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August 28th, 1958,

ITEMS DISCUSSED

Paras.

1. Federal District Commission; Bronson Avenue Bridge
3. Peaches; deficiency payments
7. Commonwealth cable network
10. Estate Tax bill; Senate action
14. Air defence requirements; recommendations  
of Cabinet Defence Committee

THIS DOCUMENT ON LOAN FROM THE PRIVY COUNCIL OFFICE-CANADA

SECRET

CABINET CONCLUSIONS

Meetings of the Cabinet were held in Room 375 of the House of Commons, on Thursday, August 28th, 1958, at 12:00 noon and 3:30 p.m.

Present:

The Prime Minister  
(Mr. Diefenbaker) in the Chair,  
The Minister of Public Works  
(Mr. Green) (for afternoon meeting only),  
The Minister of Finance  
(Mr. Fleming),  
The Minister of Veterans Affairs  
(Mr. Brooks) (for afternoon meeting only),  
The Solicitor General  
(Mr. Balcer),  
The Minister of National Defence  
(Mr. Pearkes),  
The Minister of Trade and Commerce  
(Mr. Churchill) (for afternoon meeting only),  
The Minister of Justice  
(Mr. Fulton),  
The Minister of Agriculture  
(Mr. Harkness),  
The Minister of Fisheries  
(Mr. MacLean),  
The Minister of Labour  
(Mr. Starr),  
The Minister without Portfolio  
(Mr. Macdonnell),  
The Minister without Portfolio  
(Mr. Browne),  
The Minister of Mines and Technical Surveys  
(Mr. Comtois),  
The Secretary of State for External Affairs  
(Mr. Smith),  
The Minister of Defence Production  
(Mr. O'Hurley),  
The Secretary of State  
(Mr. Courtemanche).

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The Secretary to the Cabinet  
(Mr. Bryce),  
The Assistant Secretaries to the Cabinet  
(Mr. Fournier),  
(Mr. Martin).

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Federal District Commission; Bronson Avenue Bridge  
(Previous reference Feb. 3)

1. The Prime Minister referred to the previous decision that the Federal government would contribute 40 per cent of the cost of the Bronson Avenue bridge and its approaches and ramps, and the consequent revision of the F.D.C. driveways underneath it, as well as the Federal land required for these, plus a sum of \$75,000 in consideration of the city assuming full responsibility for maintenance. It was necessary now to authorize a formal agreement. He pointed out that there were two points covered in the agreement which had not been agreed to earlier: one, the removal of the old bridge which was to be at the expense of the Department of Transport which had plans to use it elsewhere; the other, the landscaping affecting the approaches on the south side. It was the view that this was the proper responsibility of the Federal District Commission.

2. The Cabinet approved the recommendation of the Prime Minister that authority be granted to enter into an agreement with the City of Ottawa with respect to Federal participation in the construction of the Bronson Avenue Bridge in Ottawa.

(An order in council was passed accordingly; P.C. 1958-1199, Aug. 28.)

Peaches; deficiency payments

3. The Minister of Agriculture said that, because of the size of the prospective peach crop in Ontario and British Columbia, the largest crop in the United States since 1947, and a substantial carry-over of canned peaches, low prices had been offered by canners to growers for this year's production. A price of \$92 per ton had been set as a legal minimum in Ontario as compared with the average negotiated price of \$98.75 for 2" minimum size in 1957. Processors had indicated that they would not undertake to process any worthwhile quantity at this price. Representatives of the Ontario Peach Growers Marketing Board and Ontario processors had requested a flat subsidy on peaches for processing, but the Agricultural Stabilization Board were of the view that a subsidy in support of a price of \$92 was unjustified in present circumstances. Instead, a deficiency payment programme based on an agreed price as between the Growers Marketing Board and the processors, and then on the returns from the finished product when marketed, had been proposed. The Ontario board and processors had approved such a plan in principle and had indicated

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that there would be every likelihood of a maximum pack with most canners operating at capacity. The cost would probably be negligible, but, in any event, should not exceed \$150,000. Accordingly, he recommended that peaches grown in Ontario be designated an agricultural commodity under the Agricultural Stabilization Act and that a prescribed price of \$83 per ton be established for the purpose of calculating prices to producers.

