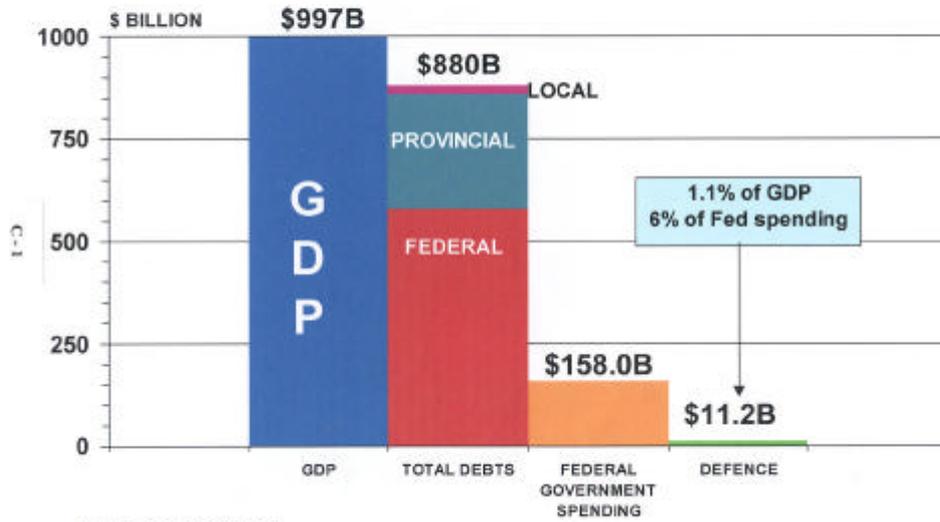
## ANNEX B – 2

### NATO DEFENCE EXPENDITURES AS A PERCENTAGE OF GDP / DÉPENSES DE DÉFENSE DE L'OTAN EN POURCENTAGE DU PIB



ANNEX C

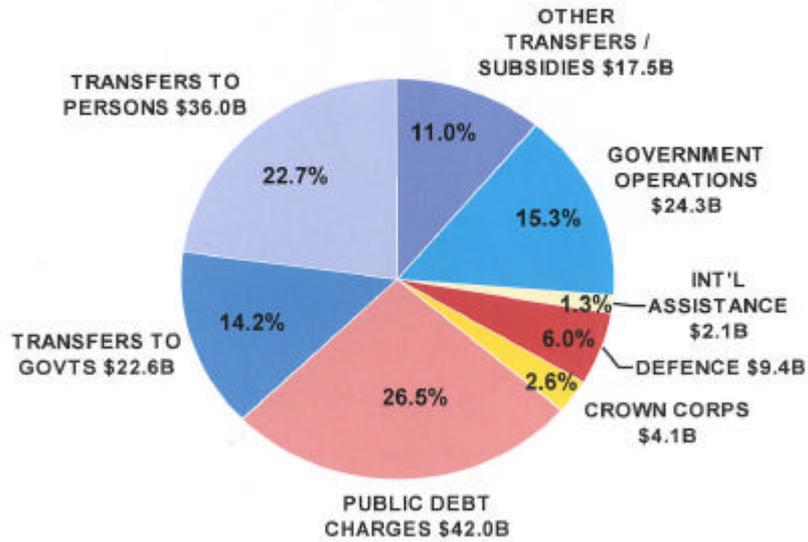
**GROSS DOMESTIC PRODUCT (GDP) IN PERSPECTIVE  
2000- 2001 ESTIMATES**



Source: Federal Budget 2000

ANNEX D – 1

**FEDERAL GOVERNMENT EXPENDITURES  
2000-01 COMPOSITION \$ BILLION**

