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38. In the course of discussion it was pointed out that virtually all Indians and Eskimos in the Yukon and the Northwest Territories were either Roman Catholics or Anglicans.

Because of serious differences of opinion between the religious authorities, it had been impossible, until recently, to work out a satisfactory arrangement to provide adequate educational facilities for Indian and Eskimo children. Under the proposed arrangement, the hostels would be constructed by the Federal government and operated either by Anglican or Roman Catholic authorities, depending on the faith to which the majority of the pupils belonged. In some localities there would be both a Roman Catholic and an Anglican hostel operated in conjunction with a single day school.

It seemed clear that proper educational facilities could not be provided for Indian and Eskimo children in the north without the active cooperation of the religious authorities and the plan submitted seemed the most satisfactory solution to a difficult problem, though it was unavoidably expensive.

39. The Cabinet approved in principle the combined day school and hostel programme for the education of Indian and Eskimo children in the Northwest Territories, as submitted by the Minister of Northern Affairs and National Resources, and agreed that the necessary financial provision be made to enable completion of the programme over a six-year period.

Royal Canadian Air Force; development of CF-105

40. The Minister of Finance, referring to discussion at the meeting of March 28th, said that the Department of National Defence had now sought Treasury Board authority for the expenditure of \$40 million to proceed with the first stage in the development of the new CF-105 super-sonic all-purpose fighter aircraft. This sum would cover the cost of the first eleven aircraft as well as the cost of tooling. The overall programme would involve construction of forty aircraft, and the development and procurement of engines for them, at a total expenditure of some \$260 million.

41. The Minister of National Defence pointed out that the total expenditure of \$260 million for the completed project would be spread over a six-year period. It was anticipated that the magnitude of annual expenditure would be of the order of \$15 million the first year, \$47 million the second, \$61 million the third, \$66 million the fourth, \$40 million the fifth and \$30 million the final year.

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42. In the course of discussion the following points emerged:

(a) There was no doubt that, at the drafting-board stage, the CF-105 appeared to be a very useful aircraft well suited to the long distances and severe atmospheric conditions of the Canadian north, which would serve the R.C.A.F. as an effective weapon against long range supersonic bombers flying at high altitudes. This development involved the expenditure of very substantial sums of public money and constituted what some might consider expensive insurance against an emergency which might or might not occur.

(b) Good as this aircraft might turn out to be, it was unlikely that other N.A.T.O. governments would adopt it for their own use. One of the reasons for this was that the aircraft was designed to meet conditions peculiar to northern Canada and might not be entirely suitable for use in western Europe; another was that we could not expect the U.S. and U.K. to adopt a Canadian plane rather than develop one of this importance themselves.

(c) It was understood that the \$260 million project could be fitted within total defence expenditure on the present scale; it was hoped that the long-term commitments in this development would not prevent further cuts being made in the overall defence budget during the next few years, if the international situation at that time made such reductions possible.

(d) Without questioning the desirability of proceeding with the CF-105 project, it was suggested that sufficient attention was not being paid to the abandonment of obsolete weapons, formations and strategic concepts in the light of recent developments in the field of nuclear fission. The answer to the problem was perhaps not to curtail new developments, such as the CF-105 project, but rather to make sure that long established methods and weapons were not continued through sheer force of habit and tradition even though they had become obsolete and ineffective. This might require a review of our military commitments in the light of the latest developments.

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(e) It should be borne in mind that many million dollars would have to be spent before there could be any assurance that the CF-105 was as good in actual operation as it was on the drafting board.

43. The Cabinet approved the entry into a contract with Avro Aircraft, Ltd., of Toronto for the design development and supply of 11 airframes, and the supply of production tooling, for the supersonic fighter aircraft, CF-105, at an estimated total cost of \$40 million. A Treasury Board minute to be issued accordingly.

Defence Production; sale of government owned plant at Renfrew to Burnley Aircraft (Canada) Limited

44. The Minister of Defence Production said the government owned a plant at Renfrew, Ontario, at present operated by Cockshutt Aircraft, Limited, for the production of Orenda engine components. He recommended that this plant, which had originally cost the crown \$1.1 million, be sold for the sum of \$800,000 to certain United Kingdom interests who wished to incorporate a company in Canada under the name "Burnley Aircraft (Canada) Limited", and to operate the plant for the production of aircraft components. The land and premises had been offered to Cockshutt Aircraft, Limited, but that company did not wish to avail itself of this opportunity. Of the sale price of \$800,000, an amount of \$275,000 would be payable immediately and the balance of \$525,000 would be payable over a period of ten years, with interest at the rate of 4 percent per annum over the first four years and at 6 percent per annum thereafter, and secured by a mortgage on the property.

45. The Cabinet approved the sale to Burnley Aircraft (Canada) Limited, for the sum of \$800,000, of the land and premises at Renfrew, Ontario, at present operated by Cockshutt Aircraft Limited for the production of Orenda engine components, on terms and conditions as recommended by the Minister of Defence Production; an order in council to be passed accordingly.

(Order in Council P.C. 1955-438, March 23)

Defence Research Board; appointments

46. The Minister of National Defence submitted a recommendation for certain appointments to the Defence Research Board.

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National Defence; policy on aircraft development; CF-105 programme; improvement of CF-100; procurement of "Sparrow" missile

24. The Minister of National Defence, referring to the programmes for CF-105 aircraft and F8-13 engines authorized at the meeting of March 8th, 1955, said the company undertaking the work - A.V. Roe & Company - had submitted, in September, a revised estimate of costs which brought the total expenditures on the 40 planes and 14 engines to about \$300 million. When the Cabinet Defence Committee was informed of this situation, it had decided that a thorough re-appraisal of the whole programme should be carried out. As a result of this study various courses were suggested, but the one which seemed to the officials dealing with the matter as most sound was to improve the existing CF-100, to proceed with the CF-105 programme, and to plan to incorporate into the air defence system surface-to-air guided missiles when they were available.

The Cabinet Defence Committee had considered the re-appraisal reports and the possible courses of action. The committee had expressed concern over the extent of the programme recommended, particularly at the heavy expenditure to be incurred before it had actually been demonstrated that the new plane was a success. In view of this, he had requested that a modified programme for the CF-105 be prepared which would reduce the financial commitments made before the plane could be tested, while leaving freedom for future action and decision.

By delaying for one year the date at which the CF-105 would enter squadron service, only 11 aircraft need be ordered before the first machines had flown, as against the 28 originally proposed. Including the engine programme this would cost \$170.4 million up to April 1st, 1958, less the \$35.5 million already spent. In other words, new authority would be required to spend \$134.9 million. If the programme were cancelled now, there would be cancellation charges of \$17.7 million to be added to the \$35.5 million already spent. Therefore, in authorizing a continuance of the programme on this basis, not more than \$117.2 million extra would be risked over the next three years in proving the soundness of the aircraft.

There would be a serious gap in the Canadian air defence system before the CF-105 would come into squadron use but after the CF-100 became unable to deal with the Russian bomber threat to be expected at that time. It was possible to modify the CF-100 to give it greater altitude, to equip it with "Sparrow" guided missiles, and thus give it a good measure of effectiveness until the CF-105 was available.

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It was proposed to provide four squadrons of this improved all-weather interceptor by introducing these modifications in the aircraft coming off the production line from September 1957 onwards. These modifications could be made in aircraft already produced if this were considered desirable later. The cost, including the "Sparrow" missile, would amount to \$77.4 million spread from the current fiscal year to 1960. One advantage of equipping the CF-100 with the "Sparrow" was that it was planned to arm the CF-105 with the same missile.

The Minister recommended approval of the reduced CF-105 programme, the modifications to the CF-100 and the procurement of the "Sparrow" missile.

Explanatory memoranda were circulated.

(Minister's memoranda, Dec. 5 and 6; Cab Docs. 241- and 242-55).

25. Mr. Campney added that the Cabinet Defence Committee had thought it would be desirable for him to discuss with the U.S. Secretary for Air the possibility of the United States assuming the whole, or part, of the CF-105 programme since they had no comparable plane as advanced in development as this one. Mr. Quarles and his advisers had a high opinion of the aircraft but felt it would be impossible for the U.S. government to participate in developing it, or to commit themselves to buy it, because of the strong influence of the U.S. aircraft industry in Washington. Only the day before he had spoken again to Mr. Quarles who had expressed some hope of being able to help, but this could not be relied on as a measure of real and tangible aid for the original plan.

The Minister felt the government could not allow the air defence programme to peter out once the CF-100 had outlived its usefulness. If no plans were made for a successor, there would be a gap in our defences and the morale of the Air Force would be seriously affected. On the other hand, no one knew yet whether the CF-105 would be successful. Nevertheless, this uncertainty did not relieve the government of the responsibility of preparing as effective a defence as possible. If the programme were abandoned now, the government would be faced with explaining why it had spent over \$50 million on the project and then dropped it. By allowing this limited development to proceed, it could be said that, regardless of the results, at least a serious attempt had been made to plan for the years ahead.

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The deterrent to a Russian attack consisted of two elements - the attacking power of the U.S. Strategic Air Command and a reasonable power to inflict losses on enemy aircraft attacking North America. At the moment, the CF-105 appeared to hold out the most promise as a defence against Russian bombers during the period for which it was being planned. If it were not developed in four or five years time, Canada would have to look to other countries for an all-weather fighter.

26. In the course of discussion the following points emerged:

(a) The U.S. was developing a single seater supersonic fighter which would come into operation two years in advance of the CF-105 but, in many respects, it was nowhere near as suitable an aircraft. The U.S. and, to a lesser extent the U.K. were showing considerable interest in the CF-105 but not to the point of participating in its development.

(b) The cost for both the reduced programmes for the CF-105 and the modified CF-100 could be absorbed over the next few years in a defence budget of the present size.

(c) If conditions in the world did not change in the foreseeable future, it could be assumed that the R.C.A.F. would be re-equipped with the CF-105, provided the plane was a success. In effect, the added expenditures of \$117 million would prove the aircraft or, at worst, show a serious attempt had been made to provide the best possible defence for the country.

(d) Abandoning the programme at this stage would be tantamount to an admission that Canada was not capable of providing its share of the common defence or unwilling to do so. This would have a serious effect on N.A.T.O. allies as well as being embarrassing domestically.

(e) The increased cost of aircraft was frightening. The F-86 now cost about \$400,000, the CF-100 just under \$1 million, and the CF-105 was expected to cost between \$2 and \$3 million. The scheme proposed at least reduced possible losses by a substantial amount and would postpone the time at which it might have to be admitted that the cost of adequate air defence was more than Canada could bear.

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(f) It seemed incredible, in the face of such apparent interest and approval in U.S. official circles, that the U.S. could not find a way of taking some small part in the project. Every effort would continue to be made to exploit U.S. interest in the CF-105 programme but it seemed unlikely that much would be done, particularly just before a presidential election.

(g) Defence expenditures would probably be \$1.75 billion again in 1956-57 and about \$1.8 billion for each of the two years following. In other words there would only have been one cut in four years. This might lead to some criticism in the face of cuts in the U.K. and U.S. It was pointed out, on the other hand, that Mr. Quarles now saw no prospect of a cut in the U.S. defence budget in the coming year.

(h) Departmental estimates were now being considered. Statutory increases of \$90 million together with increases for the Colombo Plan, for development in the north, and for vocational training, amounting to about \$28 million, seemed inescapable. This did not include a possible further \$20 million for the Canadian Broadcasting Corporation. Altogether, it would mean that the estimates would be as much as \$120 to \$140 million greater in 1956-57 than in the current fiscal year. To say that the Canadian defence budget for each of the next three years would be \$1.8 billion was looking forward to a bleak future. However, a real effort had been made to reduce the cost of developing the CF-105 and it was very difficult not to go ahead with the programme.

(i) As for the "Sparrow" missile, it would be sensible to proceed with this since the efforts now being devoted to the "Velvet Glove" were not likely to be successful. The "Sparrow" would be made and stockpiled in Canada. Dummies would be used for training.

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27. The Cabinet noted the report of the Minister of National Defence on the development of the CF-105, the improvement of the CF-100, and the procurement of the "Sparrow" missile and agreed,-

(a) that the CF-105 programme approved in March 1955, be revised to provide for the procurement of only 11 aircraft at a total cost of \$170.4 million for both airframe and engines, to be spread over three fiscal years;

(b) that 137 CF-100's be modified to give them greater altitude and provide a missile capability, beginning with the 581st aircraft off the production line, at a cost of \$12.4 million spread over the four fiscal years; and,

(c) that procurement of the "Sparrow" missile to support four squadrons of CF-100's be approved, at a cost of \$65 million to be spread over five fiscal years.

