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MR COLES

Trident

Following the Prime Minister's messages to President Reagan of 21st January and 1st February and the latter's message of 26th January, I visited Washington on 8th and 9th February with colleagues from the Ministry of Defence and Foreign and Commonwealth Office to discuss with White House, Pentagon and State Department officials the basis on which the D.5 missile system might be made available to Britain. The American team was led by Mr Robert McFarlane, the deputy to the new National Security Adviser (Mr Clark); Mr McFarlane is widely believed to have the confidence of both Mr Weinberger and Mr Haig, as well as of Mr Clark.

2. We made clear to the Americans that the background to our visit was as follows.

(a) The British decision, as between staying with the C.4 missile and moving to D.5, was still open; in order to take it, Ministers needed more information.

(b) Although the original C.4 deal in 1980 had been a satisfactory one, changed circumstances now meant that through no fault of our own we faced a choice between two unattractive alternatives; C.4 would have all the penalties of uniqueness, while D.5 would be better and costlier than we needed, would involve the financial risks of an untried system, and would increase the dollar content of the overall programme.

(c) If we were to switch to D.5, therefore, we would need to minimise the cost of doing so, in order to avoid damaging our conventional defence effort and stirring up domestic controversy.

(d) Although we hoped to move fast, getting the right deal was an even more important consideration.

3. We then discussed a possible D.5 deal under four heads: offset; basic costs; surcharges; and procedure. We made some progress on offset. On basic costs we had not expected to break much new ground and did not do so. On surcharges the Americans' opening position was disappointing; but there were signs that we may be able to push them in the direction we want if we press our case strongly enough and are at the same time sensitive to their need to protect their Congressional flank. On procedure it was clear that our ideas and theirs are closely in line.

4. Offset. The Americans do not expect to be able to offer us much in the way of orders unrelated to Trident which would not have come our way in any case; and in the nature of things it would be hard to demonstrate that any such orders were genuinely "additional". But they are receptive to the idea that, if we go for D.5, our firms should be given a fair crack of the whip as regards sub-contracts from within the whole United States Trident programme (ie not just sub-contracts related to our small part of it). Our firms would of course need to be competitive. But it might be possible for the United States Government to promote useful contact between them and the prime contractor (Lockheed); and even to spend part of the proceeds of our payments under the overheads charge (paragraph 6 below) on setting up a liaison office in London for the purpose of educating relevant British firms in the requirements of this highly complex market. We pressed them strongly for specific language which might be included in the published text of a D.5 agreement and used by us to demonstrate to our potential critics in British industry that their interests had not been overlooked. They eventually suggested the following formula:

> "In respect to Trident procurement, the Department of Defense undertakes:
>
> a. to use its best endeavours to ensure that UK manufacturers are permitted to compete equally with US manufacturers;
>
> b. to make the regulations and procedures bearing on procurement consistent with this general principle as permitted by US law."

This seems satisfactory.

5. Basic costs. The Americans made clear that there was no possibility of their supplying D.5 (or C.4) missiles at marginal cost. They had no way of computing what that would be, because the British requirement

would be bled off the main production line for the United States Navy; and they could not in any case discriminate against their own Navy in favour of ours. But the longer the programme ran the cheaper each unit would become; and they expected our gain from this process to be somewhat greater because they were now planning to advance their own in-service dates.

6. Surcharges. There are three of these: the overheads charge, the facilities charge and the R and D levy. The Americans, as we expected, see no legal grounds on which the President could waive the minimum overheads charge, which they currently estimate (at FY 1982 prices) at $106 million. We believe this must be accepted. They are prepared to contemplate waiving the facilities charge, which they put at $51 million. This is satisfactory. On the R and D levy, their approach was less forthcoming than we had hoped. Their argument, together with our counter-argument, is described at Annex A. Briefly their calculation assumptions (based on a pro rata levy) suggested that we should pay $342 million, of which they were ready to waive $120 million; they were therefore proposing that we should pay $222 million. Our calculations, based on the 5 per cent levy agreed for Polaris and for C.4, suggested that we should pay $128 million (compared with $116 million for C.4); and we made it clear that we were asking for the whole of that to be waived. Although our case seemed to make some impression on the Americans, they were clearly worried about its saleability to Congress. Both sides are now to reflect further and we are to meet them again on 24th February.

7. Prolonged discussion of the R and D levy issue on 9th February suggested the outlines of a possible settlement. If they are to treat us generously, the United States Government will for legal as well as political reasons require the agreement of Congress. I believe that we could persuade them to go to Congress for a 5 per cent levy on the lines agreed for Polaris and C.4. If they are to be able to treat us more generously than that, their basic approach to Congress will need to be that money we are not forced to pay for R and D will be money available for our conventional defence effort. It would lend force to this argument if they could point to specific British deployment

decisions in conventional sectors of importance to United States opinion which we might have made public in the period shortly before a D.5 deal was announced. The Americans accept that it would be politically impossible from our point of view for any such deployment decisions to be publicly presented as part of the D.5 deal; and they no doubt also realise that the process would be largely cosmetic, since no net increase in British defence spending would be involved. But there does seem to be force in their claim that the Congressional atmosphere might be significantly improved. The Ministry of Defence are therefore considering urgently what limited adjustments to the conventional defence programme might be possible in this context. They would need to be compatible with British interests; and of course self-balancing, since our available resources are already fully committed. But their net effect could still be positive so far as Congressional opinion is concerned.