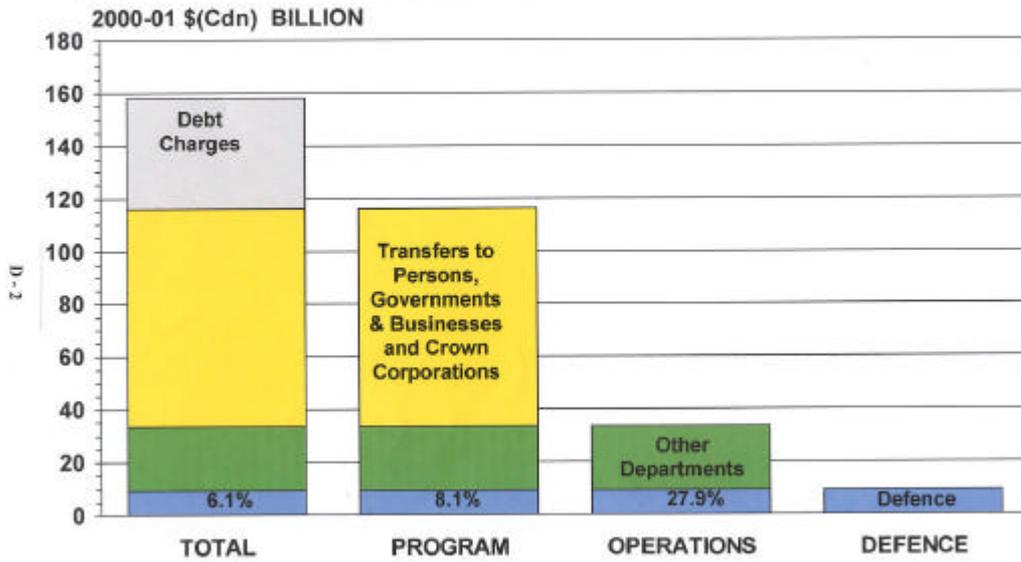


D-1

ANNEX D

## ANNEX D – 2

### FEDERAL GOVERNMENT SPENDING

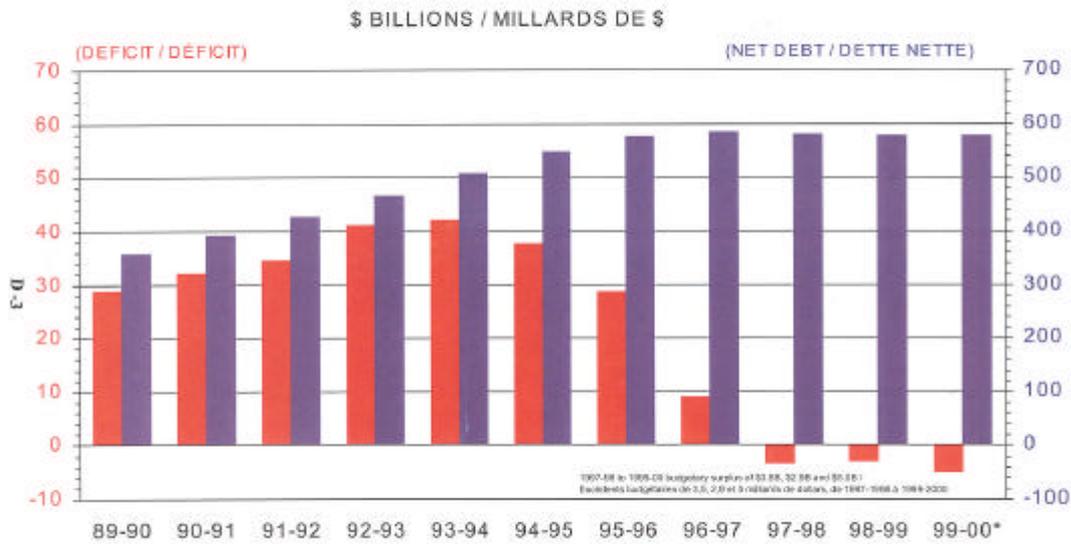


D-2

ANNEX D

## ANNEX D – 3

### TREND IN ANNUAL FEDERAL DEFICIT AND NET PUBLIC DEBT / ÉVOLUTION DU DÉFICIT ANNUEL ET DE LA DETTE PUBLIQUE NETTE DU GOUVERNEMENT FÉDÉRAL



SOURCE:  
SOURCE:

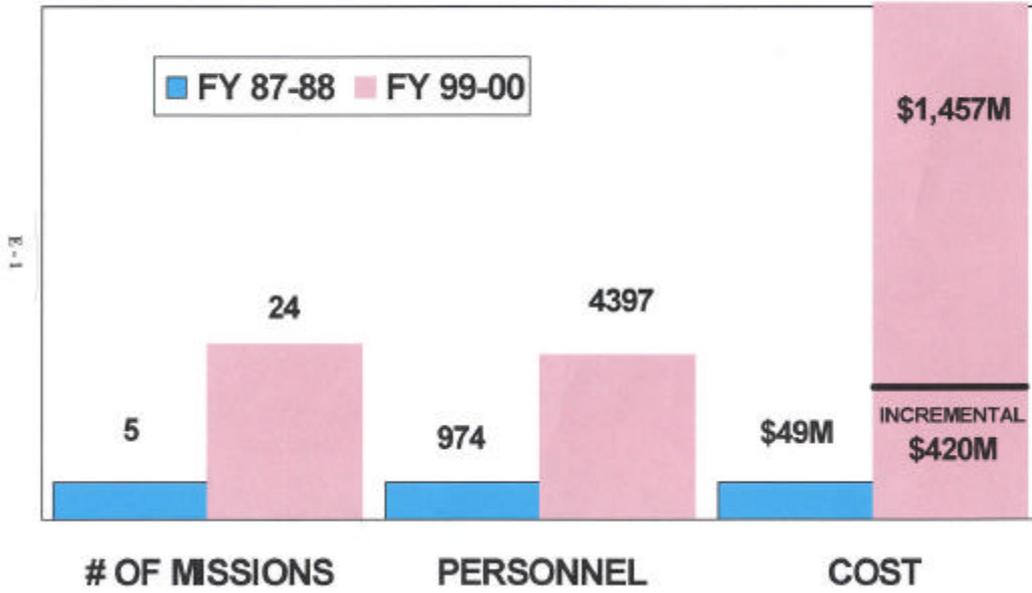
DEPT. OF FINANCES 2 NOVEMBER ECONOMIC AND FISCAL UPDATE  
LA MISE À JOUR ÉCONOMIQUE ET FINANCIÈRE DU M.A. DES FINANCES, 2 NOVEMBRE 1999

\* ESTIMATE includes  
contingency reserve/  
L'ESTIMATION comprend une  
réserve pour éventualités

