

SECRET

September 5th, 1959.

MEMORANDUM FOR THE PRIME MINISTER:

Re: The 105 problem

You asked me yesterday what I thought should be done about the "105" and related matters in the light of what I have heard and seen of it in recent weeks. While I feel some of the perplexities you yourself express about the matter, in the light of the changes in military advice and the inevitable difficulties in forming judgments on such important yet uncertain information, I have tried to come to a reasoned conclusion.

In brief, for reasons noted below, I would recommend:

- (a) Cancelling forthwith the contracts for the Arrow airframe, the Iroquois engine, the Astra control system and the Sparrow 2 missile.
- (b) Sharing with the United States the establishment of the 2 Bomarc batteries already proposed for the North Bay and Ottawa areas, and urging on the United States the re-location northwards into Canada of others of their Bomarc bases in Northern United States, if necessary bearing some of the cost of such re-location.
- (c) Ordering forthwith, at the lowest prices possible and with the best possible cancellation rights, about 40 or 50 F106C aircraft from U.S. production, as used by the U.S.A.F. for air defence.
- (d) Formally requesting the United States to commence to negotiate arrangements

to make available to the R.C.A.F., under arrangements similar to those in the United Kingdom, nuclear warheads for use on the Bomarc and air-to-air weapons to be used on the F106's.

(e) Initiating immediately negotiations with the United States to share in an integrated defence production programme with them in the field of air force and missile weapons systems.

(f) Instructing the appropriate senior military and civilian officers to consider urgently the whole Canadian defence and defence production programme in the light of these decisions and report on it later in the Autumn.

(g) Announcing forthwith that because of the improvement in missiles (both defensive and offensive) in recent years, and the changes in the size and nature of the Russian bomber threat, we are introducing the Bomarc missile and proposing to introduce atomic warheads into Canadian air defence, and will require very much fewer supersonic interceptor aircraft - only a few dozen; consequently it is quite uneconomical to try to complete the development and undertake production of the 105 and its engines, control system and special missile - and therefore it is being terminated despite the fact that it has shown promise of being a good aircraft, probably better in some respects than any alternative but not enough better to justify the huge extra cost.

As to the reasoning, again in brief,
I would argue the following:

1. The changes in the missile possibilities and the Russian threat are substantial enough to revise our air defence requirements for aircraft in terms of numbers, but they are not, I would suggest, sufficiently sure or complete as yet to justify even appearing to give up manned interceptors completely.

2. Despite my earlier willingness to support the Chiefs of Staff on the apparent advantages of the 105 and its special systems, I am now convinced it is so expensive that its advantages are not worth the extra costs.

3. The economic disadvantages of cancellation are offset by economic and financial disadvantages of continuing the development and production; our borrowing problem is very formidable already and it is vitally important to keep the confidence of both the Canadian and U.S. financial community. The action proposed will help to do this.

4. ~~The lay-offs will be essentially and socially unpleasant and will probably give us a modest see back in general employment during the winter, but on the other hand there is some evidence of recovery in our own general situation and in the United States.~~ In any case, if this aircraft expenditure is as wasteful as it now appears, it is a very poor and unfair means of promoting employment because it is located so largely in one or two areas, and in a high wage group. This aircraft production and employment must be reduced at some time during the next four years; it is a question of timing.

5. I appreciate the reasons why Mr. Pearked would play for time and defer ordering F106C's now, ~~but I think there are counter-arguments~~ of real importance: we are not sure enough to justify the risk of having no supersonic fighter on the way; we have entered into NORAD with much fanfare and should appear to be doing our part, with the United States, on what most people will continue to think is the main job; we won't really reduce our total defence expenditures because, in the end, we have to keep up to a reasonable level in relation to the United States. Moreover, it helps greatly I think in presenting our case to our public to make it in terms of quantities (as suggested in (5) above) and also it gives us a very good basis on which to argue production sharing with the United States if we are going to buy some aircraft produced in the United States instead of our own.

6. I have considered Mr. Golden's argument that use of the U.S. aircraft ~~instead of our own~~ would be a slap in the face to the Canadian industry, ~~but I think that can be answered best if the numbers to be bought are so small that the cost of the Canadian planes are obviously out of all proportion to the U.S. planes, even if the 105 is a somewhat better plane.~~

7. This suggested programme could be undertaken I would estimate within a total for defence expenditures (cash disbursements) of about \$1800 million dollars for next year, the detailed figure depending on the cost sharing arrangement with the United States on Bomarc and Sage. This would be less than 2% more than the estimated defence disbursements this year and, of course, far less than the cost of continuing with the 105 system, which

would be some \$125 or \$200 million more (depending on whether or not the Astra-Sparrow contracts were cancelled.)

8. I think it should help in putting across this difficult decision to the public and perhaps help somewhat in deterring the Russians, if we could announce at the same time our decision to make arrangements to use nuclear defensive weapons in Canada, though not to produce them.

Note: There will be a real problem in the timing of any announcement on this issue. It seems too late to make it in Parliament even if a decision is reached Friday, though it would be worth great efforts tonight to get it ready for the House Saturday. You are to be away nearly all of next week and I think you rather than Mr. Pearkes should do it. May we aim at Monday morning? It will leak immediately action is taken and delay is very expensive.



R.E.E.