N.A.T.O. Council of Ministers; policy on mutual aid, common infrastructure and priorities within N.A.T.O.

28. The Secretary submitted recommendations of the Panel on Economic Aspects of Defence Questions concerning the attitude which Ministers might wish to take, at the forthcoming N.A.T.O. Ministerial Council meeting, on mutual aid on common infrastructure and on priorities within N.A.T.O.

In outline, the panel felt that mutual aid should be continued but that a more critical appraisal should be made of the types of items, their needs and their destinations. As regards infrastructure, it was recommended that the government agree, in principle, to another programme. One of the main matters to be discussed in Paris would be the problem of reconciling military requirements with the economic and budgetary positions of the individual partners in the alliance. The panel felt that Ministers might acknowledge the need for a general re-assessment of the N.A.T.O. defence programme with a view to determining how best the common defence might be achieved.

Explanatory memoranda had been circulated.

(Memoranda, Panel on Economic Aspects of Defence Questions, Nov. 25, Nov. 29, Dec. 5, 1955 - Cab. Docs. 236, 237, 238-55).

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Cabinet Defence Committee; report of Minister of
National Defence

17. The Minister of National Defence reported that recommendations on a number of important matters had been made at the 113th meeting of the Cabinet Defence Committee held the previous week.

(a) U.S. Air Force request for tanker base
facilities in Canada

The United States had been authorized last year to survey facilities in Canada on which bases might be established to accommodate aircraft to refuel U.S.A.F. bombers. As a result, the U.S. now sought Canada's approval to develop, at U.S. expense, four of this kind of base at Probusier, Churchill, Cold Lake, and Nain, and to make engineering studies of five others at Coral Harbour, Knob Lake, Great Whale River, The Pas, and Fort Chino. The U.S. proposed to spend \$40 million on the first four and would begin this year, if possible, to lengthen runways up to 10,000 feet and provide fuel storage, taxiways, parking space, etc. Each base would be prepared to handle 40 Tanker aircraft. A full-scale exercise employing this number would be held once a year and, in addition, six tankers would be staged through each base once or twice a year. Only a small number of personnel would be stationed permanently in Canada, but when exercises were held, or operations occurred, there would be an additional 310 ground crew and 280 flying personnel in the U.S. request, on the understanding that procurement and construction would be undertaken through Canadian government departments. These bases would probably only be used by the U.S. until they acquired longer range bombers than they had now. Meanwhile, Canada would gain a number of improved airports in northern regions.

(b) Improvement to prime radars

Canada had constructed and financed 12 of a total of 37 prime radars in the Pinetree System. Coverage up to 40,000 feet was provided. Because of the higher altitude attained by modern fighters and bombers it was necessary to increase this coverage to 75,000 feet and perhaps eventually to 100,000 feet. It was proposed, therefore, to modify now 10 of the 12 radar stations financed by Canada in order to give coverage up to an altitude of 75,000 feet. This was estimated to cost \$20 million. The U.S. would, at the same time, be improving the radars in Canada for which the U.S. was responsible.

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(c) CF-105 aircraft programme

The CF-105 fighter and PS-13 (Iroquois) engine programmes had been reviewed and reports made on the stage reached. Technical progress had been satisfactory but development of the aircraft would take longer than had originally been thought, and would be more expensive. By March 31st, 1958, it was expected that an additional \$46.39 million would have been spent in addition to the amount previously authorized. The committee was of the view that the programme should continue and recommended the development and procurement of eight aircraft.

(d) R.C.N. shipbuilding programme

When the present shipbuilding programme was completed, the Navy would have 14 modern escorts and 95 others which would become obsolete between 1960 and 1968. It had been suggested that, rather than undertake a "crash" replacement programme, replacements be put in hand now on a gradual basis. As a start, the committee recommended that two new ships of the Restigouche class (the later modified version of the St. Laurent class) be laid down in 1957-58 and two more the following year. Conditions had been attached to the programme which, it was hoped, would result in economical construction and procurement.

(e) National Aeronautical Establishment; construction of high speed wind tunnel and transfer of National Aeronautical Establishment (Uplands) from National Research Council to Defence Research Board

In 1954, construction of a wind tunnel at Uplands had been authorized at a cost of \$3.5 million. Subsequently, an additional expenditure of \$250,000 had been approved. For a number of reasons the project was now only approaching completion of the design stage. Recent estimates indicated that the cost of the tunnel would be in the order of \$6 million. The committee had concluded that this was a necessary facility for the development, improvement, and modification of aircraft and recommended that construction proceed. It was also proposed that the aeronautical research facilities at Uplands be transferred from the National Research Council to the Defence Research Board.

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(f) U.K. proposal for the establishment of a "Canada station"

Last summer the Prime Minister of the United Kingdom had requested Canada to assume responsibility for certain areas in the north-western Atlantic and north-eastern Pacific Oceans, formerly included in certain U.K. "naval stations", and designate these areas as the "Canada stations", just as there were Australian and New Zealand stations in the Pacific. No further manpower or expenditure would be required for this purpose, nor would acceptance of this responsibility mean additional commitments which the Navy would be expected to assume. However, it was thought that the term "Canada station" should not be used and that the southern limit of the Pacific area should only extend to the parallel of latitude which met the North American coast at the U.S.-Mexican border rather than include waters adjacent to Latin America.

(g) Procedures for consultation on alerts

The committee considered again the procedures for consultation with the United States on the calling of alerts in the event of an emergency, and agreed to send a further communication to the U.S. to clarify this matter.

18. During the discussion the following points emerged:

(a) The improvements to the airfields for tanker base facilities would become Canadian property and the supplies and manpower required to make them would come from Canadian sources.

(b) The U.K. proposed to reduce the size of its conventional forces and had said more of its resources would be devoted to missiles. There seemed to be a good deal of confusion in U.K. thinking at the moment. The impression which some would wish to convey was that the U.K. remained an independent world power but this was no longer economically or physically possible.

19. The Cabinet noted the report of the Minister of National Defence on the 113th meeting of the Cabinet Defence Committee held on February 6th and 7th, and agreed:

(a) that the United States Air Force be authorized,

(i) to establish, for occasional use, ⁴ aircraft tanker base facilities at the R.C.A.F. airfields, at Frobisher,

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Churchill, Cold Lake, and Namao on the understanding that procurement and construction of what was required for these bases would be undertaken through Canadian government departments and agencies employing Canadian contractors; and,

(11) in conjunction with the R.C.A.F., to conduct engineering studies for the possible establishment of tanker bases at the airfields at Coral Harbour, Knob Lake, Great Whale River, The Pas, and Fort Chimo;

(b) that improvements be made in 10 of the 12 radar stations financed by Canada in the Pinetree System, to provide coverage up to an altitude of 75,000 feet;

(c) that the CP-105 aircraft and PS-13 (Iroquois) engine development programmes proceed, and that the procurement of 8 aircraft be authorized;

(d) that four new ships of the Restigouche class be constructed for the Royal Canadian Navy in accordance with the conditions to which the Minister had referred;

(e) that the authority for the construction of a high-speed wind tunnel at Uplands be confirmed;

(f) that the facilities, administration and control of the National Aeronautical Establishment at Uplands be transferred from the National Research Council to the Defence Research Board; and,

(g) that Canada assumed the responsibility, hitherto borne by the United Kingdom as part of its world-wide "naval station" organization, for areas in the Atlantic and Pacific Oceans, to be designated the "Northwest Atlantic Station" and the "Northeast Pacific Station", in accordance with the conditions considered by the Cabinet Defence Committee.

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Dominion Provincial Conference on fiscal relations;
arrangements

14. The Prime Minister read a draft letter which he was proposing to send to the provincial premiers concerning the forthcoming Dominion Provincial Conference on fiscal relations. He had some reservations as to the necessity of obtaining their permission before tabling any correspondence which he had previously exchanged with them.

15. The Minister of Finance said that it would be hopeless to aim at substantial results in a two-day conference. It might be better to throw the conference wide open in order that the government might have a clear understanding of the sum total of things which the provinces wanted. It would be helpful in the matter of division of revenues if the implications of unemployment insurance, hospital insurance etc., etc., were fully understood.

16. The Cabinet noted the remarks of the Prime Minister and of the Minister of Finance and deferred consideration of arrangements for the Dominion Provincial Conference on fiscal relations to the next meeting.

A.V. Roe Canada; lay-offs at Avro Aircraft and Orenda Engines

17. The Minister of National Defence stated that it had been reported to him that a very large number of workers in subsidiary of A.V. Roe Canada were being laid off as a result of the government's action in cancelling the construction of the CF-100 Mark VI. Between now and next July, about 1,750 men would be laid off at Avro Aircraft and 1,200 at Orenda Engines. The Members of Parliament in whose constituencies these companies were situated had appealed to him to take measures to ease this situation. A suggestion which he did not endorse had been made to build 35 CF-100 Mark VI and give them to the Danish government as mutual aid. This would cost between \$10 and \$15 million.

18. The Minister of Labour reported that according to his information the Avro employees were coming here next Monday to see their Members of Parliament. He thought that the company was adopting a vindictive attitude and that in their lay-offs they were going far beyond what was necessary.

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19. During the discussion the following comments were made, -

(a) One of the great disadvantages in following up the suggestion of making a gift under mutual aid to the Danish government was that, during the lifetime of these aircraft, the Canadian government would be bound to provide, most likely at its own expense the spare parts required for maintenance.

(b) A decision in this matter might be deferred until the following week after discussions on pooling of efforts in defence had taken place on Saturday with the Prime Minister of the United Kingdom unless, of course, the lay-offs were to be announced this day or the next day.

(c) It had to be recognized that it was difficult to save money without putting men out of work. There was a clash between the desire to economize and political expediency.

(d) Some had suggested that severance pay be given to those who were being laid off, but this was not considered at all sound and would be an important innovation which would lead to similar requests from others.

(e) The three Conservative Members of Parliament involved had been elected on a programme that there would be no lay-offs.

(f) Consideration should be given to what size of lay-off could be acceptable politically on the assumption that 5 votes might be lost per man laid off. This could involve almost 10,000 votes.

(g) A heart-to-heart discussion should be held at once in Ottawa with the officials of Avro and Orenda. They should be asked to come to Ottawa today if possible.

(h) The Acting Minister of Defence Production would be the proper person to convene these officials whom he could meet together with the Ministers of Labour, Finance, and National Defence.

20. The Cabinet noted the report of the Minister of National Defence and agreed that the Acting Minister of Defence Production and the Minister of Transport get in touch immediately with officials of Avro Aircraft and Orenda Engines to invite them to come to Ottawa for discussions on the proposed lay-offs, and that the

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Legislation; draft bills

1. The Prime Minister submitted for approval three draft bills which had been approved by the Cabinet Committee on Legislation at their meeting of October 24th.

2. The Cabinet agreed,-

(a) that the bill to amend an act respecting the Buffalo and Fort Erie Public Bridge Company be approved for introduction in the Senate in the first instance;

(b) that the bill to amend the Canada Agricultural Products Standards Act stand for further consideration in the light of the situation respecting opinion on the substance of it in the general area affected; and,

(c) that the bill to amend the Criminal Code be introduced in the House of Commons in the first instance.

Visit of the United Kingdom Prime Minister and Secretary of State for Foreign Affairs

3. The Prime Minister reported that the U.K. Prime Minister and the Secretary of State for Foreign Affairs were expected to arrive that evening and private talks would then take place at the Prime Minister's residence. The Secretary of State for External Affairs and the Minister of National Defence would be present. The remaining members of the Cabinet would have the opportunity to meet the U.K. ministers at a meeting the following day.

4. The Cabinet noted the Prime Minister's remark concerning the visit of the U.K. Prime Minister and the Secretary of State for Foreign Affairs.

A.V. Roe Canada; lay-offs at Avro and Orenda Engines
(Previous reference Oct. 24)

5. The Minister of National Defence reported that he with the Ministers of Finance, Defence Production and Transport had met officials of Avro Aircraft and Orenda Engines the night before. During this meeting the Avro representatives had stated that they were presently employing 9,600 men and that by April next year this number would diminish by 2,100. The lay-offs would be progressive. Of these 2,100, 800 would be laid off as a direct result of the cancellation of the CP-100 Mk VI programme; the remaining 1,300 for other reasons. Orenda representatives reported that they were presently employing 5,303 men and would be laying off immediately 1,120, of whom 400 could be attributed

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directly to the CF-100 Mk VI cancellation. There would be no further lay-offs till March. The representatives of both companies had declared that they were almost entirely dependent on defence contracts for their operation. They were waiting for a decision with respect to the CF-105. If this programme were also cancelled, both companies would have to go into liquidation. In this connection the Minister said that it was hoped that a decision would be reached during the following week. The company representatives would return to Ottawa for further discussions early in the next week. They had agreed to hold up the lay-offs till then.

