



MB

10 DOWNING STREET

Prime Minister

The Defence  
Secretary slapped in  
a high bid for  
"5% of SDI work or  
nothing" which rather  
rocked the Americans.

SDI and I hope  
not intended as a  
'wrecking' bid. He  
never mentioned a  
figure in OD CD.



CCP

Prime Minister

MO 26/7/4

PRIME MINISTERBRITISH PARTICIPATION IN SDI RESEARCH

As we had agreed in the OD discussion on 12th July, I visited the US Defense Secretary, Mr Weinberger, yesterday to set out our approach to participation in the SDI research programme. CDP  
25/7.

2. The line that I took was based on the draft circulated by my office last week but also took account of your comments (your Private Secretary's letter of 22nd July) and of a discussion I had last Friday with British companies interested in the SDI programme. They were strongly supportive of the conclusions we had already reached on the need for a British SDI Participation Office and for an umbrella agreement on procedures. They stressed that, in their general experience and in the light of preliminary conversations with General Abrahamson about SDI itself, agreement on procedures alone would not be enough: to secure proper British participation, we needed to put on the table at the outset a bid for our share expressed in money terms. They stressed that this should be large in order to have impact and to offer scope for some bargaining.



3. Because of the difficulty of producing at the outset a definitive list of research areas in which information might be shared and of quantifying an exchange ratio, I decided to drop the numeric approach in this respect. Taking account of the advice from industrialists, I did, however, decide to put on the table a figure for the amount of US-funded SDI work to be placed in Britain (either through the SDI Participation Office or by company to company deals). I decided to pitch this at \$1.5Bn out of the \$26Bn which the US plans to spend over the period 1985-1989.

4. I had two conversations with Mr Weinberger, in a restricted forum and then with experts present. I explained that the United Kingdom wanted to play a full and constructive part in SDI-related research. We were prepared to make available research in relevant areas conducted within our R&D establishments provided we were given access to US work in related areas. The 1958 UK/US Defence Agreement provided a useful model for what could be achieved in this way. Our companies too were prepared to share their research with US companies on a reciprocal basis. Within such a pooling arrangement, we were willing to look at the scope for adjusting research programmes to achieve a better use of resources through specialisation.



5. I said that - speaking as an ally and a friend - we had also to take account of the wider effects of the SDI research programme in political, industrial and scientific terms. There was concern that the research programme would have enormous benefits for the United States where all the information would be brought together but would leave Britain and other European countries with only a marginal role and little or no benefit. The technologies involved had widespread applications in both the defence and civil fields. Once initial small-scale programmes had been completed and our centres of excellence tapped, there was a risk that funding might be cut off: those involved in the initial stages would be tempting targets for a "brain drain" which might in any case develop more widely because of the resources being put into the programme in the United States. The programme had to be seen in the context of the balance of trade in defence equipment which was 2:1 in America's favour and would move further against us as expenditure on Trident built up. The British Government needed to be able to counter effectively Opposition assertions that Trident could not be afforded and that SDI was against our interests. This was also in the US Administration's interest given the attitude of the Opposition to the US defence presence in Britain.

6. It followed that British participation in the programme on a small scale would involve a commitment with a large political cost and with no offsetting political benefit. A package was



needed which offered something for Britain and which the  
Government could put over effectively. I therefore proposed that  
the US should place \$1.5Bn worth of contracts over a five-year  
period. We were prepared to set up an SDI Participation Office  
in Britain to facilitate research co-operation and to assist the  
US Government in finding appropriate British contractors, in  
ensuring that their work was of the right quality, and that  
momentum was maintained on the programme. Finally, I stressed  
that, if such an approach was to work, there had to be  
arrangements covering technology transfer which kept information  
from our enemies but did not restrict its flow between the US and  
Britain. The rules governing access and exploitation must be the  
same in the United States and in Britain. Neither side could tie  
its hands on the use made of information and technology generated  
as a result of the approach I had outlined. The aim should be to  
reach agreement by October.