An explanatory memorandum was circulated, (Minister's memorandum, Aug. 28, 1958 - Cab. Doc. 250-58)

4. Mr. Harkness added that all canners had said they would accept the plan except Canadian Canners, but they probably would too in the end. This company was now owned by U.S. interests and it had been thought they were closing some of their plants in order to import U.S. products. If this turned out to be true the government should act to prevent the practice.

5. The Minister of Finance said that this was similar to other cases. He added, however, that under recent orders, the prices being fixed for non-mandatory products were about 90 per cent or more in most cases, whereas the mandatory products, which were basically more important, were set at 80 per cent in the act. This might give rise to criticism.

6. The Cabinet approved the recommendation of the Minister of Agriculture that peaches grown in Ontario be designated an agricultural commodity under the Agricultural Stabilization Act, and that a price of \$83 per ton, or approximately 89 per cent of the established base price, be prescribed for the purpose of calculating deficiency payments to producers.

(An order in council was passed accordingly; P.C. 1958-1201, Aug. 28.)

#### Commonwealth cable network

7. The Minister of Finance recalled that, at the Mont Tremblant meeting of Commonwealth Finance Ministers a year ago, he had referred to the question of communication links between countries of the Commonwealth and of including on the agenda of the proposed Montreal conference the question of extending the telephone cable between Canada and the United Kingdom into a Commonwealth-wide network. This subject had not figured prominently in the preparations for the forthcoming meeting but, in the meantime, a Commonwealth Telecommunications Conference had been held and a report on the matter was now before governments for consideration. This report concluded that the construction of a round-the-world telephone cable network was technically feasible and likely to be self-supporting.



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The Cabinet Committee on the Commonwealth Trade and Economic Conference felt that, if agreement could be reached to construct such a system, it would be an important achievement of the conference.

The Minister outlined the conclusions of the Commonwealth Telecommunications Conference including, particularly, the cost and revenue aspects of the various sections of the proposed new network. He described the attitudes to be expected from Commonwealth countries at the Montreal meeting. The most that might emerge would be agreement, in principle, to construct the network, leaving details to be settled by the governments concerned at a later date. The main hurdle at Montreal would be to convince the U.K. to agree to the proposal and, in this connection, a Canadian offer of assistance, in the form of loans or grants to the less developed countries of the Commonwealth to finance their share of the capital cost, would make it more attractive to the U.K.

He recommended, with the concurrence of the Minister of Transport, that the Canadian delegation of the Commonwealth Trade and Economic Conference be authorized to seek approval for a round-the-world Commonwealth cable network, and, if necessary, to offer to assist the less developed countries to finance their share of the cable.

An explanatory memorandum had been circulated, (Minister's memorandum, Aug. 25, 1958 - Cab. Doc. 248-58).

8. During the discussion it was said it was doubtful that Canadian contractors could have a very large share in the construction of the project, as the type of cable required for such a project was not made in Canada.

9. The Cabinet agreed, -

(a) that the Canadian delegation to the Commonwealth Trade and Economic Conference be authorized to take the initiative in seeking approval in principle for the construction of the round-the-world Commonwealth cable network; and,

(b) that the delegation, if necessary, could offer the assistance of Canada to less developed countries either by way of loans or grants to cover their share of the cable, but that such an offer would be subject to the considerations set out in the circulated memorandum (Cab.Doc.248-58).

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Estate Tax bill; Senate action  
(Previous reference Aug. 7)

10. The Minister of Finance said he had made a statement before the Senate Banking and Commerce Committee when they had given first consideration to the Estate Tax bill. The committee had heard many delegations who had all been in favour of the bill but had, of course, asked for more. The bill was of particular interest it seemed, to members of the Senate. The Senate committee on the previous evening had considered amending a number of clauses of the draft bill, some of which he thought would be quite acceptable. There was one amendment proposed, however, which he felt was not. Section 26 of the bill now read "for the purposes of this Part, in determining the value of any property, no allowance or deduction shall be made for or on account of income tax". The committee had proposed that section 26 be amended by inserting a comma after the words "income tax" and adding the following words "except where a superannuation or pension benefit is taxable under the Income Tax Act". The amendment was carried by a majority of two. Two of the Senators supporting the government had voted in favour of the amendment.