The Minister also pointed out that the lay-offs of the sub-contractors would also involve a large number of employees. He pointed out that the production of 35 CF-100 Mk V's for mutual aid, which he had mentioned previously, would cost \$23 to \$25 million and not \$10 to \$15 million, as he had said the previous day. In addition, of course, there would be the recurring costs for spare parts, etc. In any event, it was not certain that Denmark would accept such a gift. The United States were anxious to get rid of their F-86D surplus and were prepared to give them away. Some other N.A.T.O. countries might wish to accept a certain number of planes. Any such mutual aid transfer, however, would require a supplementary vote to finance it. The R.C.A.F. had a satisfactory supply of CF-100 Mk V's and could not, therefore, place any further orders.

6. During the discussion the following comments were made:

(a) An examination should be made of the Army's requirements for army transport planes and helicopters. De Havilland had just begun producing the "Caribou".

(b) Strong efforts should be made to restore the cancelled programme, at least in part, in an attempt to prevent the lay-offs.

(c) Since the expenditure of \$25 million to build 35 CF-100 Mk V's was too much it might be in order to build 10.

(d) This was again a situation where any steps taken to alleviate the unemployment situation in a particular area might call for similar measures across the country where unemployment was likely to develop.

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(e) It was pointed out that in some parts of the country an expenditure of \$25 million to save the seats of three Members of Parliament and the jobs of 2,000-3,000 persons would be considered out of all proportion. This would appear as too much concentration on a local problem.

(f) However, these lay-offs would be the first major increase in unemployment directly attributed to action of the government and efforts should be made to lessen the effects which could influence the government's chances of re-election.

7. The Cabinet noted the report of the Minister of National Defence on the meeting with Avro Aircraft and Orenda Engine officials and agreed,-

(a) that enquiries should be made as to whether some N.A.T.O. countries would accept a gift of a limited number of CF-100 aircraft;

(b) that possible arrangements to slow down the proposed lay-offs be studied; and,

(c) that the matter be again brought before the Cabinet after the visit of the representatives of Avro Aircraft and Orenda Engines on the following Tuesday.

By-election; Yukon District

8. The Prime Minister stated that Mr. Allister Grosart had reported to him on conditions in the electoral district of the Yukon. In his opinion, this riding should not be left any longer than necessary without representation in the House and an election at the earliest possible moment would increase the possibility of a Conservative victory. The same candidate who had run last June was available. Mr. Grosart had also reported that 50 per cent of the R.C.A.P. personnel at Whitehorse would be leaving shortly.

9. The Cabinet noted the Prime Minister's report and agreed that a writ be issued at once setting December 16th as the date for polling in the electoral district of the Yukon.

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(b) If the undertaking were repudiated, the gas and oil industries in the west would be in an immediate uproar. Careful thought must then be given to the decision. It was argued forcefully, on the other hand, that representations from private sources respecting the question should be disregarded, but that the position of the industry as a whole should be kept much in mind.

(c) When Mr. Howe sent his two letters he was exceeding the powers granted by Parliament. Therefore it could be said that, if and when Midwestern's application to import were approved by the U.S.F.P.C., the situation would be considered on the basis of the then existing facts.

22. The Cabinet noted the reports of the Prime Minister and the Acting Minister of Trade and Commerce on the assurances given by the Minister of Trade and Commerce in the previous government respecting the export of gas by Trans-Canada Pipe Lines Ltd., and agreed that it be considered further as a matter of urgency and that, pending this study, any questions respecting it in the House of Commons be taken as notice.

Avro-Orenda lay-offs; continuation of the
CF-105 programme
(Previous reference Oct. 25)

23. The Minister of National Defence reported that the problem of lay-offs at Orenda Engines Ltd. and at Avro Aircraft Ltd. had been further studied by him and the Acting Minister of Defence Production with their officials and with officials of the two companies, in an attempt to reach a programme which would be acceptable to the R.C.A.F. and at least reduce the lay-offs.

Officials of Orenda Engines intimated there would be an immediate lay-off of 1,120 men, and further ones up to a total of 1,970 by next June. By accelerating work on the Iroquois engine, transferring some work from de Havilland's at Downsview, producing additional engines for 20 CF-100's, and by transferring some work from the United Kingdom, the lay-offs at Orenda would be reduced to 450. For this programme \$5.8 million would be required in 1957-58 and \$6 million in 1958-59. The funds required in 1957-58 could be met from the present R.C.A.F. vote.

As regards Avro Aircraft, a new programme of tool improvement and the production of 20 additional CF-100 Mark V's would reduce lay-offs by next June from 2,100 to 1,075. Normal attrition would take care of a portion of these lay-offs. In 1957-58, \$2.5 million would be required and in 1958-59, \$7.25 million. The R.C.A.F. had no requirement for these extra CF-100's but they would probably be acceptable as mutual aid for some N.A.T.O. countries.

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These two proposals were based on the assumption that the CF-105, or Arrow programme, together with work on its Sparrow missile, would continue. A decision on this important project was therefore required now. The CF-105 was a supersonic fighter designed to encounter the anticipated bomber threat the Russians might have in the 1960's. By March 31st, 1958, \$226,260,000 would have been spent on its development. It had not yet flown, and further development and testing was required before a decision could be made to go into production for squadron service. An estimated \$172,612,000 was required during the next fiscal year for the Arrow and related equipment, including the Sparrow II missile. The production programme might begin the year following.

The pre-production programme anticipated construction of 29 aircraft. Some of these, no doubt, could be taken into squadron service if it were decided to equip the R.C.A.F. with this aircraft. The programme for the CF-105 and its intended Sparrow missile had been re-assessed. It had been confirmed that the Arrow promised to be superior to any other known contemporary fighter and it was considered an essential requirement of the R.C.A.F. The Chiefs of Staff agreed that the work on it should be carried forward.

The Minister recommended that the development programme for the CF-105 and Sparrow II missile proceed for a further twelve months and a decision be then made as to whether the government embark on procurement. He also proposed that the programmes to reduce lay-offs at Orenda Engines and Avro Aircraft be implemented.

An explanatory memorandum was circulated. (Memorandum, undated, unsigned, headed "AVRO-ORENDA Lay-Off")

24. Mr. Pearkes added that the CF-105 programme could be stopped if new developments warranting such a step occurred. He recognized that an enormous amount of money was involved but he could suggest no alternative.

25. During the discussion the following points emerged:

(a) So far as the lay-offs were concerned, the solution suggested went a long way towards solving the problem.

(b) As for proceeding with the CF-105, it was a tremendous gamble. \$400 million would have been spent before it was known if the aircraft could be put into use in the R.C.A.F. However, there was no time to study and weigh the programme in its entirety. Meanwhile, the situation could be closely watched and the programme stopped if necessary.

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(c) The Prime Minister of the United Kingdom had said a few days before that central banking policy in his own country and probably in the U.S. and Canada would have to be modified. The fear of inflation had been replaced by a growing fear of widespread unemployment. The lesser of two evils was to deal appropriately, and in time, with the question of money supply. A strong stand would have to be taken with the Bank of Canada.

(d) The transfer of some work by Orenda Engines from the U.K. was going to occur in any event, so there was no question of reducing U.K. purchases.

(e) As regards the employment situation generally, an additional amount of money to the \$150 million made available for low-cost housing should be provided.

26. The Cabinet noted the report of the Minister of National Defence on the lay-offs at Avro Aircraft, Ltd. and Orenda Engines, Ltd. in Toronto and on the CF-105 programme, and approved,-

(a) the continuation for another 12 months of the development programme for the Arrow (CF-105) aircraft, including the ordering of 29 pre-production aircraft, improvement of tooling for the aircraft, acceleration of the development of the Iroquois engine, and continuation of the necessary related programmes;

(b) the continuation of the Sparrow II missile programme;

(c) the procurement of an additional 20 CF-100 Mark V aircraft and the conversion of the Orenda engines necessary for them; and,

(d) the transfer of certain engine repair and overhaul work to Orenda Engines, Limited.

Legislation; War Veterans Allowance Act
amendment
(Previous reference Oct. 24)

27. The Minister of Veterans Affairs said that it would be desirable for the changes in the benefits to come into effect on the same date as the increased benefits in the other social security measures to be introduced this session, that is, on November 1st.

28. The Cabinet agreed that the approved bill to amend the War Veterans Allowance Act be further revised to provide that the increased benefits become effective November 1st, 1957.

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Air defence requirements: Astra and Sparrow
(Previous reference Sept. 21)

1. The Minister of National Defence referred to the decisions of the preceding day concerning the continuation of development of the Arrow aircraft and Iroquois engine, and in particular the proposal to continue the development of the Astra fire control equipment and Sparrow missile in so far as that could be done within Canada. He said that investigation of the latter proposal this morning indicated that it was necessary either to continue the development programmes in toto for these items or to cancel them, as it was not possible to continue the Canadian portions alone. The major portion of the expenses this winter would be in the United States, particularly in respect of the Astra.

2. During the discussion:

(a) Various suggestions were made for continuation or expansion of electronic work of one kind or another in Canada, including the possibility of a rapid development of the electronic equipment under consideration for the Post Office, and on which some \$3 million had already been spent.

(b) It was agreed that any decision on this matter should be deferred until later in the day when the Minister of Defence Production could be present after returning from the Commonwealth Conference in Montreal.

3. The Minister of Defence Production noted, on resumption of the meeting in the afternoon, that, if the development of the Arrow aircraft were to be carried on, there was great advantage in deciding forthwith about the future of the Astra. He noted that one alternative was to stop development of both Astra and Sparrow and switch to the American counterparts already developed, making the necessary modifications in the air-frame development. Another alternative would be to transfer the whole development of the Astra immediately to Canada, adapt the Falcon missile to it, and close out the development of the Sparrow.

4. The Minister of National Defence expressed the view that if, as seemed likely, the development of the Arrow would be terminated at the end of March, the sensible thing to do would be to terminate the development of the Astra and Sparrow at the present time. Even if it were decided to continue with the production of a small number of the Arrow aircraft, it would still appear sensible to terminate the highly expensive Astra development. The electronic engineers and other technical personnel would be better employed to get to work on missiles and receive special training rather than continue the expensive work on the Astra and Sparrow. It would be necessary to modify the Arrow to use the alternative fire control system in it.

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5. The Cabinet agreed that the programme for the development of the Astra fire control equipment and the Sparrow II missile should be terminated forthwith, and that this decision should be announced the following day along with those decisions on the air defence programme taken the preceding day.

Binding of rates of duty under the British preferential tariff
(Previous reference Sept. 21)

6. The Prime Minister suggested that the recommendation of the Minister of Finance that the government agree to bind the present British preferential rates of duty on the list of tariff items attached to his memorandum might now be approved, and the decision might be made public in such manner and at such time as the Minister of Finance might decide.

7. The Cabinet, after further discussion, agreed to bind the British preferential rates of duty, in the manner provided by the General Agreement on Tariffs and Trade, on the list of tariff items attached to the memorandum of the Minister of Finance on this subject, dated September 19th (Cab. Doc. 269-58).

Lisbon Conference on the revision of the Convention for the Protection of Industrial Property
(Previous reference Sept. 8)

8. The Secretary of State reported that it would be in order for Mr. Christopher Robinson, O.C., to be technical advisor and alternate delegate at the diplomatic conference for the revision of the Convention for the Protection of Industrial Property to be held in Lisbon beginning October 6th. He himself was planning to be present at this conference on or about October 15th. Dr. Philippe Fanneton, the Canadian Ambassador to Lisbon, would act as head of delegation until he arrived in Lisbon.

9. The Cabinet noted with approval the report of the Secretary of State concerning the Canadian delegation at the forthcoming conference in Lisbon on the revision of the Convention for the Protection of Industrial Property.

