

Ref: B05939

MR ALEXANDER

Prime Minister: My impression was that you had, in effect, already given officials discretion to go as far as is envisaged in para 6(a) i.e. to the Polaris level for the R & D levy. You may think though that a message would go to Acom on the lines suggested.

Polaris Replacement: Komer Negotiations (after necessary or desirable, at this stage. I think 17/4)

Sir Frank Cooper and I saw Mr Komer yesterday afternoon. He explained the United States position as follows.

a. "Soft offset" Thanks to American co-operation over the successor to Polaris, Britain would be saving perhaps \$4 billion i.e. the cost of developing our own MIRV capability. In return for this the Americans would want -

i. a satisfactory sentence in the Prime Minister's formal letter to the President indicating that this money would instead be devoted to strengthening our conventional defence effort;

b.

b. "Hard offset" Under United States law (new since Mr Macmillan's day) Britain would have to pay an R and D charge for her Trident missile on a pro rata basis. This would cost about \$400 million. Had it still been possible, a Macmillan-type 5 per cent R and D charge would have cost us \$100 million, i.e. \$300 million less. The United States Government could reduce this \$400 million charge only to the extent that they were compensated elsewhere in hard cash. About \$200 million of such compensation would be generated if Britain waived her right to charge the United States for the cost of manning the proposed Rapier defences of American bases here. (Subsequent analysis has shown that the correct figure for the cost of Rapier manning, over 20 years, is \$187 million rather than \$200 million. Mr Komer suggested no other candidates for "hard offset" and thought the problem over the number of GLCM bases might be soluble by other means.)

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2. Under questioning, Mr Komer agreed that legally the United States Government had power to waive R and D charges (without cash compensation). But they only did so, in part or whole, for projects which were strategically imperative for the Alliance. A British replacement for Polaris did not come into that category. Indeed, there were those in Washington who regarded it as positively undesirable.

3. Sir Frank Cooper and I made the following points.

i. The Prime Minister had been appalled by the suggestions which I had brought back from Washington last month. She had been approaching this and other issues on the basis that maximum co-operation was the order of the day where the major security requirements of the Alliance were involved. Hence her robust political support on so many key issues; her willingness in the TNF context to accept an extra 16 GLCMs at almost no notice; [redacted]

[redacted] She thought that the President's approach was the same (despite the continuing and unjustified difficulty over pistols for the RUC). But none of this was compatible with the sort of haggling now being suggested by Mr Aaron and Mr Komer.

ii. If nevertheless we had to think in "offset" terms, [redacted]

was by itself more than enough to counter-balance the \$400 million R and D charge for Trident missiles, which should accordingly be waived in full. The Trident programme would moreover involve our giving about \$2 billion worth of work to American industry, at a time when the procurement balance was already far too heavily weighted in the Americans' favour.

iii. The \$4 billion which we were said to "save" by not having to develop our own MIRVs was not extra money. It was money from within future defence budgets which could have been spent either (a) on MIRV development, with considerable emasculation of our conventional forces (cf the French), or (b) on maintaining and strengthening those conventional forces. Thanks to United States co-operation it would now be spent on (b); and the whole Alliance



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would gain. By the same token, if the Americans now started loading the bill for Trident, it would be our (and therefore the Alliance's) conventional strength which would suffer.

4. These and other more detailed arguments clearly took Mr Komer considerably aback. He undertook to report to the White House and see that we had a considered reply. But he thought our attitude would call the whole deal into question. The decision to charge us ~~£~~400 million for R and D, or its equivalent in hard offset, had been the President's personally. We would be most unwise to press for it to be waived totally (there was an interesting implication here that we might do better arguing for a waiver down to the £100 million "Macmillan" level). If we were difficult over R and D, we might find less co-operation over special nuclear materials. At one stage, Mr Komer also suggested that the delay which our attitude would now cause would involve abandoning the whole Rapier deal. Under pressure, however, he seemed to accept that it could go ahead on the basis that the means of repaying Britain for the cost of manning would be settled later.

5. Mr Komer's final come-back was to suggest that our attitude might now cause the June date for the crucial Exchange of Letters to slip to the other side of the Election. In reply we rehearsed the arguments why that was likely to be most unsatisfactory, for both parties; and we added that it would be equally unsatisfactory all round if there were to be slippage to which he had publicly attached very great importance.

6. Mr Komer was at pains to suggest that the White House (and State Department) were less sympathetic to our cause than he was. We do not believe this. Sir Frank Cooper and I therefore recommend that I should now send Mr Aaron a message which, besides seeking to tidy up various points on the text of the proposed Exchange (including the disputed wording on our conventional forces), also offers a means of resolving what is after all a relatively minor disagreement about R and D (we are arguing about £150-200 million in total, out of a 10 year programme costing around £5 billion). We would suggest that the Americans should choose between two possible compromises -





a. We would come up from our present offer of zero for R and D to ~~£~~\$100 million; and they would still owe us ~~£~~\$187 million for Rapier manning, which we would arrange to collect in some other context (Sir Frank is confident one could be found).

b. We would stick at zero for R and D but would agree to waive (in return) our ~~£~~\$187 million claim for Rapier manning (this is a fairly bogus 20 year figure anyway, which probably deserves substantial discounting).

7. The Defence Secretary has been consulted and agrees. He also suggests that the Prime Minister may wish to consider sending President Carter a message, a few days after mine to Mr Aaron; <sup>It's</sup>you would of course avoid getting into the haggle but would seek his broad agreement to proceeding in the overall interests of the Alliance and of Western security.

8. In Lord Carrington's absence, I have informed the Foreign Office at official level.

R L WADE-GERY

17th April 1980

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21 April 1980

Polaris Replacement:  
Komer Negotiations

The Prime Minister has read your minute to me of 17 April describing the meeting which you and Sir Frank Cooper had had with Mr. Komer the day before.

As I have already told David Wright on the telephone, the Prime Minister has agreed that a message along the lines summarised in paragraph 6 of your minute should now go from you to Mr. Aaron. The Prime Minister however does not wish to send to President Carter a message on this subject at the present time.

M. O'D. B. ALEXANDER

R.L. Wade-Gery, Esq.

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