

THE DEPUTY SECRETARY OF DEFENSE
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MR. DOUGLAS

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MEMORANDUM ON PRODUCTION SHARING PROGRAM --
UNITED STATES AND CANADA

The current program dates back at least to 1941 and the Hyde Park Agreement. This agreement provided generally that Canada and the U. S. should attempt to coordinate activities so that each would produce in areas of greatest capability. In 1950 a Statement of Principles of Economic Cooperation was issued by the Truman Administration. It advocated, among other things, a coordinated program of requirements, production and procurement; the exchange of technical knowledge and productive skills; the removal of barriers impeding the flow of essential defense goods. In 1950 a DCD Directive on Defense Economic Cooperation with Canada was issued. A Presidentially approved NSC paper, 5822/1, dated 30 December 58, reaffirmed the Statement of Economic Principles and provided for equal consideration to be accorded the business communities of both countries.

Prior to the NSC paper, and following a visit of the President to Canada in July 1958, Canada took the following actions with the understanding that her defense industry depended largely upon the U. S. channeling defense business into Canada: Cancelled the CF 105 and related systems contracts; decided to make maximum use of U. S. developed weapons, integrated into NORAD; worked with the U. S. toward a fully integrated continental air defense.

The U. S. in turn established a Production/Development Sharing Program with Canada with the first quarterly meeting in October 1958. Since then, policy obstacles impeding a free flow of business have been modified in a number of areas such as: Buy American Act; duty free entry of defense goods; security requirements; etc. Also, working groups have been set up on programs of mutual interest (for example, BOMARC); cost sharing agreements have been worked out; and possible joint development programs are being explored.

The last quarterly meeting of the Production Sharing Policy Group was held on 25 May. Despite all efforts, over the period 1 January 59 through 31 March 60, Canadian defense business in the United States almost doubled that placed in Canada. Canada is not satisfied with these results, nor do they appear acceptable from our view.

We must: re-emphasize the program of development sharing activities; encourage American industry to subcontract in Canada; and seek out other legitimate techniques to stimulate the program. Canada should be encouraged to energize her industry which has not displayed the necessary aggressiveness.

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