7. Mr Weinberger said that the proposed exchange of research  
information had very attractive features. On the technological  
and industrial impact of the SDI programme, he said that the  
commercial spin-off was no doubt important but the programme was  
not designed to produce that result. The aim was to produce a  
strategic defence which would benefit everyone in the world, not  
to drain off talent in a way which put off potential  
participants in the research programme. It would be very  
worrisome if this was the result. He accepted the importance of  
an equitable balance of defence trade: it was in America's



interest that Europe should retain a viable industrial base on which adequate defences could be built. His main concern was the scale of the "set-aside" for Britain which I had proposed. He foresaw considerable political, legal and procedural difficulties. In general the US Government was required to award contracts to the lowest bidder and had to take account of "Buy American" Congressional restrictions. In order to let research contracts outside the United States, the Administration had to certify that the capability could not be found within the country. There was scope for overcoming these restrictions on a case by case basis particularly for research where it was difficult to have meaningful price competition. They had in mind awarding a small number of contracts to the United Kingdom to see how the procedures would work. The problem was one of scale. Other countries would seek similar deals. He was not saying that the difficulties were insuperable but they needed careful study. Time was short to complete the work by October.

8. The further discussion addressed the case for getting ahead now with an initial package on the lines envisaged by General Abrahamson which would test procedures and provide a lead-in to continuing work (at an undefined level). I repeated that such small scale participation would require the British Government to accept all of the political implications from involvement in the SDI programme, without offering anything in return. There had to be a real partnership and an agreed figure for the share of the work to be placed in Britain. The profile of expenditure with us



could certainly be looked at. The US side accepted that we had the people, the institutions and the companies of the quality required to fulfil 5-6% of the programme but repeated the legal and other difficulties. (It also became apparent in later discussions between officials that they were concerned at the impact on other allies: our 5-6% could lead to bids for total foreign participation of some 20% and it would be very difficult to sell this to Congress).

9. It was agreed that officials would draw up terms of reference for a further joint study of these issues to be completed by 15th October. I attach a draft which was prepared by the British side yesterday and approved by me but which has yet to be agreed by the Americans who are considering it urgently.

10. The meeting was conducted throughout in an excellent atmosphere and Mr Weinberger himself showed sympathy for a number of the points we were making. The scale of our bid clearly came as a surprise. It will remain the American interest to secure our public commitment to participation in the programme in return for placing the minimum number of contracts in Britain targetted at specific centres of excellence. Were we to agree to participate in such a way, all our leverage on terms and on scale would be gone. I believe that the next step is to ensure that the further study is completed on time and covers the ground comprehensively. In the meantime, we would make it clear publicly



that we have yet to establish the terms for the partnership we are seeking. When I briefed the press after my meeting, I avoided getting into specifics on the scale of our proposals, the machinery we envisaged, or on the timetable of further work which had been agreed - it remains to be seen whether these will leak out of Washington.

11. I am copying this minute and the attachment to members of OD and E(A), to the Secretary of State for Education and Science, and to Sir Robert Armstrong.

Ministry of Defence

23rd July 1985





## ANNEX

Taking account of the common US/UK support for SDI research, first enunciated at the Prime Minister's meeting with the President on 22nd December 1984, and UK proposals put forward by Secretary Heseltine to Secretary Weinberger on 22nd July 1985 for full UK participation; the group shall, by 15th October 1985, consider and jointly report on:-

a. how best to arrange full reciprocal information exchanges covering all areas of SDI research in which the UK has an existing capability or programme, whether in the public or private sector. The common commitment to urgency and economy, and hence avoiding duplication of effort, is relevant: so too is the precedent of the 1958 US/UK Defence Agreement;

b. how best to ensure that the placing of research and development contracts draws with maximum efficiency on the common pool of capability, taking full account of existing research programmes and competence. The common commitment to the two-way street, and the importance of maintaining adequate technological capabilities in both countries are relevant: so too are the UK view that a target of placing US contracts in the UK to the value of some £1.5Bn over 5 years would be appropriate and attainable, and the US need to comply with US statutory requirements and contract-letting rules.

USA P.3

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