11. Mr. Fleming considered as unsound the objective of the amendment which was to make a special rule in respect of benefits received from superannuation or pension. It would mean, in effect, that where the present value of such a benefit was being calculated to determine its capital value for estate tax purposes, some attempt would have to be made to deduct what might be thought to be the income tax that might be levied upon such benefits in the future years during which they would be payable. He pointed out that the estate tax and the income tax were two entirely different taxes and it could not be said that there was any double taxation where any benefit was subject to two entirely different taxes. If the amendment were adopted, it would create discrimination in favour of a particular type of property.

The Minister stressed that there was a question of principle also involved in that this bill affected the balance of ways and means. It was a money bill, and if the Senate now asserted the right to amend this type of bill difficulties would be bound to arise. The question was what position the Government Leader in the Senate should be instructed to take that afternoon if the Senate chose to support the amendment recommended by the committee in respect of Section 26.

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12. During the discussion it was pointed out that the Senate had the legal right to amend the bill even if it affected the balance of ways and means. Differences of this nature between the two houses were, of course, most infrequent. It would not be advisable to get into a fight at this time with the Senate over its legal rights which, in fact, it had not exercised since 1935. Should the Senate choose to support the committee's recommendations, the bill would be returned to the House of Commons where there would be occasion to consider in detail its implications.

13. The Cabinet noted the report of the Minister of Finance on the amendments proposed in the Senate Banking and Commerce Committee to the draft Estate Tax bill, and agreed to give further consideration at the next meeting to any action to be taken when the bill was returned to the House of Commons.

Air defence requirements; recommendations of Cabinet Defence Committee

14. The Minister of National Defence said that the Cabinet Defence Committee had reviewed the air defence requirements for rounding out the air defence weapons system against the manned bomber. The committee had agreed to recommend that two BOMARC bases be created in the Ottawa and North Bay area, and two additional heavy radars installed in Northern Ontario and Quebec with associated gap-filler radars. It was also proposed that negotiations be started with the U.S. for the cost-sharing and production-sharing of the BOMARC bases and equipment and the heavy radars and related equipment. The committee had referred to the Cabinet for consideration proposals to cancel the CF-105 programme and to investigate additional missile installations and a possible alternative interceptor to the CF-105.

Last October the Cabinet had approved continuation for another twelve months of the CF-105 development programme, which included the ordering of 29 pre-production aircraft, improvements in tooling, acceleration of the development of the Iroquois engine, and the continuation of the necessary related programmes. In a project such as this there were two main phases; development and pre-production and, then, production for operational service. These overlapped. The first was now well advanced and a decision was therefore urgently required as to whether or not to go into production.

The R.C.A.F. now had nine all-weather squadrons and the present programme called for their re-equipment with the CF-105, requiring a production order of 169 in number. These, together with aircraft recovered from the development and pre-production order for 37, would provide sufficient aircraft for nine squadrons. The total cost would be \$2 billion spread from 1959-60 to 1963-64.



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A study of the implications of continuing this programme, its impact on the whole defence programme and the necessity of considering future requirements, such as defence against intercontinental ballistic missiles, had necessitated a review of the air defence programme. The Chiefs of Staff had undertaken such a review. The main points that were considered were the following:

The assessment of the threat to North America had changed. In the 1960's, the main threat would probably be from ballistic missiles with the manned bomber decreasing in importance after 1962-63. However, a combination of the two might be the threat until Soviet manned bombers were depleted. The rapid strides in technology were such that to provide a suitable manned fighter to cope with heavy jet bombers was extremely expensive. Furthermore, ground-to-air missiles had now reached the point where they were at least as effective as a manned fighter, and cheaper. The original requirements in 1953 for between 500 and 600 aircraft of the CF-105 fighter had been drastically reduced. Subsequently, thought had been given to reducing it still further now that the BOMARC missile would probably be introduced into the Canadian air defence system. Finally, the cost of the CF-105 programme as a whole was now of such a magnitude that the Chiefs of Staff felt that, to meet the modest requirement of manned aircraft presently considered advisable, it would be more economical to procure a fully developed interceptor of comparable performance in the U.S.

