

Item: 18708

Title: Allocation of contract for Lockheed F-104G

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(Previous reference Aug. 10)

3. The Minister of Defence Production reported that tenders for the manufacture of the Lockheed F-104G had been received from de Havilland, Canadair and Avro aircraft. The bid of de Havilland was almost 50 per cent higher than the other two who had provided almost identical tenders. De Havilland apparently did not have facilities to manufacture the plane itself and had to go to sub-contract for most of the work. The figure of Avro was slightly lower than that of Canadair but did not appear realistic.

4. Mr. O'Hurley pointed out that the time element was of essence and, of the three companies, Canadair, owing to the fact that it had past experience in producing Lockheed aircraft under licence, was in a more favourable position. A decision had to be reached on the allocation of the contract prior to the 17th of August if contracts in connection with the manufacture of 66 Lockheed aircraft for West Germany were to be obtained.

It was the view of the Department of Defence Production that it would not be possible to support three major aircraft firms in Canada. Canadair Ltd. had been markedly more successful in commercial sales than Avro which seemed to have made no effort in obtaining commercial contracts. If the contract were awarded to Canadair other government contracts would benefit as a result of lower overhead, which would mean a saving up to \$12.5 million over a five-year period; furthermore, the company would be in a position to assign experienced workers to this programme as other contracts phased out. Avro, on the other hand, would have to build up a large labour force again for a short period of time and then reduce to probably less than its present manpower level. On the other hand, an award to Avro would be of benefit to the Canadian government in that the Crown would be relieved of the payment of \$2 million under the terms of the Capital Equipment Agreement. On the overall basis award of the contract to Canadair would result in a saving of approximately \$9,750,000.

5. The Minister of Finance said that allocation of this contract had been carefully examined by the Treasury Board. The Board had come to the conclusion that the proposal by Canadair was the most advantageous to the Crown in terms of cost, realism of the estimate and demonstrated ability to perform generally and to manufacture on a licence arrangement in particular. The Board has also noted that the manufacture of the engine, of almost equal dollar and employment size to the airframe manufacture was being allocated to Orenda Engines of Malton, Ontario. The Board had also agreed that the manufacture of the aircraft by Canadair would provide a more stable aircraft industry, while awarding it to Avro would require a rebuilding of that company's work force with a serious re-adjustment of employment being required once again in a relative short period of time.

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He also pointed out that the Board had felt that the main terms of any contract with a successful company should be accepted before the choice was finally made. The firmest possible arrangement should be secured in order to place upon the company the responsibility for successful management of the contract in financial as well as technical terms. The Board had recommended that Canadair be offered the first opportunity to make its proposal a firm bid on the basis that its proposed cost would be a ceiling price, the cost to the Crown to be the actual cost of manufacture up to that amount, with the manufacturer to receive a reasonable proportion of the savings which would arise if the actual cost fell below the ceiling. On such terms, the company would have to accept financial responsibility for completion of the contract on the basis of its own proposal.

6. Mr. Fleming, in addition, pointed out that, in order to limit the incidence of change in design (they had been frequent during the development contracts of the CF-105), the Board had suggested that in its approval of any contract that major changes would have to be approved by the Board or the Cabinet and that the course of the contract be monitored closely by a senior committee of officials from the Department of National Defence, the Department of Defence Production and the Treasury Board Secretariat.

Explanatory memoranda were circulated, (Aide Memoire, Aircraft Branch, Department of Defence Production Aug. 11, 1959 and Memorandum, Chairman, the Treasury Board, Aug. 12 - Cab. Doc. 243-59).

7. During the discussion the following points were raised:

(a) It would not be profitable to obtain a new figure from de Havilland since they were obliged to sub-contract a very large part of the work. To some, this might have the advantage of spreading the work across the country. This advantage, however, was greatly offset by the fact that the de Havilland's figure was almost 50 per cent higher than its competitors.

(b) By awarding the contract to Canadair, the government would, of course, find itself in a position of having to defend the award to the second lowest bid. The Defence Production Department had added \$3.3 million to the Canadair bid on the assumption that labour costs might rise. However, Canadair had given the assurance that there would be no escalation on labour or material. Therefore, by removing this amount of \$3.3 million the difference between Avro and Canadair had been reduced to \$1.3 million. Canadair had a series of contracts with the government which would cause a reduction in overhead over the life of the proposed contract. Avro on the other hand, had no prospects for future commercial work. This would, of course, cause an increase in overhead.

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(c) Some felt that the government would be subject to criticism and would be accused of carrying its antagonism to Avro to the point of not awarding it the contract when it was the lowest bidder by \$1.5 million. In answer, however, it could be pointed out that the contract for the engines had been awarded, without tender, to Orenda, a subsidiary of Avro in the Malton area. The engine represented 31 per cent of the cost of the aircraft and the airframe 36 per cent. The number of people employed would be approximately the same in the two contracts. Attention should be drawn to this fact in announcement of the awarding of the contract to Canadair. Reference should also be made to the saving to the Treasury of over \$9 million and to the general policy of spreading government contracts between different geographical areas wherever possible. It was evident that the statement would have to be most carefully drafted.

(d) If the award were not made to Canadair, up to 8,000 workmen would be laid off there in 1961 unless the plant meanwhile obtained additional orders.

8. The Cabinet agreed to postpone to the following meeting decision on the awarding of the contract for the manufacture of the Lockheed F-104G airframe and that, meanwhile, the Minister of Finance, the Minister of National Defence and the Minister of Defence Production would draft a statement that would be appropriate should it be decided that the contract was to be awarded to Canadair.

Allocation of contract for CC-106 Operational Flight Trainer

9. The Minister of Defence Production said that the desirability of calling competitive tenders on the CC-106 Operational Flight Trainer rather than allocating this contract without competition to Canadian Aviation Electronics as requested by this firm, had been reviewed during the past spring. It had been recommended to call competitive tenders and C.A.E. had been advised accordingly. Bids had been received from Redifon Ltd. (a U.K. firm) for a price of \$1,072,978.77 and from C.A.E. for a price of \$1,635,752.00. The bids were on a firm price basis.