

"The first modern long-range bombers with which Canada might be confronted came into operation over five years ago, but the numbers produced now appear to be much lower than was previously forecast. Thus the threat against which the CF-105 could be effective has not proved to be as serious as was forecast. During 1959 and 1960 a relatively small number of modern bombers constitutes the main airborne threat. It is considered that the defence system of North America is adequate to meet this threat. Potential aggressors now seem more likely to put their effort into missile development than into increasing their bomber force. By the middle of 1962 the threat from the intercontinental ballistic missile will undoubtedly be greatly enhanced, in numbers, size and accuracy and the ICBM threat may be supplemented by submarine-launched missiles. By the middle sixties the missile seems likely to be the major threat and the long-range bomber relegated to supplementing the major attack by these missiles. It would be only in this period, namely after mid-1962, that the CF-105 could be fully operational in the R.C.A.F.

"The United States Government, after full and sympathetic consideration of proposals that the U.S. Air Force use the Arrow, reached the conclusion that it was not economical to do so. Already the U.S. Air Force has decided not to continue with the further development and production of U.S. aircraft having the same general performance as the Arrow. The development of interceptor aircraft that is now proceeding in the United States and abroad is on different types.

"Since my announcement of last September, much work has been done on the use of a different control system and weapon in the Arrow. These changes have been found to be practical. Although the range of the aircraft has been increased it is still limited. It is estimated that with these changes the total average cost per unit for 100 operational aircraft could be reduced from the figure of about \$12.5 million each, to about \$7,800,000 each, including weapons, spare parts and the completion of development, but not including any of the sum of \$303 million spent on development prior to September last.

"The Government has taken no decision to acquire other aircraft to replace the CF-100, which is still an effective weapon in the defence of North America against the present bomber threat. The Minister of National Defence and the Chiefs of Staff are now engaged in further studies of the various alternatives for the improvement of our defences.

"Canadian requirements for civilian aircraft are very small by comparison with this huge defence operation and frankness demands that I advise that at present there is no other work that the Government can assign immediately to the companies that have been working on the Arrow and its engine.

"This decision is a vivid example of the fact that a rapidly changing defence picture requires difficult decisions, and the Government regrets the inevitable impact of it upon production, employment and engineering work in the aircraft and related industries.

"As will be appreciated, this decision has been a very hard one for the Government to take, not only because of the immediate disturbance it is bound to cause to those who have been working on the Arrow and related items, but because it means terminating a project on which Canada has expended a very large amount of money and in which Canadians have demonstrated the high level of their technical work. However much I might hope that the project be continued in the sense of pride of achievement to avoid immediate dislocations which are regrettable defence requirements constitute the sole justification for defence procurement.

"Having regard to the information and advice we have received, however, there is no other feasible or justifiable course open to us. We must not abdicate our responsibility to assure that the huge sums which it is our duty to ask Parliament to provide for defence are being expended in the most effective way to achieve that purpose.

"Now I wish to turn to another aspect of defence.

"As previously announced the Government has decided to introduce the Bomarc guided missile and the Sage electronic control and computing equipment into the Canadian air defence system and to extend and strengthen the Pinetree Radar Control System by adding several additional large radar stations and a number of small gap filler radars. Canadians will be glad to know that agreement in principle with the United States Defence Department has now been reached on the sharing of the costs of this programme.

"Under this arrangement, Canada will assume financial responsibility for approximately one-third of the cost of these new projects. The Canadian share will cover the cost of construction of bases and unit equipment, while the American share of approximately two-thirds of the cost will cover the acquisition of technical equipment. Such division of functions is necessary for the reason that the United States is well advanced in the planning and implementation of this programme and the development of the technical equipments required for it. In so dividing the sharing of costs, uniformity of construction will be ensured and the dangers of differences in technical equipment will be avoided.

"In respect of construction of these bases in Canada, work will be carried out as a practical matter by Canadian construction companies employing Canadian labour and material. It is intended that the bases when complete will be manned by Canadian military personnel.