The Minister proposed that the recommendations of the Cabinet Defence Committee on the BOMARC bases, the heavy radars, the gap fillers, and on negotiating with the U.S. regarding cost-sharing and production-sharing be approved, and that consideration be given to abandoning the CF-105 and to authorizing the Chiefs of Staff to investigate an alternative for it and to consider any additional missile installations that might be required. He himself recommended cancelling the CF-105 programme in its entirety and deferring for a year any decision to order interceptor aircraft from the U.S.

An explanatory memorandum had been circulated, (Minister's memorandum, Aug. 22, 1958 - Cab. Doc.247-58).

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15. Mr. Pearkes explained that the CF-105 programme consisted of four major projects; the airframe, development of which was being undertaken by AVRO in Toronto; the Iroquois engine at Orenda Engines Ltd., also in Toronto; the fire control system (ASTRA) on which Westinghouse in Hamilton was co-operating with a U.S. company, and the weapon (SPARROW) on which Canadair in Montreal was co-operating with a U.S. company. There were, of course, several sub-contractors in many parts of Ontario and Quebec. He outlined some limitations of the aircraft, some details of the costs involved, and some of the difficulties that had been encountered since the programme's inception. Not long ago he had been disposed to recommend that it go ahead and aircraft be ordered for squadron service. However, the change in the nature of the threat and the very great cost of development and production had brought him to make the recommendation he had. He was fully aware of its seriousness but he had made it after very careful study of all the factors involved.

He went on to describe the semi-automatic ground environment (S.A.G.E.) system and the steps that had to be taken to introduce it, whether or not the government decided to proceed with the CF-105. He also described the U.S. intentions on BOMARC and how they related to Canada. In addition to installing two such missile sites in central Canada, it might also be desirable to install one base in the Vancouver area and one in the Maritimes. There were considerable advantages in adopting BOMARC. It was cheaper than the CF-105, in terms of men and money, and just as effective. The missile could be fitted with an atomic warhead and the U.S. would probably supply heads on the same basis ("key-to-the-cupboard"), as they made atomic weapons available to the U.K.

As regards aircraft, the U.S. authorities had made it quite clear that they did not intend to buy any CF-105s. Their own F-106C was comparable in performance to the CF-105, it would be available for squadron service several months earlier, and it cost less than half as much. The U.S. was also developing the F-108, a huge aircraft with a range of approximately 1,000 miles.

His recommendation to abandon the CF-105 and investigate other aircraft and missile possibilities meant that the government would have a year to decide whether it should re-equip air defence fighter forces wholly with the BOMARC, or an alternative aircraft, or a combination of both. Within that time there should be a better understanding of Soviet intentions as to whether they were likely to introduce more or better bombers, or go completely into missiles.

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Decisions could be taken in the light of the then existing information. Abandoning the CF-105 would of course be a rude shock to the aircraft industry, but it would not mean its complete cessation. DeHavilland would not be affected nor would the transport and marine aircraft sections at Canadair.

16. During the long discussion the following points emerged:

(a) It was doubtful if the BOMARC missile or components could be manufactured in Canada. However, the launchers might be.

(b) Layoffs involved in abandoning the CF-105 would amount to well over 25,000 and there was some doubt as to whether these workers could obtain alternative employment. This would have an extremely adverse effect on the economy which now needed every push it could get. This was the most serious aspect of the proposal.

(c) It was argued, on the other hand that, surely, in an economy as potentially vigorous as Canada's, employees would soon be absorbed in other jobs. There was no more expensive way of keeping people at work than by the CF-105 programme.

(d) If the CF-105 were not abandoned, it would mean an increase in the defence budget of \$400 million a year for several years. Even without this the deficit in 1959-60 would be as much as in the current year. If it were at all responsible, the government would have no alternative but to increase taxes should the 105 be put into production. Adding it to the present overall rate of deficit would mean the wrecking of Canada's credit and the stimulation of inflation.