Income Tax Appeal Board; appointments

10. The Cabinet approved the recommendations of the Minister of National Revenue, -

(a) that Mr. Cecil L. Snyder, O.C., Assistant Chairman of the Income Tax Appeal Board,* be appointed Chairman of the board for the period September 22nd, 1958, to January 31st, 1964; and,

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Unemployment Insurance regulations re fishermen

15. The Minister of Labour recalled that the Unemployment Insurance Act had been amended in 1956 to permit "coverage" under the act for self-employed fishermen. The regulations were complicated and difficult to apply and in the light of experience it had been shown that some simplification should be brought to these special rules for fishermen. An ad hoc committee of ministers had reviewed these regulations the previous week and agreed upon a number of amendments made by the Unemployment Insurance Commission. These amendments would not likely increase the burden on the Treasury to any degree.

(Copies of a submission to council and attached regulations had been circulated).

16. The Cabinet approved the amendments to the fishermen regulations under the Unemployment Insurance Act made by the Unemployment Insurance Commission and recommended by the Minister of Labour.

(An order in council was passed accordingly; P.C. 1958-1595, Nov. 26.)

Defence estimates; assumption re decision on Arrow aircraft

17. The Minister of National Defence noted that there was a problem, in making up his main estimates for 1959-60, as to what assumption should be made about the decision to be taken before the end of March concerning future policy in regard to the Arrow aircraft and the Iroquois engine. He proposed to assume that the contract would be cancelled and to include only the cancellation costs. Should the decision go the other way, a supplementary estimate could be submitted to Parliament.

18. The Cabinet agreed to Mr. Fearkes' suggestions on treatment of Arrow aircraft costs in defence construction.

Strike at Sorel Industries

19. The Minister of Defence Production reported that he had received a telegram from the National Metallurgical Federation (Mr. Gérard Picard) saying that a strike had been declared at Sorel Industries Limited. The company and the syndicate had failed to reach agreement on salaries and other monetary advantages. Mr. Picard had stressed the importance of Sorel Industries for the defence of Canada. He had stated that, after serious study, the syndicate was requesting that the Canadian government, in the general interest of the country, either grant subsidies to Sorel Industries in order to retain the experts who would otherwise probably be lost to Canada, or nationalize Sorel Industries in view of the vital importance of this arsenal for the defence of Canada and the members of N.A.T.O.

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Western grain producers acreage payment
regulations; proposed amendments
(Previous reference Oct. 16)

18. The Minister of Agriculture explained that the western grain producers acreage regulations provided that payments were to be made to the party shown as the permit holder in Canadian Wheat Board Delivery Permits and that the amount of the payment was not to exceed \$200 in respect of the cultivated acreage shown in each permit book. Of the 226,000 delivery permits issued by the board, some 3,700 were unit permits, including in one book acreages farmed by more than one actual producer. The individual producers were identified or referred to in the permit as joint permit holders. The regulations failed to recognize the situation where, for example, two brothers might each cultivate half a section of land and own between them machinery, etc., to reduce capital costs. They should each be entitled to receive a separate payment of \$200. There were also 20 co-operative farms which were also regarded as joint permit holders. The proposed amendments to the regulations would cover them. There were a few instances of delivery permits being held by parties resident outside Canada. The proposed amendments to the regulations would provide that payments were to be made only to parties resident in Canada. The Minister said that the average cost would be approximately \$176 per permit.

19. The Cabinet approved the amendments proposed by the Minister of Agriculture to the western grain producers acreage payment regulations.

(An order in council was passed accordingly; P.C. 1958-1629, Nov. 27).

Statements of Air Marshal Slemon at NORAD Headquarters

20. The Acting Prime Minister said that some ministers had expressed concern about reports in the press concerning statements alleged to have been made by Air Marshal Slemon at a press conference at NORAD Headquarters the previous week.

21. The Minister of National Defence referred to the practice in NORAD of receiving groups of visitors, and to the regular form of briefing given about continental air defence. During the previous week, Canadian and U.S. newsmen had been invited to NORAD Headquarters. At this time Air Marshal Slemon had spoken to the group and had been questioned by them. Statements appearing in the Canadian press had implied that Slemon had placed the government in a difficult position and had discussed matters of government policy which normally are outside the province of senior military officers.

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The Minister said that Air Marshal Slemon had been informed of the reaction of the press in Canada although he had not as yet received the relevant press clippings. He read a report which he had received that day from the Air Marshal. This indicated that an attempt had been made by some newsmen to distort what had actually been said. Slemon had only stated facts. He had said, among other things, that there was still a threat from manned bombers and that manned interceptors would still be required for a number of years to come. He had also said that the need for ground-to-air missiles would assume an increasing share in defence. This, in fact, corresponded to what the Prime Minister had said in his statement of September 23rd, on the revision of the Canadian air defence programme. The Minister did not think that Slemon could have said that the CF-105 would not be the best aircraft even when compared to the American 106.

In his report Air Marshal Slemon stated that, after the press statement, a newspaperman had intimated that there was a risk that his head might fall in the gutter as a result of his statements during the press conference. At the dinner which followed, Slemon referred to the interpretation of his words and pointed out that the responsibilities of NORAD did not extend to recommending weapons, etc., to the U.S. or Canadian governments. He had not referred to what policy the government should adopt.

22. Mr. Pearkes did not feel that Slemon had placed the government in an embarrassing position. He would be willing, if necessary, to make a statement denying the distorted reports which had appeared in some sections of the Canadian press.

23. During the discussion the following points were raised:

(a) There was no doubt that the government's decision on the CF-105 would be discussed in the House of Commons and some felt that Slemon's statements might, by implication, leave the impression in the country that the advice received from the Chiefs of Staff had been rejected by the Cabinet. His statement might be looked upon as undermining the basis of the Cabinet's decision. It looked as though a senior officer, who should have known that the matter was a political issue, was putting the government in an unfortunate position. It appeared from the press reports that Slemon had been misguided and had made a mistake. The question was whether a military officer had acted in a manner to challenge the civil control of policy.

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(b) A denial, if made, would have to be made before the House met. It might be preferable to wait until Slemon had an opportunity to review the statements which had appeared in the Canadian press and had made a further report to the Minister of National Defence. The denial statement should, of course, be made by the Minister of National Defence and not by a service officer.

(c) In referring to the need for interceptors, Slemon had said that they would be required by NORAD. Throughout his report he had made it clear that during the press conference he had referred only to NORAD and nowhere to the R.C.A.F. as such.

(d) The Canadian Press story reporting what departmental officials in Ottawa were alleged to have said about the Prime Minister's statement on the desirability of Colombo Plan recipient countries taking Canadian wheat, appeared to be much more serious than Air Marshal Slemon's alleged action.

24. The Cabinet agreed that further consideration of the matter be deferred until Air Marshal Slemon had had the opportunity to read and comment on the relevant clippings of the press in Canada on his statements at a NORAD press conference, and noted the assurance of the Minister of National Defence that the regulations about officers making public statements were being tightened up.

Economic Outlook Report, 1959

25. The Minister of Trade and Commerce said that the Economic Outlook Report for 1959 would come out at the end of February or early in March, and he wondered whether the report should be circulated widely on a confidential basis as in the past. He had been surprised to learn that approximately 140 copies had been circulated. He wondered whether a second report should now be prepared for budgetary purposes and be circulated only to Ministers. It was difficult to prevent these reports from falling into unauthorized hands. He suggested that circulation be restricted and properly controlled. Each copy should be numbered, and signed for by the recipient.

26. During the discussion it was considered that the publication of two separate Reports would be just as difficult to conceal. This type of report should not be made public until it had become stale. It was in fact a forecast for the budget.

27. The Cabinet noted with approval the suggestions of the Minister of Trade and Commerce with respect to care to be taken in circulating the next Economic Outlook Report by his department.

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Statements by External Affairs departmental officers

1. Mr. Fulton, as Acting Secretary of State for External Affairs, referred to statements alleged to have been made by civil servants to the effect that they were "astonished" that the Prime Minister would seem to imply, as reported in a Colombo dispatch, that Canada would like to see a large share of the planned increase in Colombo plan aid used for ridding Canada of surplus grain. An inquiry within the Department of External Affairs had revealed that an officer had received a phone call from Harold Morrison of the Canadian Press about this matter. The official was certain that he had not stated that he was "astonished" at the Prime Minister's comments. What he had said was that he would be very much surprised if the Prime Minister had announced new government policy from Colombo. He had then "filled in" Morrison on Colombo Plan aid. He had not said that the Prime Minister was treading on delicate ground in calling on the Asian Colombo Plan countries to step up their imports of Canadian wheat and flour, as stated in Morrison's article.

The department was planning to strengthen its press liaison work and the officers in the department would be warned about the risks in speaking to newspapermen and particularly in commenting on press statements.

2. The Cabinet noted the report of the Acting Secretary of State for External Affairs on the comments alleged to have been made by a departmental officer to Mr. Harold Morrison of the Canadian Press.

Statements of Air Marshal Slemon at NORAD Headquarters
(Previous reference Nov. 27)

3. The Minister of National Defence said that Air Marshal Slemon had now seen the Canadian press reports referring to the recent press conference of Canadian and U.S. newspapermen at NORAD Headquarters. Slemon had said that a review of the transcript clearly showed that some of the principal assertions, which some Canadian newspaper reports had claimed he had made, were entirely without foundation. There had been a tape recording of the conference. The Minister said that it seemed obvious that the more sensational reports had been made by people who were not even present at the conference at NORAD. Furthermore, he did not think that he should make a corrective statement. This would only keep the pot boiling. He had written to Slemon reminding him that responsibility for policy statements rested with members of the government and advising him that if he was again questioned about the CP-105, he should reply that it was not part of NORAD inventory.

4. The Cabinet noted the reassuring report of the Minister of National Defence on the statements alleged to have been made at NORAD Headquarters by Air Marshal Slemon.

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Air defence requirements: Arrow aircraft
(Previous reference Dec. 2)

24. The Prime Minister said he had been shocked at the statement Air Marshal Slemon had made about the Arrow. It was not a question of whether Slemon's remarks had been misinterpreted or not but whether he should have made a statement of that kind at all. Avro had put on a tremendous publicity campaign and this played right into their hands. If the government decided to continue development it would be accused of giving in to a powerful lobby. Pressure was coming from other sources in Ontario too. Even if he thought the decision reached last September was wrong, he was determined, because of what had happened since, to adhere firmly to it. The future of the CP-105 would have to be discussed before Parliament opened.

25. The Minister of National Defence pointed out that it was still his understanding that development would be terminated by March 31st. In Paris, the U.S. Secretary of Defence had made it quite clear that the U.S. was not interested in the CP-105, even if it were equipped with the MA1 fire control system and the Falcon missile. The U.S. had now decided not to proceed with the development of any new interceptor aircraft except for the 108 which was years in the future. This was a long range aircraft of advanced design to be employed from bases in Alaska and Greenland. This U.S. decision would strengthen the government's position in deciding to abandon the CP-105.

26. The Cabinet noted the reports of the Prime Minister and the Minister of National Defence on the situation regarding the CP-105 and agreed that a decision be reached on the aircraft's future before Parliament re-opened.

Proposed request for withdrawal of Soviet Assistant
Military Attache
(Previous reference Dec. 16)

27. The Secretary of State for External Affairs again reviewed briefly the activities of the Assistant Military Attache of the Soviet Union. He thought the government should ask to have the man withdrawn.

28. During the discussion the arguments for and against taking action were again considered. It seemed that whatever was done would not affect the current trade negotiations with the U.S.S.R. It might be advisable, however, to defer a decision until after Christmas.

29. The Cabinet agreed that unless new arguments were submitted by the following week against doing so, the Soviet authorities be requested to recall the Assistant Military Attache for engaging in activities not in keeping with his diplomatic status.

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Invitation to Soviet leaders to visit Canada

6. The Prime Minister, referring to the forthcoming visit of the U.S.S.R. First Deputy Premier to the United States, asked whether Mr. Mikoyan should be invited to come to Canada following his U.S. visit. He also wondered whether Mr. Khrushchev should be invited.

7. During the brief discussion there was general opposition expressed to inviting either Mikoyan or Khrushchev. The purpose of Mikoyan's visit to the U.S. was still not clear. There was some hope that he might be prepared to discuss the Berlin situation. During the recent Soviet-Canada trade discussions, the Soviet delegation had suggested that the resulting agreement, this time, be signed in Moscow. If this met with the government's approval, Mikoyan might be invited here as a friendly gesture. However, unless the government had in mind achieving some real benefits from a Russian visit, invitations had better not be made. Opposition would certainly come from Quebec and groups of new Canadians, etc. It was recalled that when Khrushchev had visited the United Kingdom, he had appealed directly to the British people over the head of the U.K. government.

