

tionship has worked in Canada's favour. Evidence presented to the Committee suggested that Canada is not the only country which has had to request the United States to make exceptions in its favour.

On May 31, 1970, the Government announced the adoption for the time being of a floating exchange rate. The Committee does not believe that it has had sufficient evidence to enable it to determine the long term effects of the floating exchange rate. However, it may be concluded that in recent years the foreign exchange arrangements have involved a high degree of dependency by Canada on the United States in this sector. The Committee believes it is undesirable for Canada to permit a situation to continue where its financial affairs and its economy may be seriously disrupted by decisions made in the United States and where disruption can only be avoided by the Canadian government making requests for special arrangements with the United States government.

*2.04 Defence Production Agreements—General* Many Canadians have been concerned that the existence of a defence production sharing program between Canada and the United States might limit unduly Canada's freedom to determine its foreign policies.

The program is constituted by a series of twelve declarations and agreements, all of which remain in force indefinitely subject to modification or termination at any time by mutual agreement or by written notice of the intention of one party to terminate them.

*2.05 Historical Background* The principles of defence economic cooperation between Canada and the United States originated from the Hyde Park Declaration of 1941 and have been reaffirmed in varying forms since that time. The rationale which has developed recognizes the need for cooperation in the mutual defence of the two countries including reciprocity in meeting each other's defence requirements.

The current defence production sharing program came into being in 1959 after the cancellation of the CF-105 Arrow aircraft program when it became questionable whether Canada could economically develop and produce major items of defence equipment for the use only of the Canadian armed forces. At that time, Canada was faced with a crisis in its defence industry and important decisions as to its future had to be made. The major alternatives where as follows:

- (a) Procurement of defence requirements abroad with its connotations of dependency on foreign countries, loss of industrial technological capability, and balance of payments problems.
- (b) Licensing for production in Canada which would have led to significant lags in technology in Canadian industry and increased costs for defence equipment.
- (c) Continuing research, development and production in Canada in highly selected areas of technology in defence and defence related fields associated with Canadian indigenous requirements for communication, navigation and transportation capabilities.

The last alternative was chosen with the development of the Canada/U.S. Defence Production Sharing Program providing the necessary market base for a specialized defence industry.

*2.06 Provisions and Limitations of the Program* The immediate objective of the Program was the increased participation by Canadian industry in the production and supply of North American defence equipment requirements.