8. If approved by the Secretary of State for Defence, a list of the positive effects of such possible adjustments could be shown to the American negotiators, to whom we would make clear that our ability to announce changes in some or all of these areas would be dependent on their ability to help us over Trident surcharges. We would press them to confirm waiver of the D.5 facilities charge; to accept that consideration of the level of R and D levy should start from the basis of a 5 per cent levy (as for Polaris and C.4), and thus from our figure of £128 million (rather than theirs of £342 million); to move downwards from there; and to end up with a fixed rather than a percentage figure. We would expect to succeed in at least the first two of these four aims. If the third and fourth proved too difficult for the Americans, the extent of our conventional adjustments would be appropriately limited. This procedure should enable us to establish the real limits of what they think they can get through Congress. The result would of course be referred back to Ministers for approval.

9. Procedure. The Americans are emphatic that knowledge of the present negotiations should be confined to a very narrow circle both in Washington and in London, and that communications should wherever possible be on the direct White House-Cabinet Office link. They agree that, if there is to be a D.5 deal, its broad terms should on the C.4 July 1980 model be enshrined in an Exchange of Letters between the Prime Minister and the President which would be the subject of simultaneous announcements in

London and Washington. They are thinking in terms of a date in March, before the NATO Nuclear Planning Group meets in San Francisco on 25th March. They envisage the terms of the Exchange being worked out in detail at our next meeting with their team on 24th February. Agreement on that occasion would be ad referendum to principals, which on our side would might mean successively MISC 7 and then Cabinet. A target date for the final Cabinet stage might be 11th March. The public announcement would follow a very few days later. During these few days the Exchange of Letters would be formally effected. The French and Germans might be informed in confidence the day before publication; and the North Atlantic Council might (as in 1980) be told on the morning of the day itself. By contrast with 1980 the Americans seem reasonably relaxed over the whole issue of presenting the new deal to our various allies.

10. Though the Americans were negotiating toughly, particularly on the R and D levy, the tone of this meeting was reasonably good. The Americans gave us the impression of being under instructions to reach an amicable settlement, provided that this did not leave the President too exposed to Congressional attack.. As was to be expected, they did their best to suggest that if we go for D.5 we shall be fortunate in acquiring so accurate and powerful a missile; but I hope we were able to convince them that militarily we have no interest in anything beyond C.4 and that commonality is the sole reason for our interest in D.5. Our Ambassador, whom I consulted before leaving Washington, feels that our negotiating hand is inevitably not a strong one (since the Americans must know that we must know that we have no real option except to go for D.5); but he has no doubt that the tactical approach suggested in this minute represents our best hope of safeguarding our interests; and indeed that some measure of adjustment in our deployment plans would be desirable in terms of our Washington reputation even if a new Trident deal were not at issue. Nevertheless it will be helpful if at our next meeting with the Americans I could indicate that the Prime Minister is personally very disturbed by their current suggestions on and R and D levy. A message on this subject from her to the President may yet be necessary to clinch the final deal; and the implicit threat of it may serve to concentrate the minds of the President's advisers.

11. I should be grateful if you and the other recipients of this minute could let me know by 16th February whether the Prime Minister or her colleagues have any comments on the above; and in particular on the suggestion in paragraphs 7-8 above for a possible way forward in what seems to be the one remaining area of major difficulty, namely the R and D levy level.

12. I am sending copies of this minute to the private secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Secretary of State for Defence; and to Sir Robert Armstrong.

12th February 1982

R L WADE-GERY

ANNEX A

R and D Levy

The Americans start from their legal obligation (since 1976) to compute the levy on a pro rata basis. This would amount to $685 million (all figures at FY 1982 prices). About half of that they regard as eligible to be offset against costs incurred by us on their behalf in other areas; and they calculate that they do in fact gain almost that amount under our 1980 understanding to pay manning costs for their Rapier systems here. This leaves $342 million, of which they suggest they waive $120 million and we pay $222 million.

2. In reply we made clear that this basis for R and D calculations would be wholly unacceptable in London. Under the deal struck publicly in July 1980, we undertook to pay their Rapier manning costs; and we were abiding by that. In return, they undertook to fix the Trident R and D levy not at a pro rata level but on a 5 per cent basis (as with Polaris). On their own figures, 5 per cent for D.5 would currently come to $128 million (or $116 million for C.4). This was therefore our starting figure; and it was this which we were now asking them to waive, in order to help minimise the cost of a switch to D.5.


12 FEB 2002