8. The Cabinet agreed that no action be taken to invite Soviet leaders to visit Canada at this time.

Civil Service; time off for Roman Catholics on Epiphany

9. The Secretary of State said he had sent a letter to the Prime Minister that day about a request from the Civil Service Commission that Roman Catholic civil servants be given time off to attend church services on Epiphany. He explained that this request had always been granted in the past. It was a purely routine matter.

10. The Cabinet agreed that the Civil Service Commission be allowed to grant to Roman Catholics time off to attend church services on January 6th, Epiphany Day.

CF-105 (Arrow) programme; cancellation
(Previous reference Dec. 22)

11. The Prime Minister asked whether any member of the Cabinet wished to change the decision which had been made on the Arrow programme.

12. The Minister of National Defence said that there was no change in the opinion of his advisers on the matter and he pointed out that, if the government decided to make an announcement before March 31st, the sum of \$10 million could be saved from the following year's estimates. Only \$50 million had been included in these estimates to cover cancellation charges or to enable the development to be carried on for a three-month period should the decision go the other way. He added that the latest cost figures provided by Avro (with the Falcon and Hughes fire control and missile system) indicated that the best cost possible per aircraft would be \$5 million.

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13. During the discussion it was hoped that something could be done for the aircraft industry to soften the blow which would result from the cancellation of the Arrow programme. It was pointed out that, if the Convair-Canadair bid were accepted by the United States, the business would not go to Avro but to Canadair in Montreal.

14. The Cabinet noted the comments of the Minister of National Defence on the question of cancelling the Arrow programme.

R. B. Bryce,
Secretary to the Cabinet.

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Report on Arrow (CF-105) aircraft programme
(Previous reference Doc. 31, 1958)

26. The Prime Minister asked that the statements which had appeared in the Globe and Mail of that day on the Arrow (CF-105) programme be analysed so that he could answer them in detail.

29. The Minister of National Defence said that, as far as the Chiefs of Staff were concerned, there were, as at December 31st, 1958, no new military factors, either in regard to the manned bomber threat or new developments to meet this threat, which they considered would have any bearing on the Arrow aircraft programme. He read from a report submitted to him the day before by the Chief of the Air Staff. It indicated that the Mal/Falcom/MBL could be worked satisfactorily into the Arrow aircraft and would provide a suitable interceptor weapon capability. There were at present five Mark I Arrow aircraft, and their handling and performance characteristics were extremely reassuring. The adoption of the Falcon and Hughes systems had given additional fuel storage space so that, in a supersonic mission, the radius of action of the aircraft had been increased from 238 to 354 nautical miles, and in a subsonic mission from 347 to 506 nautical miles. Another effect of the adoption of the U.S. fire control system and weapon to the Arrow programme was that development could be speeded up. The Avro Company had now advised that the first operational aircraft could be delivered for squadron use by September 1960 and that after January 1st, 1961, aircraft would be delivered at the rate of four per month. If 100 aircraft were required, the last aircraft could be delivered some time in 1963.

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As far as the costs were concerned, the original price for 100 aircraft, as from September 1st, 1958, was \$12.86 million per aircraft. The revised figures under the new programme, as from April 1st, 1959, would be \$7.02 million per aircraft. The price had, therefore, dropped from \$12.86 million to \$7.02 million per aircraft. (This did not include cancellation charges of the Astra/Sparrow systems).

He then referred to the relative contributions of the United States and Canada towards the deterrent forces in North America. Figures from the U.S. indicated 800 supersonic interceptors in service and sufficient funds to procure another 650. The United States had recently decided to cancel the F-106C and F-106D programme and to use the funds so saved to develop the long range reconnaissance aircraft, F-108, which was not dependent on SAGE and was now on the inventory of NORAD. An additional 100 interceptors from Canada would make a small contribution. Furthermore, the CF-105 could not cover all of Canada. Its range was limited from 300 to 500 miles.

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The Minister indicated that another reason for the decrease in the company's cost figures was that it had been found that only 20 pre-production types would be required instead of 37.

In answer to questions, he said that the Bomarc was now operational and that Canada would not be faced with the need to buy U.S. interceptors. He pointed out that when there would be no further requirement for the CF-100, a much cheaper means of defence would be found in the Bomarc. Reliance could be placed on the United States to provide whatever interceptor defence was necessary.

30. During the brief discussion it was pointed out that this would not be the appropriate time to make a decision on the Arrow programme in view of the fact that the government had said that they would not make this decision until March.

31. The Cabinet noted the report of the Minister of National Defence and agreed that no decision be taken that day on the Arrow programme.

R. B. Bryce,
Secretary to the Cabinet.

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Arrow aircraft; alternative aircraft programme

17. The Minister of Finance said that almost as soon as he tabled the main estimates for 1959-60 it would become known that there was no provision for expenditures on the Arrow beyond April 1st, except cancellation costs.

18. The Prime Minister said he had received suggestions that Avro might be given a contract to produce, under licence, a Blackburn aircraft of United Kingdom design. It was his understanding that this aircraft might be suitable both as an interceptor and for ground attack purposes. Such a development would be helpful in furthering the government's Commonwealth policy.

19. The Minister of National Defence said the Blackburn aircraft was not in existence yet and could not be available for three years. It had been studied as a possible replacement for the F-86 in the R.C.A.F. Air Division in Europe. The R.A.F. military authorities had in mind two roles for the Air Division, - all weather reconnaissance and strike. These could be carried out as long as the CP-100 remained in operation. They had suggested, however, that the F-86, with which the Air Division was also equipped, be replaced by an aircraft with a strike capability. The most promising was a Grumman machine. This would have a large measure of Canadian content in it perhaps 70 per cent, and much of the work might be done at the Avro plant at Malton. It would be manufactured under licence from the U.S. company. It was just barely supersonic. At the moment he was inclined towards replacing the F-86's in the Air Division and doing nothing about the CP-100's.

20. The Cabinet noted the brief reports on the Arrow and possible future aircraft programmes and agreed that these matters be discussed again in the near future.

St. Lawrence Seaway tolls; Memorandum of Agreement with the United States
(Previous reference Jan. 14)

21. The Minister of Trade and Commerce said he had no objections of detail to the recommendations contained in the Tariff of Tolls on the St. Lawrence Seaway. He would naturally prefer no tolls on the Welland Canal at all, but he had no specific proposals to make at this time.

22. During the discussion the question of charging tolls on the Welland Canal was reviewed again at length. If it was decided not to levy tolls now it would be impossible to impose them when "twinning" of the locks was undertaken to increase capacity. This would cost approximately \$100 million, and was a burden which the taxpayers generally should not reasonably be

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Freight rates; subvention to alleviate recent increase
(Previous reference JAN. 28)

8. The Minister of Transport reported that one plan which had been developed for applying the \$20 million freight rates subvention involved payments to all the carriers, including water carriers, associated with the application for the 17 per cent freight rate increase. This would only reduce the increase to 10 per cent, however, and was therefore not acceptable to several ministers.

9. During the discussion the following points emerged:

(a) If the subvention had to be paid to all carriers, then an additional \$4.3 million would be required to reduce the increase by approximately 50 per cent. Several had argued that it was unnecessary to make payments to all the carriers involved, but this would be discriminatory and undoubtedly lead to difficulties with those companies whose wage rates had also risen.

(b) An alternative proposal that the subvention apply only to shipments into and out of the Western and Atlantic regions and within those regions themselves had been put forward, but a study of it showed that the Maritimes would not receive an adequate proportion of the \$20 million. This was not satisfactory.

10. The Cabinet noted the report on possible methods of applying the \$20 million freight rates subvention to alleviate the 17 per cent freight rate increase and agreed that the Cabinet committee on this subject continue its studies and submit a suitable proposal.

Bill to amend the St. Lawrence Seaway Authority Act

11. The Cabinet approved the resolution to precede the bill to amend the St. Lawrence Seaway Authority Act.

Estimates 1959-60: possible announcement on the CF-105 Arrow aircraft
(Previous reference JAN. 28)

12. The Prime Minister said that, when the estimates for 1959-60 were tabled, questions would probably be asked about production of the Arrow aircraft. In the circumstances, it might be advisable to make a final decision now, and announce it when the estimates were tabled. He had discussed the Arrow and other defence matters with the Chiefs of Staff a few days ago, and they had said that no new military factors regarding either the manned bomber threat or developments to meet the threat had emerged since September which would have a

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bearing on the Arrow decision. He had raised with the Chiefs the possibility of the United Kingdom "Blackburn" replacing existing equipment in the Air Division. If this were a suitable aircraft, then the work might be given to AVRO. However, they favoured U.S. equipment.

13. During the discussion the following points emerged:

(a) It was not vital to make a statement immediately. The wiser course would be for the Cabinet Defence Committee and the Cabinet to consider what steps might be taken to maintain employment at AVRO and then announce a programme at the time the final word was given on the Arrow.

(b) It was impracticable to think of providing other work for AVRO as soon as the Arrow programme was halted. It would take many months before any contracts could be awarded.

(c) The sooner the decision was made on the Arrow, the more money would be saved on cancellation charges and could be made available for other purposes. It was quite evident what the decision would be. Nothing would be gained by deferring it any longer.

14. The Cabinet deferred decision on the future of the CF-105 Arrow aircraft programme to the next meeting.

Administrator under
British Columbia Coast Steamship Service Act;
termination of appointment

15. The Cabinet approved the recommendation of the Minister of Labour that the appointment of Mr. R.K. Smith, as Administrator under the British Columbia Coast Steamship Service Act, be terminated with effect from February 3rd.

(An order in council was passed accordingly; P.C. 1959-118, Feb. 3).

Wheat export programme 1958-59; government
assistance

(Previous reference Aug. 29, 1958)

16. The Minister of Trade and Commerce recalled that, last August, the Prime Minister had stated that the government intended to ask Parliament during the current session to continue to provide financial assistance for exports of wheat and flour. During the 1957-58 crop year, exports were 316 million bushels, of which 285 million were commercial sales and 31 million gifts or special loans. Commercial sales for the 1958-59 crop year might not exceed 260 million bushels and, to reach the target of 300 million, assistance would be needed either by a special sum in the estimates

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CF-105 Arrow Programme
(Previous reference Feb. 3)

6. The Minister of National Defence reported again on the present state of the CF-105 Arrow programme. In addition to the information he had given previously, he noted that, from the end of September 1958, until the end of January 1959, \$60 million had been spent on the development of this aircraft and that, if development continued until March 31st, \$45 million more would be expended. The average cost per weapons system for a programme of 100 operational aircraft was now estimated to be \$7.81 million. This excluded termination charges for the Astra/Sparrow from September 1st, 1958, which were estimated to be \$28 million. Although the cost had been reduced from \$12.6 million to this figure, he still considered that the production of 100 such aircraft could not be justified at this price. The Chiefs of Staff were, as directed last September, urgently investigating requirements, if any, for additional air defence missile installations in Canada, and for interceptor aircraft of the nature of the CF-105 or alternative types.

He recommended that development of the CF-105 be discontinued and that the Chiefs of Staff present at an early date the recommendation they had been requested to make.

An explanatory memorandum was circulated, (Minister's memorandum, Jan. 30).

7. Mr. Pearkes added that, at the moment, there did not appear to be anything in the U.S. inventory of aircraft that would justify a decision to purchase. The Chiefs of Staff were considering the possibility of having some Bomarc squadrons moved from south of the border in the central U.S. to areas in western Canada. If it were felt that the manned bomber threat was decreasing, then it was obviously preferable to concentrate on defensive missiles rather than to continue with the production of interceptors.

8. The Prime Minister said it would be necessary to have a meeting of the Cabinet Defence Committee before making the final decision on the Arrow.

9. During the discussion the following points emerged:

(a) If a question on the future of the Arrow were raised when the estimates were tabled, it should be answered in a way which would show that a decision on the programme would be taken before March 31st. There was sufficient money in the estimates to pay for cancellation charges or to continue development for a while.

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(b) If the Arrow development were cancelled and no alternative interceptors were produced in Canada or purchased elsewhere, then, in the event of a war, and when the CF-100 was no longer in service, Canada might have to rely on the U.S. to provide manned fighter defence. Under the terms of the NORAD agreement, U.S. squadrons could be stationed temporarily on Canadian airfields.

(c) The personnel in the R.C.A.F. which would have otherwise been employed in flying the CF-105 and servicing it would be absorbed in work in connection with S.A.G.E., additional radars and on other duties.

(d) The re-equipping of the Air Division in Europe was a separate problem. At the moment, the most urgent aspect of the situation was a replacement, if any, for the F-86 Sabre which was obsolete. The Cabinet Defence Committee would be considering this problem and would make recommendations in the near future to the Cabinet about it. Replacing the Sabres overseas would cost at least \$350 million.

