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February 23rd, 1959.

ITEMS DISCUSSED

Paras.

No. 25-59

Copy No. 26

SECRET

CABINET CONCLUSIONS

A meeting of the Cabinet was held in Room 340-S of the House of Commons, on Monday, February 23rd, 1959, at 10:30 a.m.

Present:

The Prime Minister
(Mr. Diefenbaker) in the Chair,
The Minister of Public Works
(Mr. Green),
The Minister of Transport
(Mr. Hees),
The Solicitor General
(Mr. Balcer),
The Minister of National Defence
(Mr. Pearkes),
The Minister of Trade and Commerce
(Mr. Churchill),
The Minister of Justice
(Mr. Fulton),
The Minister of Agriculture
(Mr. Harkness),
The Minister of Citizenship and Immigration
(Mrs. Fairclough),
The Minister of Fisheries
(Mr. MacLean),
The Minister of Labour
(Mr. Starr),
The Postmaster General
(Mr. William Hamilton),
The Minister without Portfolio
(Mr. Macdonnell),
The Minister without Portfolio
(Mr. Browne),
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 Secretary of State for External Affairs
(Mr. Smith),
The Minister of Defence Production
(Mr. O'Hurley).

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

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

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 Canadair 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.

(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 CF-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.