

SECRET

- 2 -

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.

SECRET

- 3 -

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.

SECRET

- 4 -

3. The Cabinet,-

(a) agreed that the payroll cost of certain technical personnel of Avro Aircraft Limited, and Orenda 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.)