

defence orders were modified to permit Canadian firms to bid more readily for certain contracts. There was an important ruling of the Office of Civil and Defence Mobilization that imports of heavy hydro-electrical equipment were not regarded as endangering the national security of the United States, especially when there were adequate repair facilities in North America for the types of equipment involved.

In addition to their direct bilateral economic relations, Canada and the United States co-operate closely in many international arrangements, notably, in this field, the GATT and the IMF, which are designed to expand trade and regulate the economic relations of countries on a non-restrictive and multilateral basis. Both countries are also associate members of the Organization for European Economic Co-operation. The two countries were active during the year in pressing for the elimination of discrimination in international trade against dollar imports. Efforts made along these lines by both Canada and the United States during the year were favourably received, and there was good progress to this end.

#### 4. Commercial Relations with Western Europe

The most important developments affecting Canada's commercial relations with Western Europe during 1959 related to the implementation of the European Economic Community (EEC)<sup>1</sup> and to progress toward the establishment of a new European grouping, the European Free Trade Association (EFTA). As the year progressed, the establishment of these two economic groupings in Europe and developments in the trade relations between them gave rise to some concern, for both political and economic reasons, on both sides of the Atlantic and in particular in the United States. Late in December, following a visit to several European capitals by the United States Under-Secretary of State, Mr. Dillon, the heads of government of the United States, the United Kingdom, France and Germany proposed that representatives of certain European countries and of Canada and of the United States should meet in Paris early in January 1960. The meeting was to consider the need for and methods of continuing consultations on trade problems, including those arising from the existence of the two European economic groupings and the possibilities of closer co-operation on assistance to under-developed countries, and on economic policies generally.

On January 1 the six member countries of the EEC, in accordance with the EEC treaty, reduced their tariffs towards each other by an average of 10 per cent and likewise enlarged quotas internally by 10 per cent. Some of these tariff cuts were subsequently extended to all GATT countries as a unilateral gesture on the understanding that these moves would be taken into account in the tariff conference in 1960-61. Increases in quotas in favour of other countries were also agreed upon following bilateral negotiations between members of the EEC and some European countries, including the United Kingdom. These measures were taken in an attempt to ease difficulties following the breakdown of the negotiations for a European free-trade area in December 1958. During the year, initial studies for a common agricultural policy on the EEC were undertaken and further progress was made in elaborating the common external tariff of the Community.

<sup>1</sup>Popularly known as the European Common Market.