ANNEX D

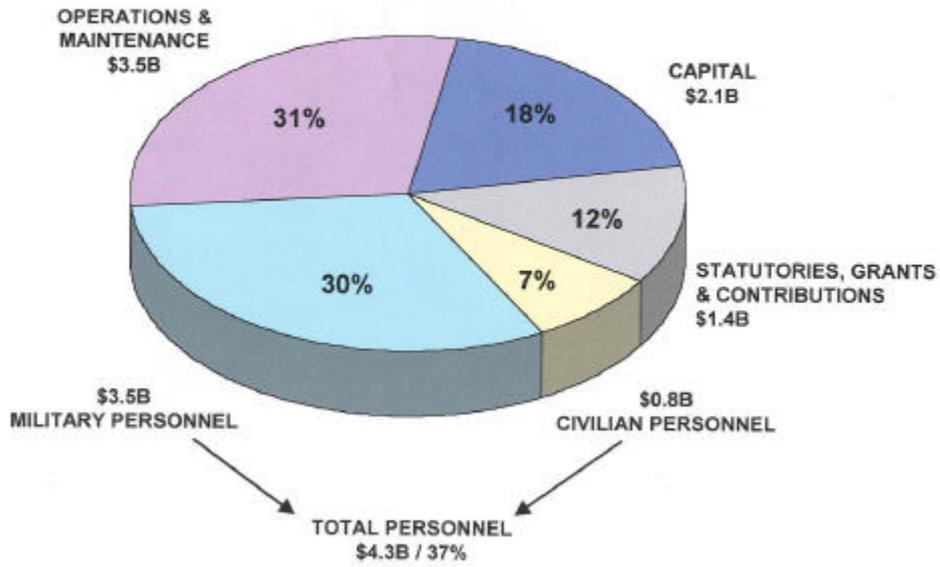
ANNEX E

**PEACEKEEPING & HUMANITARIAN OPERATIONS**  
FY 87-88 vs FY 99-00



ANNEX F

**DEFENCE SPENDING**  
2000-01 Estimates (\$11.2B)



F-1

ANNEX F

## ANNEX G

### Department of National Defence Provincial Summary Estimated Expenditures FY 1998-99

	% of Population	PERSONNEL DATA			Personnel Gross Income \$M	O & M \$M	Capital \$ M	G & C \$ M	Total Spending			Total DND \$ per Capita
		Regular	Civilian	Reserves					\$ M	% of Total	% Canada Only	
Ontario	37.8%	17,586	6,427	9,858	1,157	1,411	976	237	3,781	35.6%	42.9%	327
Quebec	24.1%	10,397	4,033	7,699	664	986	240	108	1,998	18.8%	22.7%	271
Nova Scotia	3.1%	9,738	3,256	2,594	585	236	56	5	883	8.3%	10.0%	939
Alberta	9.7%	7,361	2,058	2,472	399	250	113	12	774	7.3%	8.8%	261
British Columbia	13.2%	5,383	1,619	2,854	323	146	32	2	504	4.7%	5.7%	125
Manitoba	3.7%	3,096	998	1,227	185	59	65	39	348	3.3%	3.9%	304
New Brunswick	2.5%	3,488	811	1,239	183	60	43	1	287	2.7%	3.3%	380
Newfoundland and Labrador	1.8%	649	273	1,035	46	71	5		122	1.2%	1.4%	226
Saskatchewan	3.4%	986	301	898	59	16	1	3	79	0.7%	0.9%	77
Northwest Territories	0.2%	59	10	17	3	18			22	0.2%	0.2%	317
Prince Edward Island	0.5%	52	8	336	6	1			8	0.1%	0.1%	55
Yukon	0.1%	31	12	1	2	1			4	0.0%	0.0%	116
<b>Total Canada</b>	<b>100.0%</b>	<b>58,826</b>	<b>19,806</b>	<b>30,230</b>	<b>3,612</b>	<b>3,256</b>	<b>1,532</b>	<b>409</b>	<b>8,809</b>	<b>83.0%</b>	<b>100.0%</b>	<b>283</b>
<b>Plus</b>												
Outside Canada		1,087			64	352	224	110	750	7.1%		
Pension Contributions					570				570	5.4%		
Other Benefits and Allowances					336				336	3.2%		
Contributions to Employee Benefits					153				153	1.4%		
<b>Total DND Spending</b>		<b>59,913</b>	<b>19,806</b>	<b>30,230</b>	<b>4,736</b>	<b>3,608</b>	<b>1,756</b>	<b>519</b>	<b>10,619</b>	<b>100.0%</b>		

