

Production Sharing.—The defence production-sharing program which was initiated in the autumn of 1958 involves the integration of the defence production capabilities of Canada and the United States to bring about the most economical and efficient development and manufacture of military weapons for the defence of North America. It is an extension of the integration of Canadian and United States measures for continental air defence under the North American Air Defence (NORAD) agreement, and of the growing complexity and cost of modern weapon systems which involve exacting engineering and production capabilities for relatively short production runs.

At the beginning of 1959, production-sharing arrangements were based mainly upon four projects of mutual Canadian-United States interest: the Bomarc anti-aircraft missile, the semi-automatic ground environment (SAGE) control system, heavy radars and gap fillers for the radar lines. Activity during the first half of 1959 was directed primarily toward the development of procedures which were necessary to provide adequate opportunity for Canadian industry to participate in United States defence production. In order to establish equal opportunity for Canadian industry, however, the program was extended beyond the original four projects to cover a wide range of United States defence programs in which Canadian industry could establish its ability to compete with American industry on the basis of technical competence, delivery and price.

On this basis, a broad list of defence programs was jointly developed and specific items were agreed to by each of the three United States military departments for exemption from the Buy American Act through a revision of the Buy American regulations. The United States Armed Forces procurement regulations were amended to provide for these broadened opportunities and to permit duty-free entry from Canada of military hardware ordered by United States defence contractors for production of the items listed by the American military departments.

Revisions were also made to United States security procedures which made it possible for Canadian firms to acquire information on classified United States defence programs on the basis of their security clearance by the Canadian Government. Arrangements were made for the Canadian Government to assist as required in the administration of both United States prime and sub-contracts placed in Canada under the production-sharing program, and procedures were developed to provide for quality control inspection of American defence contracts placed in this country.

By mid-1959, the United States Government had made most of the relaxations and concessions in its military procurement regulations that were considered necessary to provide adequate opportunity for Canadian industry to participate in United States defence production. Then, an intensified effort was initiated in both Canada and the United States to ensure that government defence procurement agencies and defence contractors were familiar with the aims and objectives of defence production sharing and the procedures that had been established.

Every opportunity was taken to bring home to Canadian industry its responsibility to play an aggressive role in establishing its capabilities within the United States. Canadian firms were assisted in making direct contacts with the major United States contractors for programs of a production-sharing nature; and efforts were made to acquaint the United States Government procurement agencies and their prime contractors with the aims and objectives of the production-sharing program and with the procedures established to permit and encourage Canadian participation in that country's defence production.

Assistance was given to Canadian industry in 1959 in order to maintain diversified defence production activity in Canada, primarily in the electronics and aeronautical fields. Normally, the American contractor has an advantage because most of his preproduction and tooling costs have been written off under previous contracts. This assistance was provided to absorb part of the Canadian contractor's preproduction and tooling costs, thus putting him in a more equitable competitive position with United States contractors. Contracts valued at \$856,000 were placed to establish capacity for the production of magnetron tubes and to absorb a portion of the preproduction and tooling costs involved in the manufacture of antennae, power supplies and rigid radomes.