10. The Cabinet noted the report of the Minister of National Defence on the CF-105 Arrow programme and the ensuing discussion, and agreed that the matter be considered by the Cabinet Defence Committee the following day.

Premium Iron Ores
(Previous reference Dec. 16, 1957)

11. The Minister of Justice said representations had been made on behalf of Premium Iron Ores that the government should insist that the United States government bring to the attention of the U.S. court hearing the case, the view of the Canadian government that its position in the matter was not in accord with the stand taken by the U.S. administration. Premium Iron Ores said this should be done because counsel for the U.S. government had stated, during the court hearings, that the Canadian government's position was the same as that of the U.S. He had raised this matter with the U.S. Attorney-General when he was in Washington recently, and Mr. Rogers had informed him that, in their briefs presented to the court, there had been no reference to the position of the Canadian government nor had counsel referred to it in his oral argument. However, counsel for the defendant had, but in doing so had stated that the Canadian government's views were at variance with those of the U.S. government. It was not at all appropriate to accede to the request of Premium Iron Ores.

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CF-105 Arrow programme; report of Cabinet
Defence Committee
(Previous reference Feb. 4)

1. The Minister of National Defence reported that the Cabinet Defence Committee had considered the recommendations he had made to the Cabinet that further development of the CF-105 be now discontinued and that the Chiefs of Staff be asked to present soon their recommendations on what requirements, if any, there were for additional air defence missile installations in Canada, and for interceptor aircraft of the nature of the CF-105 or alternate types. During the meeting, the Chairman of the Chiefs of Staff Committee reported that the Chiefs of Staff had reviewed the position concerning the production of the CF-105, and were still of the opinion that the changing threat and the rapid advances in technology, particularly in the missile field, along with the diminishing requirements for manned interceptors in Canada, created grave doubts as to whether a limited number of aircraft of such extremely high cost would provide defence returns commensurate with the expenditures.

The committee concurred in the recommendations and agreed that they be submitted to the Cabinet for consideration at an early meeting.

An explanatory memorandum was circulated, (Memorandum, Secretary, Cabinet Defence Committee, Feb. 6 - Cab. Doc. 46-59).

2. Mr. Pearkes added that it was impossible to give any assurance that manned interceptors for the defence of Canada would not be bought in the United States some time in the future, if the CF-105 programme was discontinued. It was his own opinion that the threat of an attack on North America by manned bombers was rapidly diminishing. He felt that Russia would not consider launching an attack until it had a large arsenal of intercontinental ballistic missiles. Against these, manned interceptors were useless. If, however, new evidence became available that the Soviet Union was developing more modern manned bombers, then interceptors might have to be bought. The question naturally arose as to why Canada was installing Bomarc when it was effective only against manned bombers. The answer was, that some insurance premium had to be paid against the possibility of bomber attack and this premium was cheaper by far than the CF-105. The U.S. had agreed to pay \$91 million out of a total of \$110.8 million for the installation of the two Bomarc squadrons in Northern Ontario and Quebec.

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3. During the discussion the following points emerged:

(a) At the meeting of the Cabinet Defence Committee, the Chief of the Air Staff had stated that the R.C.A.F. would need 100 to 115 interceptor aircraft for several years ahead. These would have to be bought in the U.S. or, failing that, presumably U.S. squadrons would provide interceptor defence for Canada. This would be particularly awkward when, at the same time, the 1st Canadian Air Division might be in the process of having its F-86 aircraft replaced by more modern machines at a cost of about \$400 million to \$500 million. In effect, Canada would be defending Europe, and the U.S. would be defending Canada.

(b) On the other hand, the role of the Air Division was different from that of the R.C.A.F. in Canada. Furthermore, if the F-86 were not replaced, the Air Division might just as well be withdrawn from Europe, and the implications of this for the N.A.T.O. alliance were very serious indeed. The proposal now being considered was to assign the Air Division a strike-attack role and equip it with aircraft suitable for the purpose.

(c) It was not true to say that the U.S. would be defending Canada if the CF-105 were discontinued. Canada would be manning the Bomarcas, the warning lines, S.A.G.E. and other installations. The U.S. would man the aircraft which, after all, was a steadily decreasing part of the defence, as the nature of the threat changed; this would mean that the presence of U.S. servicemen would be less apparent than if they were employed in different capacities.

(d) The U.S. intended now to develop the long range F-108 interceptor, which would operate from Greenland and Alaska. It was a large aeroplane, less dependent on ground environment, and very expensive. It would be defending Canada just as squadrons of the U.S.A.F. were doing today in complementing the R.C.A.F. squadrons.

4. The Cabinet deferred decision on the recommendation of the Cabinet Defence Committee that the development of the CF-105 Arrow be discontinued.

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Various means were considered for resolving the apparent deadlock in the Cabinet on this issue. It was considered whether or not a majority of, say, two thirds should be required, either to sanction execution in any case, or at least to act contrary to the recommendation of the jury for mercy. It was believed that traditional practices of Cabinets in the past gave no guide in this matter.

It was finally considered that, in view of the serious division of opinion and the recommendation for commutation that had been made by the Solicitor General and the Minister of Justice, as the responsible law officers of the government, it would not be proper to decide upon execution.

4. The Cabinet, therefore, after most exhaustive discussion, decided that the sentence of death imposed upon J.J. Vollman, Jr., convicted of murder by the Supreme Court of New Brunswick in Fredericton in November, 1956, should be commuted to life imprisonment.

(An order in council was passed accordingly; F.C. 1959-184, Feb. 14).

Arrow (CF-105) aircraft; undertaking to pay development costs; decision to terminate development
(Previous reference Feb. 10)

5. Mr. Green, as Acting Minister of Defence Production, stated that it was necessary to reach a decision as to whether or not a clear undertaking should be given to the Avro Aircraft Company that the government would meet the expenses involved in continuing development until notice of termination of the contract was given. The company had noted that the costs of this development were, in fact, likely to exceed the financial limitations that had been previously set on the programme, and that, unless these financial limitations were increased, it would be necessary for them now to begin laying off personnel until such time as the contract was extended or terminated. The Minister proposed to reply saying that the company would be paid reasonable and proper costs incurred under the development contract until it was terminated.

6. The Minister of Finance said the Treasury Board had withheld approval of proposals of this kind in recent weeks and should not be over-riden in this matter but should be allowed to consider it again. He noted that the board was confronted with too many such facts accomplished by ministers or departments in taking on commitments that exceeded the financial limitations that had been previously established.

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7. In the discussion of this proposal, the opinion was expressed that, if this undertaking were now given to Avro, it would increase the government's expenditure undesirably on this contract; no such undertaking should be given but, instead, a decision should be taken forthwith on the termination of the development contract. On this latter proposal it was noted that the Cabinet was clearly of one mind that work on the Arrow should be discontinued. A decision on the matter had practically been taken some weeks ago, but it had been thought that the Cabinet Defence Committee should meet and discuss it again with the military advisers of the government. This had now been done and the committee had recommended termination.

8. In further discussion the following points emerged:

(a) When a decision was announced it would be desirable to say as much as possible about arrangements with the United States on production sharing. It was not clear why the statement on that subject had been delayed. It should be recognized, however, that it was not possible to give Parliament any firm assurance as to the scale of the orders that the United States would in fact place under the production sharing arrangements, even though the Secretary of Defence and others in the U.S. administration were well disposed to place such orders.

(b) No member of Cabinet present was opposed to the termination of the development of the Arrow, although it was recognized that the Minister of Labour, who was not present, was impressed with the employment problem that such action would create.

(c) In the statement on this matter in September, it had been said that development would be continued until March. It was noted, however, that the circumstances which had been spoken of in that statement had changed in the meantime, particularly in regard to the crisis over Quebec, and the government, in the present circumstances, would be justified in deciding to terminate now the development programme.

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(d) It was pointed out that the government faced a serious decision in regard to the equipment of the Air Division of the R.C.A.F. in Europe. The replacement for the F-86 in the Air Division might cost over \$500 million. In fact, no decision had yet been taken by the Chiefs of Staff or the Minister of National Defence to recommend replacement, and it might be that missiles would be used instead, or some other course followed.

(e) It was also pointed out that the government faced the possibility that the R.C.A.F. might be using interceptor aircraft to defend Europe but not to defend Canada itself, which would be defended by American interceptors. This would create quite a political issue. On the other hand, it was noted that the R.C.A.F. would be using Bomarcas to defend Canada, and no decision was being proposed now to use aircraft in Europe. This issue was not directly related to the decision on the Arrow.

(f) It was agreed that other ministers should be present for this major decision, particularly the Minister of Defence Production. The final decision should therefore be taken on Tuesday next and Mr. O'Hurley be asked to be present, even at the cost of having to cancel his appointment in Halifax that day.

(g) A statement should be made in the House of Commons at the same time that the company was notified of the termination, and that statement should be ready when the final decision was taken on Tuesday.

9. The Cabinet agreed that the final decision on discontinuing the development of the Arrow (CF-105) aircraft should be taken at a meeting of the Cabinet on Tuesday, February 17th, and the decision when made should be announced forthwith to Parliament at the same time that the company was informed of it.

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(g) In presenting the current proposal, emphasis should be placed on misleading advertising.

(h) Merchants were pressing for government assistance by way of credit to small businesses. They were more interested in this than the bill to amend the Combines Act. In the circumstances, it would be wiser to drop the latter and introduce something more substantial for small business next year.

7. The Cabinet agreed that the Minister of Justice request the Unanimous Consent of the House of Commons to withdraw the order for second reading of the bill to amend the Combines Investigation Act and the Criminal Code, in order that he could introduce a new bill containing only the provisions in the present bill for the protection of small business and a clause to deal with the fishing situation in British Columbia.

Authorization to photograph Arrow aircraft
(Previous reference July 2)

8. The Cabinet agreed that now that the classified equipment on the surplus Arrow (CP-105) aircraft had been removed, there would be no objection to authorizing photographs of the aircraft itself for publication.

Cost of Lockheed F-104G programme

9. The Cabinet agreed that the Minister of Defence Production should give to the House of Commons soon the government's estimate of \$420 million for the cost of the new Lockheed F-104G programme, in order to offset the erroneous impression that the programme would cost approximately \$250 million.

Gut Dam claims; alternative course of action
(Previous reference July 3)

10. The Secretary of State for External Affairs reviewed the history of the claims arising out of the construction of the Gut Dam in the St. Lawrence River which had been built in 1923 and removed in 1953. He noted that the International Lake Ontario Board of Engineers, established by the International Joint Commission to consider the problem of regulation of water levels of Lake Ontario, had submitted reports on the subject, one of which dealt with the effects of the Gut Dam on the level of Lake Ontario. He reviewed a number of alternative courses of action which might be followed for disposing of the claims and made recommendations as to how the government might now proceed in this matter.

An explanatory memorandum had been circulated, (Memorandum, Secretary of State for External Affairs, June 23 - Cab. Doc. 186-59).

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Proposal for production by Avro of U.S. interceptor aircraft

1. The Prime Minister said that a question would undoubtedly be asked about the press report that a proposal had been made to Ministers for the production by Avro of Republic Aircraft Corporation's interceptor, the F105D Thunderchief. The report indicated that this aircraft was being considered for the re-equipment of the air division in Europe.

2. During the discussion it was pointed out that an answer which left the slightest implication that a proposal along these lines was being at all seriously considered would be very dangerous. Several other companies had made proposals for production of aircraft in Canada but no decisions had been reached, and none could be taken until all the relevant data had been collected. All that could be said was that the proposal was being considered in relation to a possible R.C.A.F. requirement.

3. The Cabinet noted the report and the discussion on the likelihood of a question in Parliament concerning a proposal that Avro might produce, under licence, Republic Aircraft Corporation's interceptor, the F105D Thunderchief.

Unemployment figures

4. The Minister of Labour reported that the Dominion Bureau of Statistics figure for persons without jobs and seeking work for the third week in April would be published next week and would show a reduction of 80,000 from the previous month. This would be 7.3 per cent of the labour force as compared with 8.6 per cent for the same month last year. The low figure for the present year would probably be in the neighborhood of 250,000. The large drop from March to April was encouraging.

5. The Cabinet noted the report of the Minister of Labour on the unemployment figures for April to be published in a few days time.