(e) The CF-105 would be of no use against ballistic missiles. It would, however, be effective against air-breathing, unmanned bombers. There was no chance of having an anti-missile missile by 1960 or 1961. The Sparrow, with which the CF-105 was to be equipped, could not be fitted with an atomic warhead.

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(f) Although it would be most helpful if the facilities presently used on the CF-105 programme could be converted for the development of missiles, this was highly unlikely. The best possibility for the future was a production programme of partnership with the U.S. The U.S. authorities had indicated they would be willing to allocate a significant share of future missile development to Canada, but this would not occur for some time and would mean considerable discussions with them. The U.S. had not yet reached a decision on the type of anti-missile missile they would require.

(g) The United Kingdom would not buy the CF-105 and it was most unlikely that any other N.A.T.O. country would either. The U.K. was practically out of the interceptor field and was concentrating on missiles, many of which were being acquired from the U.S. Indeed, the whole trend in Europe was towards missiles, but the air defence problem there was different to that in North America.

(h) One means of helping the aircraft industry would be to manufacture transport aircraft, under licence for Trans-Canada Air Lines and possibly other domestic users.

(i) The evidence available indicated that the U.S.S.R. did not intend to match the U.S. with a long range air force similar to the Strategic Air Command, or come anywhere near it. Recently, the U.S. thought the Russian bomber force was bigger than we did. Now this was not the case. The intelligence authorities were coming to the view that the U.S.S.R. would not launch an attack until it was clearly superior in ballistic missiles to the U.S.

(j) The U.S. was planning to equip its air defence forces half with missiles and half with aircraft. Should not Canada plan to do roughly the same thing? If the CF-105 were discontinued Canada would be completely dependent on the U.S. for equipment for the R.C.A.F.

(k) The CF-100 would soon be obsolete and there was no demand for it here or from abroad. No help for the industry, therefore, could be expected by way of more orders for it.

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(1) On military or financial grounds it seemed clear that there was no reason to continue the programme. Indeed, many members of the Conservative Party had said in the past that it was quite unwise for a country of Canada's size to attempt to develop an aircraft of this kind in the first place. Instead, they had advocated the manufacture of military aircraft under license. However, to abandon the CF-105 now and undertake to produce the U.S. F-106C, which was physically quite possible, would be a serious political mistake.

17. The Cabinet deferred decision on the recommendations of the Cabinet Defence Committee regarding air defence requirements, including the future of the CF-105 programme.

R.B. Bryce,  
Secretary to the Cabinet.



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16. During the long discussion the following points emerged:

(a) It was doubtful if the BOMARC missile or components could be manufactured in Canada. However, the launchers might be.

Why? Avro made a proposal for just that in 1957.

(b) Layoffs involved in abandoning the CF-105 would amount to well over 25,000 and there was some doubt as to whether these workers could obtain alternative employment. This would have an extremely adverse effect on the economy which now needed every push it could get. This was the most serious aspect of the proposal.

Britain tried to buy them in 1956, and were looking again as of winter 1958

(c) It was argued, on the other hand that, surely, in an economy as potentially vigorous as Canada's, employees would soon be absorbed in other jobs. There was no more expensive way of keeping people at work than by the CF-105 programme.

(d) If the CF-105 were not abandoned, it would mean an increase in the defence budget of \$400 million a year for several years. Even without this the deficit in 1959-60 would be as much as in the current year. If it were at all responsible, the government would have no alternative but to increase taxes should the 105 be put into production. Adding it to the present overall rate of deficit would mean the wrecking of Canada's credit and the stimulation of inflation.

Avro was planning, as of Feb. 1957 at least, to equip the CF-105 with an anti-ICBM missile based on NIKE Zeus.

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Not according to Douglas, maker of the Sparrow 2.

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ridiculous, Avro was already studying several missile options and had been since 1956 at least.

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Dulles intel, NOT agreed by Britain, RCAF, or USAF.

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(k) The CF-100 would soon be obsolete and there was no demand for it here or from abroad. No help for the industry, therefore, could be expected by way of more orders for it.

NATO had been asking for an improved CF-100 when Pearkes took office.

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- 11 -

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