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CABINET CONCLUSIONS

A meeting of the Cabinet was held in the Privy Council Chamber, on Tuesday, October 29th, 1957, at 10:30 a.m.

Present:

The Prime Minister
(Mr. Diefenbaker) in the Chair,
The Minister of Public Works
and Acting Minister of Defence Production
(Mr. Green),
The Minister of Finance
(Mr. Fleming),
The Minister of Veterans Affairs
(Mr. Brooks),
The Minister of Transport
(Mr. Hees),
The Solicitor General
(Mr. Balcer),
The Minister of National Defence
(Mr. Pearkes),
The Minister of Justice
and Acting Minister of Citizenship and Immigration
(Mr. Fulton),
The Minister of National Revenue
(Mr. Nowlan),
The Minister of Agriculture
(Mr. Harkness),
The Secretary of State
(Mrs. Fairclough),
The Minister of Fisheries
(Mr. MacLean),
The Minister of Labour
(Mr. Starr),
The Postmaster General
(Mr. William Hamilton),
The Minister without Portfolio
and Acting Minister of Trade and Commerce
(Mr. Macdonnell),
The Minister of Mines and Technical Surveys
(Mr. Comtois),
The Minister of National Health and Welfare
(Mr. Monteith),
The Minister of Northern Affairs
and National Resources
(Mr. Alvin Hamilton),
The Leader of the Government in the Senate
(Senator Haig).

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

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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 1,370 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.