National Energy Bill

(Previous reference April 30)

6. The Prime Minister said that, in view of the urgency of proceeding with the government's legislation programme in the House, a decision had to be reached now as to whether the National Energy Bill should require the licensing of exports and imports of oil, or whether it should be left, as it was presently drafted, that this requirement could be brought into effect by proclamation.

7. During the discussion it was argued that it would be preferable to have the bill require licensing and thus avoid the necessity of taking another major decision at some time in the future. The Energy Board might decide to be relatively mild in its attitude towards exports and imports. Against this, it was pointed out that

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Arrow (CF-105) aircraft; report of Cabinet Defence
Committee; decision to terminate development
(previous reference Feb. 14)

12. The Prime Minister said a draft announcement on the termination of the development contract for the Arrow had been prepared. It included a section on arrangements with the United States for production sharing and a section on the acquisition by Canada of nuclear weapons for defence. He had gone over the draft in great detail but it was not yet in the right form to be made that day.

13. The Minister without Portfolio (Mr. Macdonnell) reported that, the previous day in Toronto, the Premier of Ontario had spoken to him in strong terms about the effects of terminating the Arrow contract upon the municipalities in the vicinity of Malton.

14. The Minister of Finance said Mr. Frost had also spoken to him in pungent language about work on the Arrow being stopped. Mr. Frost had complained about so little notice being given to Avro, and had asked why other contracts could not be given to the company. He had replied that the matter had been exhaustively considered, that all possible alternatives had been reviewed, and that the decision would be taken in the light of the best military advice available. He had also told Mr. Frost that, right from the outset, it had never been said that actual production would proceed and that everyone understood that the matter was to be reviewed year by year.

15. During the discussion the following points emerged:

(a) The sooner the announcement could be made the better, because the decision to terminate was bound to leak out and the longer the announcement was delayed the more would be the cost.

(b) The most appropriate time for the announcement appeared to be the following Friday. This, as proposed, should refer not only to the Arrow termination but also to production sharing and to the acquisition of nuclear weapons. The Prime Minister's statement should be followed by one by the Minister of Defence Production, which would deal in greater detail with production sharing. In considering this question of timing, the possibility of a motion to adjourn the house to discuss a matter of urgent public importance should not be overlooked.

(c) It would be desirable that notes be exchanged with the U.S. to implement the agreed arrangements on sharing the costs of the new radars, gap fillers, S.A.G.E. and the two Bomarc stations in Ontario and Quebec.

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16. The Cabinet.-

(a) agreed that the development of the Arrow aircraft and Iroquois engine be discontinued, effective as of the time of announcement;

(b) that an announcement concerning this decision, the production sharing with the United States, and the acquisition of atomic weapons be made in the House of Commons, probably on Friday;

(c) that the contractors be notified of the termination of their contracts at the same time; and,

(d) that an agreement be made with the United States, in the form of an exchange of notes, for the implementation of the agreed arrangements on the sharing of the costs of Bomarc and S.A.G.E. installations in Canada and the associated extension of radar coverage.

Wheat; interim payments on 1957-58 crop

17. The Minister of Trade and Commerce said that the interim payments on wheat which would be recommended would be the same as the previous year, that is, 10 cents a bushel. He noted, however, that the payment for durum wheat each year had been higher than ordinary wheat, being 25 cents instead of 10 cents. Durum wheat had for some years been in good demand, and the farmers had increased their production; by now there was a four year over-supply for export. The Wheat Board was recommending that, in order to provide less incentive for the production of durum, the interim payment should be dropped to 10 cents. He wondered, however, whether it would not be possible to proceed in two stages: provide an interim payment this year of 15 cents and the following year on of 10 cents.

18. During the discussion the following points emerged:

(a) Should an announcement about this interim payment be made far in advance of the proposed march of the western farmers on Ottawa? Some felt that many farmers were waiting for these payments and that there was really no reason to delay them. It would be good tactics to make the announcement during the first week of March.

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Statement on the Arrow
(Previous reference Feb. 17)

1. The Prime Minister said that he would make a statement announcing the termination of the Arrow contracts in the house the following day. The C.B.C. Television Service would present a programme on the following Sunday or Monday on the development of the Arrow. It would be well to make the statement before the broadcast.

He had gone over the draft statement several times but thought that it should be redrafted by a committee of ministers. The redraft could be considered by Cabinet before the statement was made in the house.

2. The Cabinet approved the suggestion of the Prime Minister that Messrs. Fleming, Pearkes, Fulton, Smith, and O'Hurley meet that afternoon to revise the draft statement on the Arrow aircraft and related matters.

Bond issue result; report
(Previous reference Feb. 12)

3. The Minister of Finance reported that the bond issue authorized the week before, made up of two maturities in the aggregate principal amount of \$200 million, had been over-subscribed by approximately \$142 million.

Response to the \$200 million issue had been as follows:

(a) On the 13 month, 2-3/4 per cent bond, \$189 million had been subscribed.

(b) On the 21 1/2 month, 3 per cent bond, \$153 million had been subscribed.

It was somewhat mystifying that some investment dealers had apparently stuck to their orders while others had subscribed much more than the orders on their books. This apparently meant that some firms had over-subscribed expecting that they would get only a fraction of the allotment.

The allocations would be \$85 million on the short-term payments and \$115 million on the longer-term bonds. In making allocations he had set a ceiling of \$10 million on each subscription.

There was reason to consider the issue a success in the present circumstances.

4. The Cabinet noted the report of the Minister of Finance on the recent bond issue.

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Arrow (CF-105); cancellation of development; parliamentary tactics

(Previous Reference Feb. 19)

1. The Prime Minister said the opposition were sure to move to adjourn the House to discuss the cancellation of the Arrow development programme. He wondered whether it would be advisable to have the debate that day, or whether it would be helpful to attempt to postpone it for 24 hours by saying that the government would welcome a debate the following day.

2. During the discussion the following points emerged:

(a) It would be wiser to have the debate immediately. The Speaker was sure to rule a motion to adjourn in order. A government suggestion for postponement would be unusual and an indication of weakness. On the other hand, the latter course would provide more time for preparation and enable the government to make the first statement in the debate, which was always an advantage.

(b) During the debate, the history of the project should be outlined with an indication that production had never been approved, and that development had been reviewed year by year to see whether it should be continued.

(c) The two principal points of criticism on the decision to cancel the Arrow programme were, first, that no efforts had been made to provide alternative employment for the Avro workers and, second, that Canada would be still further dominated by the United States.

(d) The lay-offs had been particularly abrupt, the excuse given by Avro being that the company had received no advance notice of the Prime Minister's announcement. This was unfair and misleading. The company officers were well aware, or they should have been, that the contract might be cancelled and should have been making preparations accordingly.

(e) Avro claimed that, since the Prime Minister's announcement of last September, the company had proposed alternative programmes to the government but that the latter had not seen fit to discuss these matters or consult with Avro's officers in any way. This was not true. Avro's officers had spoken to ministers frequently in the past few months. In one instance, the Minister of Transport had informed Mr. Smye of Avro that, if the

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company had a reasonable proposal to make, say for production of aircraft for civilian use, the government would consider it most carefully. In fact, during this period no such proposals had been made by the company to the government.

(f) It might be worth making payments which would enable the company to pay employees more than the usual separation and holiday pay provided for by contract. This, however, would be a dangerous precedent and it would not help the sub-contractors. In any event, those being laid off would receive unemployment insurance.

(g) Another possibility was to provide assistance for employees moving away for new jobs. This too had difficulties in that it would require an order of the Governor in Council designating the areas as a surplus labour area. If such action were taken for that region probably to include greater Toronto as a whole, it would also have to be taken for other localities.

(h) There had been a prospect of Canadaair obtaining a large U.S. contract for radar picket aircraft but, unfortunately, this seemed to be less and less hopeful in view of the pressure from the aircraft industry in the U.S.

(i) The President of Avro had referred to the company's development of a vertical take-off aircraft. Support for this had been provided mainly by the U.S. A small amount could be made available from National Defence appropriations but, until it could be seen if the project had any possibilities of success, it was not worth allotting much money to it.

(j) In defending the decision it could be said that it had been taken in the light of the best military advice available, and that the cost of the Bomarc, which was to perform the same role as the Arrow, was very much less than that of the Arrow. Emphasis should be placed on the fact that Avro had plenty of notice that the project might be cancelled and that it had made no alternative plans. There was no call to be delicate with the company.

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(k) Mr. Plant, one of the Vice-Presidents of Avro, had recently suggested to the Department of Transport that the company might undertake the development of a pure jet, short range aircraft to replace the Viscount in a few years time. Companies in the U.K. and the U.S. were working on bigger, longer-range aircraft, but no one seemed to be developing plans for a shorter-range type for use on inter-city routes in North America or Europe. Government assistance would be needed for such a project, perhaps to the extent of \$15 million or \$20 million. This would be a small amount compared with what would be saved by cancelling the Arrow.

(l) As regards the point that cancellation would mean that Canada would be still further "under the wing of the U.S.", it should be remembered that maintaining freedom from U.S. control was a continuous struggle. It might appear that the present decision was a retrograde step. But there would be other opportunities to assert Canadian sovereignty and independence. For example, it might be necessary in the near future to introduce legislation to ensure the independence of Canadian companies.

(m) It would be unwise to blame the U.S. for the outcome of the Arrow contract.

(n) The Prime Minister and the Minister of National Defence should participate in the afternoon's debate, and other ministers too if there were time. Prior to the debate, the Minister of Defence Production should make the proposed statement on production sharing with the U.S.

3. The Cabinet noted the reports and discussion on the reaction to the cancellation of the CP-105 Arrow contract and on the manner in which the government would proceed in the debate expected to occur in the House of Commons that afternoon.

Tolls on the Welland Canal
(Previous reference Jan. 28)

4. Mrs. Fairclough said the intention to levy tolls on the Welland Canal had aroused serious criticism in the Hamilton and Niagara districts.

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Arrow (CF-105): statement on continuance of Avro plants in operation; discussions with company officials
(previous reference Feb. 23)

1. The Minister of Finance reported on the further discussions Ministers had held with Avro officials with a view to the retention in employment of a nucleus of the design and research staff of the company. It had been tentatively agreed that the government and the company would share equally the cost of maintaining for a six months period, from March 1st, 1959, the essential minimum nucleus personnel of Avro Aircraft Limited, and Orenda Engines Limited, on the following terms:-

(a) the parties would share equally the payroll costs of employees not chargeable to other contracts or termination costs of the Arrow and Iroquois;

(b) the arrangement would apply to not more than 450 employees per month; and,

(c) the total government liability would not exceed \$1,650,000 for the six months period.

The Minister then submitted a draft announcement to be made in Parliament concerning the proposal and details related to it. The purpose of the statement, apart from showing that the government was doing what it could to see that the plants continued to operate, was to provide guidance to the company for discussions to be held with its employees as to the nature and extent of future opportunities of employment. To induce some of the technical workers to remain with Avro and Orenda they had to be shown that there were such opportunities. For this reason, the company hoped no reference would be made to the amount of money involved in sharing payroll costs. The statement had been drafted with these points in mind, and, therefore, it appeared to be pretty vague. In addition, the Minister felt that Parliament should be more fully informed of the details of an arrangement involving financial commitments. The Prime Minister had seen the draft and had also expressed concern over the fact that it contained no reference to the cost-sharing arrangement. He had also raised the question of when the announcement might be made. Ministers who had been dealing with the problem felt it had to be made that day to relieve any further uncertainty at Malton. On the first point, Mr. Fleming had prepared a paragraph containing more detailed information.

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2. During the discussion the following points emerged:

(a) There was some doubt as to whether the plan could be implemented under the authority of the present estimates. Separate and specific authority would probably be required from Parliament and, before any action could be taken, a contract for the purpose would have to be made with Avro.

(b) When the announcement was made, there was bound to be criticism of the government for not taking steps along the lines proposed before the Arrow was cancelled. However, the words in the statement should not invite this kind of comment. In answering comments such as this, it could be said that the company had not made any serious proposals about additional work until now.

(c) The company had sought the government's advice on whether it should sign an agreement with employees negotiated last autumn, which provided for a retroactive wage increase and improved severance pay but which the employees had rejected. Now when they were faced with being laid off, the employees wanted what the company and the union representatives had earlier agreed upon. This was a matter for management and its workers. The government should not object to it but should say nothing about the matter. The new contract would provide a pay increase from last October.

(d) Offering to share the payroll costs of a company which was part of an organization that had made substantial profits in Canada in the past few years was questionable. However, there was a precedent in the case of Britannia Mines in British Columbia, with whom the government had made a similar arrangement in February, 1958.