### Part 4.1 - Details of Transfer Payments by Service Line

#### Contributions by Service Lines

--	--	--	--	--

	Forecast 1999-00	Planned 2000-01	Planned 2001-02	Planned 2002-3
<b>Joint Operations and Civil Emergency Preparedness</b>				
Contributions to Provinces and Municipalities pursuant to Emergency Preparedness Act	4,672,100	4,672,100	4,734,100	4,794,100
Emergency Preparedness Partners	100,000	-	-	-
Royal Society of Canada for the International Decade for Natural Disaster Reduction	45,000	-	-	-
Contributions to the Provinces for assistance related to natural disasters	326,500,000	441,000,000	-	-
Contribution to the International Maritime Satellite Organization	215,000	215,000	215,000	215,000
Contributiun to the Civil Air Search and Rescue Association	1,716,892	1,889,799	2,004,606	2,161,058
<b>Support to the Personnel Function</b>				
(S) Payments under Parts I-IV of the Defence Services Pension Continuation Act (R.S.C. D-3)	3,500,000	3,500,000	3,500,000	3,500,000
(S) Payments under the Supplementary Retirement Benefits Act (R.S.C. 43-2nd Supp.)	13,500,000	13,500,000	14,000,000	14,500,000
<b>Materiel, Infrastructure and Environment Support</b>				
Contributions to Provinces and Municipalities for Capital Assistance Projects	-	4,650,000	4,650,000	4,650,000
Kativik Regional Government	700,000	200,000	100,000	-
<b>Department/Forces Executive</b>				
NATO Military Budgets and Agencies	105,698,250	95,385,000	91,535,000	92,560,000
NATO Infrastructure (capital expenditures)	34,100,000	34,500,000	35,900,000	37,800,000
Mutual Aid	4,450,000	3,246,000	2,471,500	1,133,000
NATO Allied Comd Rapid Reaction Corps HQ	135,500	132,000	155,000	160,000
Reaction Force Air Staff	54,250	52,000	54,000	54,000
<b>Subtotal NATO</b>	<b>144,438,000</b>	<b>133,315,000</b>	<b>130,115,500</b>	<b>131,707,000</b>
Military Training Assistance Program	3,223,000	3,376,000	3,308,000	3,725,000
Canadian International Peacekeeping Centre	4,973,000	4,801,000	5,357,000	-
UN Standby Forces High-Readiness Brigade	280,000	280,000	280,000	280,000
Biological and Chemical Defence Review Committee	85,000	85,000	85,000	85,000
Joint Strike Fighter	4,957,000	4,433,000	-	-
<b>Total Contributions</b>	<b>508,904,992</b>	<b>615,916,899</b>	<b>168,349,206</b>	<b>165,617,158</b>

## Grants by Service Lines

	Forecast 1999-00	Planned 2000-01	Planned 2001-02	Planned 2002-03
<b>Joint Operations and Civil Emergency Preparedness</b>				
Research Fellowships - Emergency Planning	54,000	54,000	54,000	54,000
<b>Support to the Personnel Function</b>				
(S) Payments to the dependents of certain members of the Royal Canadian Air Force killed while serving as instructors under the British Commonwealth Air Training Plan (Appropriation Act No. 4 1968)	100,000	100,000	100,000	100,000
<b>Department/Forces Executive Civil Pensions and Annuities:</b>				
Mr. R.P. Thompson	13,500	13,500	13,800	14,100
Conference of defence Associations	50,000	50,000	50,000	-
Army Cadet League of Canada	205,000	250,000	250,000	250,000
Air Cadet League of Canada	205,000	250,000	250,000	250,000
Navy League of Canada	205,000	250,000	250,000	250,000
Royal Canadian Navy Benevolent Fund	10,285	10,285	10,285	10,285
Royal Canadian Air Force Benevolent Fund	12,090	12,090	12,090	12,090
Military and United Services Institutes	24,056	24,056	24,056	-
Security and Defence Forum	1,700,000	1,700,000	-	-
Canadian Institute of Strategic Studies	89,250	89,250	89,250	89,250
Centre for Conflict Studies	60,000	60,000	60,000	60,000
Canadian Institute of International Affairs	40,000	40,000	40,000	40,000
Institute of Environmental Monitoring and Research	1,125,000	1,125,000	1,125,000	1,125,000
<b>Total Grants</b>	<b>3,893,181</b>	<b>4,028,181</b>	<b>2,328,481</b>	<b>2,254,725</b>
<b>Total Contributions and Grants</b>	<b>512,798,173</b>	<b>619,945,080</b>	<b>170,677,687</b>	<b>167,871,883</b>

## ANNEX H

### Cost of Peacekeeping and Relation Operations

OPERATION	FY 1999 2000 (\$millions)			FY 2000-2001 (\$millions)		
	Full Cost	Incremental Costs	Estimated UN Revenue	Full Cost	Incremental Costs	Estimated UN Revenue
EUROPE						
SFOR - OP PALLADIUM (Bosnia) (NATO)	356.6	106.2		356.6	106.2	
UNMACBIH - OP NOBLE - (Bosnia)	0.5	0.1				
UNMIBH (UNMOP)	0.3	0.2				
SFOR - OPECHO (Kosova)	397.6	33.1		204.3	7.1	
OP GUARANTOR (Macedonia)	1.1	0.4				
OP KINETIC/OP KINETIC PLUS (Peacekeeping - Kosova)	429.8	198.6		330.6	130.9	
OP MIKADO - Humanitarian airlift (Albania/Macedonia)	3.7	1.2				
OP PARASOL (Refugees - Canada)	25.4	17.4				
OP CONNECTION - CARE CANADA	0.0	0.0				

