



NSPM

ST 18/10

CC/NO

PRIME MINISTER

COLLABORATION WITH THE UNITED STATES ON ENERGY RESEARCH AND DEVELOPMENT

When I saw my US opposite number Donald Hodel earlier this year we discussed the prospects for closer collaboration on energy research and development, and agreed to establish a series of joint workshops on energy efficiency and renewable energy topics. The first workshop took place in the States in July; the second is now under way in this country. More are planned. We have also agreed to sign a Memorandum of Understanding on collaboration in energy R & D today as Hodel is in London.

I believe there are prospects of combining R & D resources to achieve results which benefit both our countries. I thought you would like to know of the progress which is being made.

I am copying this to the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer and Sir Robert Armstrong.

SECRETARY OF STATE FOR ENERGY

18 October 1984





Sc 10

CONFIDENTIAL

B.06865

PRIME MINISTER

c Sir Robert Armstrong

US/UK Cost Sharing Arrangements: Subsidy to US by  
Under-Recovery of PSA's Departmental Expenses

OD(84)14

BACKGROUND

FLAGA

The Memorandum and supporting paper by the Secretary of State for the Environment explain that, when the US/UK Cost Sharing Agreement (CSA) was signed in 1973, it was known that the PSA's Departmental Expenses in connection with work done for the United States in the United Kingdom were at least twice the level of the 7½ per cent of total works expenditure which the United States were expected to pay to the United Kingdom under the agreement. The cost of this subsidy has since been borne by the PSA Vote and has grown to a level of £10 million per year. The Memorandum proposes that the subsidy should be allowed to continue and that in future it should be borne on the Defence Vote with PES cover being found from the Defence budget.

2. Neither the Secretary of State for Foreign and Commonwealth Affairs nor the Secretary of State for Defence can attend because of absence on duty overseas. They will be represented by the Minister of State, Foreign and Commonwealth Office (Mr Luce) and the Minister of State for Defence Procurement (Mr Butler). The Lord Chancellor is also unable to attend. The Secretary of State for the Environment has been invited to the meeting.





CONFIDENTIAL

HANDLING

3. You should invite the Secretary of State for the Environment to introduce his Memorandum. The Minister of State, Foreign and Commonwealth Office, the Minister of State for Defence Procurement and the Chancellor of the Exchequer should also be asked to give their views. You may wish to structure discussion in such a way as to cover the following principal issues:

- (a) Whether to attempt to persuade the United States to pay more of the PSA's Departmental Expenses

FLA9B

The Environment Secretary considers that this would not be profitable, essentially because officials have been unsuccessful over the past three years in their negotiations with the Americans and, since the subsidy was accepted in 1973 as part of the signed agreement, there seems little chance of persuading the United States from their view that the subsidy is an essential part of bilateral cost-sharing arrangements under NATO. In his minute of 15 October the Foreign and Commonwealth Secretary has supported this view, contending that even if the United States Administration were to agree, it is most unlikely in present circumstances that Congress would make additional funds available. However, you may wish to draw attention to the fact that these Departmental expenses currently include consultants' fees and paragraph 7 of the Annex to the Environment Secretary's supporting paper holds out the possibility that these consultants' fees might be regarded as actual costs and therefore payable in full under the agreement. You may wish to ask the Environment Secretary what proportion of the subsidy arises from consultants' fees and how far other similar agreements within NATO could be used to press the argument that the Americans should accept consultants' fees as direct charges.





CONFIDENTIAL

(b) Whether to seek the United States's agreement to a withdrawal of PSA Services

The Environment Secretary indicates that such a withdrawal would not require United States agreement. We do not know what the United States's reactions would be to such action which would eliminate the United Kingdom's subsidy but would require the United States to set up an alternative organisation to replace the PSA. This solution would have practical disadvantages for the PSA (paragraph 8 of the supporting paper) and the Environment Secretary suggests that the United States might seek compensation to cover the loss of subsidy. However, such a withdrawal would produce a substantial reduction in public expenditure and Civil Service numbers and would be attractive at a time when public expenditure is under such severe pressure. You may wish to ask the Environment Secretary for a fuller justification of his unwillingness to recommend this course, seeking advice from the Minister of State, Foreign and Commonwealth Office on the impact of this possible line of negotiation on our good relations with the Americans.