(e) Avro had warned the government several months ago that it would be in difficulties in the not too distant future, notwithstanding the Arrow contract.

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3. The Cabinet.

(a) agreed that the payroll cost of certain technical personnel of Avro Aircraft Limited, and Grenda Engines Limited, be shared equally with the companies for a period of six months beginning March 1st, 1959, on the understanding,

(i) that these costs were not charged to other contracts held by the companies or to termination costs of the Arrow or Iroquois programmes, as determined in accordance with articles 26 and 31 of the Department of Defence Production costing memorandum; and,

(ii) that the cost-sharing arrangement apply to no more than 450 persons per month, and that the total government liability not exceed \$1,650,000 for the six months period;

(b) approved the statement, as revised during the discussion, regarding this arrangement; and,

(c) noted with approval that Avro would agree to a labour contract, negotiated last summer, and previously approved by the company and union representatives but not by the employees providing for higher severance pay and a wage increase effective last October.

Release of Jacques Rousseau from the government service

4. The Cabinet approved a recommendation of the Treasury Board that Jacques Rousseau, Director, Human History Branch, National Museum of Canada, be released from the government service, effective February 28th, 1959.

(An order in council was passed accordingly; P.C. 1959-1/247, Feb. 27.)

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10. The Cabinet agreed,-

(a) that invitations be extended to the provinces to have their representatives attend the inaugural meeting of the Provisional National Committee on the Centennial in Ottawa on February 8th, 1960;

(b) that it would be inadvisable for the Federal Government to circulate a checklist of suggestions on the content of the centennial celebrations but that at the outset proposals should be invited from the delegations; the draft agenda to be amended accordingly; and,

(c) that it would be desirable for the inaugural meeting to be held in public at the start when opening statements were made and thereafter the meeting would decide whether or not it would meet in camera.

Replacement aircraft for CF-100; press comment

11. The Prime Minister said there had been a leak to the press on the matter of a replacement aircraft for the CF-100. This problem was being actively studied at the official level and in December it had been on the Cabinet agenda but not discussed. The press story would undoubtedly give rise to questions which would be embarrassing.

12. During the discussion the form of a possible answer was discussed briefly. There had been several stories over the past few weeks and months. It would be desirable for the government to reach a decision on the matter soon.

13. The Cabinet agreed to consider next week the question of a replacement aircraft for the CF-100 for R.C.A.F. air defence operations in Canada.

Appointment; Auditor General
(Previous reference Jan. 25)

14. The Cabinet approved the appointment of Mr. Andrew Maxwell Henderson as Auditor General of Canada, effective March 1st, 1960.

(An order in council was passed accordingly; P.C. 1960-114, Jan. 29.)

United Nations; Presidency

15. The Cabinet agreed that Canada should support the representative of Ireland at the United Nations, Mr. Boland, for the Presidency of that organization.

R.B. Bryce,
Secretary to the Cabinet.

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Improvements in air defence;
replacement aircraft for CF-100 in Canada
(Previous reference Jan. 27)

1. The Minister of National Defence said that, since the summer of 1958, the Chiefs of Staff had been working on a direction from the Cabinet Defence Committee to investigate and submit proposals for "any additional interceptor aircraft of a proven developed type that may be required in lieu of the CF-105".

The Soviet Air Force had in service today, a jet bomber force of over 1100 aircraft which would have a useful life for some years to come; they constituted a threat to North America in the early 1960's. The United Kingdom and the United States planned to use supersonic interceptors for a time. Analyses showed that the CF-100 Mk. V was no longer operationally satisfactory against the present Russian bomber threat and it was impracticable to modify it to carry a nuclear air-to-air missile. The Chiefs of Staff had confirmed the continued need for the operation of interceptor aircraft in Canadian airspace.

General Kuter, Commander in Chief of NORAD, had recommended an air defence plan which included the withdrawal of the present nine CF-100 squadrons, commencing in 1960, and their replacement, to be completed by 1962, by six squadrons equipped with supersonic aircraft capable of carrying air-to-air nuclear missiles. This plan was being studied by the Chiefs of Staff.

The Chief of the Air Staff had investigated possibilities and methods of obtaining a limited number of supersonic interceptors to replace the CF-100, commencing late in 1960. Amongst those considered was an all-weather version of the F404G but such an aircraft, even if it could be manufactured soon, which it could not, would not be compatible with the SAGE environment and therefore would be of little use in the defence system of North America. However, it was learned that the United States Air Force would consider making available to the R.C.A.F. sixty-six F401B all-weather aircraft by re-equipping U.S.A.F. squadrons in less critical areas with a shorter range aircraft. The F401B was the most suitable U.S. aircraft available to replace the CF-100. Delivery could start in July, 1960 and be completed in March, 1961. Having a greater operational capacity than the CF-100 and being capable of carrying a nuclear air-to-air missile, these aircraft could be deployed in five squadrons of 12 aircraft each, replacing the present nine squadrons of 18 aircraft, thus reducing the manpower and operating requirements. The total cost of 66 F401B's, including spares, ground support equipment, weapons, training equipment and construction, was estimated to be approximately \$180 million. A cost-sharing arrangement with the U.S. might be possible and payments might be spread over a period of years.

The U.S.A.F. were anxious to transfer as many of their defence commitments in Canada as possible, as soon as Canada was prepared to take them over. The R.C.A.F. might assume certain of the U.S. responsibilities for radars in the Pinetree system, in exchange for which the U.S. might provide the 66 interceptors.

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In general, the conclusions were that the CF-100 was no longer operationally satisfactory to deal with the present bomber threat, that for some time any attack on North America would probably include manned bombers as well as ICBM's, that it would be prudent to provide interceptor and BOMARC weapons to assist in the defence of the deterrent for the next three to five years and that, in addition to this role, a limited number of supersonic fighters were needed for identification purposes and to exercise the warning and interceptor system.

The Chiefs of Staff had concluded that, if satisfactory arrangements could be made, a small number of aircraft should be procured from the U.S. On their advice, the Minister recommended that negotiations be entered into with the U.S. Defense Department to procure 66 F101B's, either through a cost-sharing arrangement or by Canada assuming the responsibility for the manning and maintenance of certain U.S.A.F. installations in Canada; the results of these negotiations to be reported to Cabinet in due course for consideration.

An explanatory memorandum had been circulated, (Minister's memorandum, Feb. 1, - Cab. Doc. 34/60).

2. Mr. Pearkes added that it was the belief of the Chiefs of Staff that a bomber threat would exist until 1965. C-in-C NORAD's estimate was until 1970. Mr. Pearkes agreed with the Canadian Chiefs' view. A decision had to be reached soon on his recommendation because comments on NORAD's latest defence plan could not be long delayed. The CF-100 was really out of date now.

3. The Prime Minister said that the first question raised by the proposal was whether, having regard to the decision to cancel the CF-105 and the traditional Canadian position against accepting mutual aid, the government could agree to an arrangement under which the United States would pay a share of the cost of equipment to be used by Canadian forces.

4. During the discussion the following points were made:

(a) A cost-sharing arrangement for these aircraft, despite its advantages, was politically intolerable in all the circumstances.

(b) On the other hand, a decision to acquire F101B's from the U.S. without payment or on a shared basis could be defended on the ground that they would be used to defend the deterrent. However, to try to justify such a decision in terms of these aircraft being acquired as a replacement for the Arrow would be impossible.

(c) A reasonable case for purchase could be made on the basis that the aircraft would help to strengthen North American defence for a time, at much less cost than the Arrow.

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(d) The F101B should have been considered as an alternative to the Arrow long before the decision to cancel the latter aeroplane was taken. To this it was said that the version of the F101B now being discussed was a different machine to the F101B of two or three years ago.

(e) Apart from the difficulties of acquiring these in the face of the Arrow decision, the R.C.A.F., with only 66 aircraft, would have very little effectiveness against a Soviet bomber attack. Regardless of the nature and extent of the defenses, many bombers would get through. Instead of obtaining any more interceptors the other elements of the R.C.A.F. should be strengthened.

(f) Canadians did not worry too much about U.S. expenditures in Canada for the defence of North America. If the U.S. wanted to provide more interceptor defence, let them do it. But if the government obtained U.S. aircraft now for the R.C.A.F. it would be laughed out of court.

(g) If it were accepted that there was no need for defence against the manned bomber, then the BOMARC programmes should be cancelled and the radars dismantled.

(h) After a good deal of thought and with some trepidation, the United Kingdom had formally announced that there was no defence against the present threat. The public response had been wonderment that it had taken the government so long to find out.

(i) The dilemma was simply this. If no more interceptors were supplied, the U.S. might well take over this form of defence in Canada with all that such a course implied for national sovereignty. On the other hand, to acquire the F101B's, as had been proposed, would be most embarrassing in the light of all the statements made in connection with the Arrow.

(j) A final decision was not necessary immediately. All that was required was authority to discuss the proposition outlined by the Minister with the U.S. NORAD's recommendation was only the recommendation of a field commander and what the U.S. government felt about it was not yet known. Agreement to discuss, however, implied a willingness to have the CF100's in Canada replaced with F101B's. If the decision were not to re-equip, then the CF-100 squadrons should be disbanded quite soon.

(k) Adding more BOMARC's to the air defence system would be easier to justify than buying interceptors.

(l) Whatever the decision was to be, it had to be taken in the interest of the nation's security, no matter how painful that might be, and not for other reasons.

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(m) It was doubtful if a decision not to replace the CF-100 squadrons would make a nullity of NORAD.

5. The Prime Minister added that he did not see how he could swallow what he had said following the cancellation of the Arrow. He and the Minister were responsible. If other aircraft should now be acquired to protect the national security, perhaps it would be possible to do it if some changes in personnel were made.

6. The Cabinet postponed decision on the proposals of the Minister of National Defence for discussions with the U.S. government to ascertain on what terms it might be possible to arrange the replacement of the R.C.A.F.'s CF-100s in Canada.

R.B. Bryce,
Secretary to the Cabinet.

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Improvements in air defence;
replacement aircraft for CF-100's in Canada
(Previous reference Feb. 4)

1. The Minister of National Defence, using a map, informed the Cabinet on the location of interceptor and BOMARC squadrons in Canada and indicated the depth of the defences these weapons provided. The coverage of this form of defence was governed by the location of the Pinetree stations and the warning lines. If, several years ago, it had been physically and financially possible to have situated the Pinetree radars further north, this would probably have been done and the BOMARC and interceptor bases consequently would have been further north too. The expected range of the BOMARC "B" was between 400 and 500 miles, that of the "A", about 150 to 200 miles.
2. Mr. Pearkes also read a copy of a letter sent to the U.S. defence authorities, when the Pinetree stations were first being installed in August, 1951, recording the understanding of the Canadian Government that the conclusion of the agreement for a one-third: two-thirds cost-sharing arrangement in no way implied that Canada was to be regarded as a recipient of aid. Perhaps a cost-sharing arrangement for the F-101B's could be regarded in a similar light.
3. The Prime Minister said that a committee of the Ministers who were members of the Cabinet Defence Committee plus Messrs. Churchill, Harkness, Nowlan and MacLean should meet to consider the proposal and make recommendations. If the Committee reported that security demanded the acquisition of these aircraft, then that would have to be the decision. To purchase them, however, would cause great difficulties. It would place him and the Minister of National Defence in impossible positions. On the other hand, failure to re-equip would be bad for the morale of the R.C.A.F. He thought the public had been convinced of the wisdom of the government's decision to cancel the Arrow. To obtain other aircraft now in the face of statements that the threat of the manned bomber was diminishing and that the day of the interceptor would soon be over would be most embarrassing unless a reasonable explanation could be given. Additional BOMARC's in Canada might be an alternative. The Committee should first examine carefully what had been said publicly by himself and other Ministers about cancelling the Arrow and, in the light of that, consider what was possible. In any event, the safety of the nation should be the paramount consideration no matter what the consequences. He had been against cancelling the Arrow but had been persuaded otherwise.
4. During the brief discussion it was said that, even though a logical, reasoned case might be made for obtaining the F-101B's, such a decision could not be explained to the public. The repercussions of telling CINCPAC that Canada was not prepared to re-equip the CF-100 squadrons would not be too great.
5. The Cabinet agreed that a Committee consisting of the members of the Cabinet Defence Committee, other than the Prime Minister, together with Messrs. Churchill, Harkness, Nowlan and MacLean, review and report on the proposals of the Minister of National Defence for authority to discuss with the United States various possible arrangements for re-equipping on a smaller scale, the air defence force of the R.C.A.F. in Canada.

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