OP QUADRANT (UNMIK, UNMACC, OSCE)	0.8	0.4				
OP CONTACT (Croatia soil sampling)	0.3	0.2				
UNPROFOR (Croatia)			3.4			22.5
<b>ASIA</b>						
CAMBODIA MINE ACTION CENTRE (CMAC) (under UN auspices)	1.4	0.6		0.4	0.2	
OP TOUCAN (East Timor and Australia)	125.5	32.5				
OP TORRENT (DART Turkey - Earthquake)	12.9	7.6				
<b>MIDDLE EAST</b>						
UNDOF - OP DANACA (Golan Heights)	28.6	7.0	2.8	29.6	8.0	3.1
MFO (Multinational Force & Observers)- OP CALUMET (Sinai)	3.0	0.5		3.0	0.5	
UNTSO (Middle East)	1.5	0.7		1.5	0.7	
UNSCOM - OP FORUM (Special Commission/Iraq)	0.6	0.3		0.6	0.3	
UNIKOM - OP RECORD (Kuwait)	0.9	0.3		0.9	0.3	
UNFICYP - OP SNOWGOOSE (Cyprus)	0.3	0.1	0.1	0.3	0.1	0.1
OP AUGMENTATION - (HMCS Regina - Arabian Gulf)	35.9	2.7		35.9	2.7	
<b>AFRICA</b>						
MINURCA - OP PRUDENCE - (Central African Republic)	20.8	2.8	0.5			0.8
OP MODULE (Mozambique)	0.6	0.4				
OP CROCODILE (Congo)	0.0	0.0				
<b>THE AMERICAS</b>						
MIPONUH - OP COMPLIMENT (Haiti). Note 1	2.4	1.8	2.1			7.3
MINUGUA - OP QUARTZ (Guatemala)	0.2	0.1				
UNTMIH - OP CONSTABLE (Haiti)						
OP CENTRAL (disaster relief in Honduras)	1.3	1.3				
Miscellaneous Peacekeeping Operations Mission Budgets			0.1			
<b>TOTAL</b>	<b>1,452.0</b>	<b>416.5</b>	<b>9.0</b>	<b>963.7</b>	<b>257.0</b>	<b>36.2</b>
<b>UN Revenue Distribution:</b>	<b>CRF</b>		<b>2.4</b>			<b>25.7</b>
	<b>DND</b>		<b>6.6</b>			<b>10.5</b>

Note 1: The estimated UN revenue for Haiti includes all previous missions.

## ANNEX J

### CANADIAN DEFENCE INDUSTRY DATA

**SOURCE: CANADIAN DEFENCE INDUSTRIES ASSOCIATION**

Market Segment	Defence Revenues		Per Cent Change
	1996	1998	
Domestic Defence Market	\$3,758,251,545	\$3,210,524,001	-14.6
US Defence Market	996,322,590	1,067,125,477	+7.1
Rest-of-World Defence Market	797,814,090	850,815,862	+6.6
<b>Total Defence Revenues</b>	<b>\$5,552,388,255</b>	<b>\$5,128,465,340</b>	<b>-7.6</b>

Defence Revenues by Market Segment (\$ millions)									
Prov.	Canada			US			Rest-of-World		
	1998	1996	96-98%	1998	1996	96-98%	1998	1996	96-98%
ON	1,396	1,577	-11.5	519	490	+5.9	274	499	-45.1
QC	906	1,141	-20.6	346	408	-15.2	360	211	+70.6
AB	402	458	-12.2	43	29	+48.3	34	19	+78.9
NS	186	211	-11.8	22	25	-12.0	24	14	+71.4
BC	153	182	-15.9	54	23	+134.8	68	9	+655.5
MB	59	58	+1.7	77	15	+413.3	90	46	+95.7
NF	35	32	+9.4	0	0.4	-100.0	1	0.4	+150.0
NB	44	69	-36.2	0.7	0.5	+40.0	0.4	0.5	-20.0
SK	22	21	+4.8	0.4	1.5	-73.3	0	0	
(1)	8	9		5	4		0	0	
<b>Total</b>	<b>3,210</b>	<b>3,758</b>	<b>-14.6</b>	<b>1,067</b>	<b>996</b>	<b>+7.1</b>	<b>851</b>	<b>798</b>	<b>+6.6</b>