(c) The Vote on which the subsidy should be carried, if continued

— FLAGC Lord Cockfield in his minute of 31 August suggested that the subsidy should be an overt one in order to attract most credit for it in United States and NATO eyes. This led him to support the Environment Secretary's recommendation that the expenditure should be transferred to the Defence budget. It is understood that the Ministry of Defence would not object to this course, provided that a full PES transfer from the PSA Vote was agreed. The Foreign and Commonwealth Secretary in his minute of 15 October has suggested that this matter might be left to officials to resolve but, as is clear





CONFIDENTIAL

from the Environment Secretary's Memorandum, this issue has been under consideration by officials for some time without a satisfactory conclusion. You may wish to invite the views of the Minister of State, Foreign and Commonwealth Office and the Minister of State for Defence Procurement on whether the proposed transfer to the Defence budget would increase the visibility of expenditure in a helpful way. Would there be any disadvantages in such a transfer like the removal of incentives within the PSA to exercise the strictest of controls over expenditure? The Chancellor of the Exchequer should be invited to advise on this aspect.

#### CONCLUSION

4. Subject to any points raised in discussion which might lead the Committee to disagree with the proposals made by the Environment Secretary, you could guide the Committee to agree that -

(a) the United Kingdom should not seek to eliminate this subsidy;

(b) steps should be taken to transfer expenditure from the PSA to the Defence Vote with or without a compensating PES transfer, depending on the views of the Committee.

B G Cartledge

16 October 1984



USA : UK/USA relations part 3.



CONFIDENTIAL





FCS/84/272

SECRETARY OF STATE FOR THE ENVIRONMENT

Pl. by journal  
before OD on  
22 October  
AM

US/UK Cost Sharing Arrangements: Subsidy to us by Under  
Recovery of PSA's Departmental Expenses (DEs)

1. Thank you for copying to me your Memorandum of 27 September, which covered your Department's Paper to OD. I have also seen the then Chancellor of the Duchy of Lancaster's minute of 31 August. I am concerned that the matter of DEs has again been raised and that it has been suggested that we should seek to reduce or eliminate the subsidy.
2. As you point out, it would be difficult to counter the American position that the subsidy represents our contribution to the cost-sharing exercise. To reduce or eliminate that contribution would amount to asking the Americans to increase theirs. Even if the US Administration were to agree to this, it is most unlikely in present circumstances that Congress would make additional funds available.
3. The cost of the subsidy should be seen in terms of the balance of advantage in our defence relationship with the Americans. When set against the benefits which accrue to us in other fields and from their extensive presence in the UK and NATO Europe generally the cost seems a relatively small item.
4. These factors, which have in the past led us to argue that the question of DEs should not be raised with the Americans, are even more compelling now. We can expect the European contribution to the common defence, particularly in areas which affect US troop stationing in Europe, to

/remain





remain under scrutiny in Washington in the aftermath of the Nunn Amendment. The Americans will be looking for increased European contributions. This is clearly not the time to seek any reduction in the level of support which we provide for US forces in the UK.

5. As Lord Cockfield pointed out in his minute of 31 August, the conclusion that "there can be no policy requirement" for the subsidy if no department is willing to pay is a misleading one. There is in my view a strong case for the cost-sharing process to continue on its present basis. We can perhaps leave it to officials to resolve the exact budget from which the funds should come. Expenditure is normally borne on the vote of the Department which has the major interest in the beneficiary (in this case the US forces).

6. I am copying this minute to OD colleagues and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

15 October 1984



USA Pt 3

Relatrus

5 OCT 1984





CLPC

Await MOD e

FCO views.

CDP  
31/8

## SECRETARY OF STATE FOR THE ENVIRONMENT

## US/UK COST SHARING ARRANGEMENTS: SUBSIDY TO US BY UNDER-RECOVERY OF PSA'S DEPARTMENTAL EXPENSES

1. I am responding to your Paper of 20 <sup>attached</sup> August to OD (84) 14.
2. During the Presidential Nomination Campaign, the European Allies were strongly criticised for failing to bear their "fair" share of the costs of defence of Western Europe. The United Kingdom was - quite unfairly and incorrectly - singled out for special criticism. These attitudes are reflected elsewhere in the United States. They cannot be dismissed as electioneering.

In the light of this, there seems to me to be an overwhelming case for demonstrating that we are in fact paying some £10 m a year over and above what we appear to be paying by way of supporting US troops in this country.

But equally this line of reasoning points to the necessity of continuing the subsidy.

On this basis therefore the subsidy would continue but as an overt subsidy not a covert one.

3. I fear that I do not go along with the statement in the last sentence of paragraph 10 of the Minute ("If no department is prepared for the subsidy to be borne on its programme then there can be no policy requirement and the subsidy must be terminated ..."). This is no doubt good Treasury doctrine; but we all know that in fact who pays is often simply a test of nerve. In the present instance the logical paymaster is MOD. But equally to the extent that PSA has paid in the past, a pro tanto PES transfer would be justified.



CONFIDENTIAL

I am sending copies of this minute to the Prime Minister, members of OD and Sir Robert Armstrong.

A.C.  
A C

31 August 1984

CONFIDENTIAL