Province	Canadian Defence Exports, \$ millions		Per Cent Change 96 to 98
	1998	1996	1996
Ontario	793	989	-19.8
Quebec	706	619	+14.0
Alberta	77	48	+60.4
Nova Scotia	46	39	+17.9
British Columbia	122	32	+281.2
Manitoba	167	61	+173.8
Newfoundland	1	0.8	+25.0
New Brunswick	1.1	0.8	+37.5
Saskatchewan	0.4	1.5	-73.3
Other/Not identified	5	4	+25.0
<b>Total</b>	<b>1,918</b>	<b>1,795</b>	<b>+6.9</b>

Province	Direct Defence Jobs By Market Segment			Total Defence Jobs By Province (1)		Change 96 to 98	
	Canada	US	Rest-of-World	1996	1998	Jobs	Per Cent
Ontario	7,022	2,762	1,266	20,253	19,337	-916	-4.5
Quebec	4,188	1,785	1,444	16,014	12,980	-3,034	-18.9
Alberta	1,652	201	114	5,282	3,442	-1,840	-34.8
Nova Scotia	1,410	175	200	3,446	3,124	-322	-9.4
British Columbia	709	221	164	2,205	1,915	-290	-13.1
Manitoba	397	315	466	1,143	2,062	+919	+80.4
Newfoundland	303	0	32	438	586	+148	+33.8
New Brunswick	289	5	4	805	522	-283	-35.2
Saskatchewan	150	3	0	159	267	+108	+67.9
Other (2)	31	15	12	N/A	101		
<b>Market Segment</b>						<b>1996</b>	<b>1998</b>

<b>Number of firms with defence revenues of \$100K or more from the Canadian defence market</b>	<b>1372</b>	<b>1220</b>
<b>Number of firms with defence revenues of \$100K or more from the US defence market</b>	<b>210</b>	<b>178</b>
<b>Number of firms with defence revenues of \$100K or more from the Rest-of-World defence market</b>	<b>102</b>	<b>92</b>

Province	Number of Firms With Defence Revenues Greater Than \$100,000					
	Canada		US		Rest-of-World	
	1996	1998	1996	1998	1996	1998
<b>Ontario</b>	<b>651</b>	<b>543</b>	<b>123</b>	<b>87</b>	<b>52</b>	<b>46</b>
<b>Quebec</b>	<b>249</b>	<b>195</b>	<b>40</b>	<b>36</b>	<b>25</b>	<b>19</b>
<b>Alberta</b>	<b>127</b>	<b>128</b>	<b>15</b>	<b>7</b>	<b>5</b>	<b>2</b>
<b>Nova Scotia</b>	<b>94</b>	<b>114</b>	<b>8</b>	<b>10</b>	<b>8</b>	<b>7</b>
<b>British Columbia</b>	<b>121</b>	<b>128</b>	<b>17</b>	<b>21</b>	<b>8</b>	<b>14</b>
<b>Manitoba</b>	<b>36</b>	<b>39</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>2</b>
<b>Newfoundland</b>	<b>32</b>	<b>11</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>1</b>
<b>New Brunswick</b>	<b>48</b>	<b>38</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Saskatchewan</b>	<b>14</b>	<b>18</b>	<b>3</b>	<b>1</b>	<b>0</b>	<b>0</b>
<b>Other Not Identified</b>	<b>N/A</b>	<b>0</b>	<b>N/A</b>	<b>12</b>	<b>N/A</b>	<b>0</b>
<b>Totals</b>	<b>1372</b>	<b>1220</b>	<b>210</b>	<b>178</b>	<b>102</b>	<b>92</b>