



10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

Meeting of Finance and Trade Ministers
of the Seven Summit Countries

Thank you for your minute of 28 April recording M. Attali's statement to you that the French Finance and Trade Ministers would be refusing the American invitation to the above meeting.

As I have informed Mr. Fall orally, M. Durieux rang me this morning to explain the Commission's position (in essence that the Commission proposed to attend the meeting on certain conditions, in particular that it should be informal, should not constitute a preparation for Williamsburg and that the plan to hold a further meeting on the following day should be abandoned).

M. Durieux sought our reaction and asked what our own intentions were. The FCO will be replying to his enquiry direct.

I should be grateful if in due course the FCO could let me have a brief account of this matter, including the French position, which I can show to the Prime Minister.

I am copying this minute to Mr. Fall (Foreign and Commonwealth Office), Mr. Kerr (HM Treasury) and Mr. Rhodes (Department of Trade).

E. J. DOUGLAS

28 April 1983

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SPEAKING NOTE

A. Defence Sales to the US

1. Believe British industry can offer a range of equipment which would cost effectively meet US military requirements. We are not asking for any favours or special treatment. All we want is a chance to compete and to be allowed to deliver the contracts we win. By same token this allows the UK to continue to consider US equipment on its merits.
2. Recently the US Administration has been very helpful in resisting protectionist demands by Congress, and we are particularly grateful for Secretary Weinberger's personal assistance in reinstating the waiver of the Berry Amendment on specialty metals.
3. There have, however, been a number of cases where US Services have selected British equipment, but UK industry has subsequently been barred from supplying, eg:
 - a. Martin Baker ejector seats - I am pleased to hear that Martin Baker will be allowed to compete for F-18 ejector seat order - a pity this problem occurred in the first place;
 - b. combat support boats - now in danger of being designated a "small business set aside" after Fairey Marine won contract. I understand a compromise arrangement is being considered, but this is difficult to accept where a UK design is at issue.
4. In other cases, eg 81mm mortar, after the British equipment has been chosen it has been subjected to drawn-out testing over several years by US Forces and production orders still not placed. This mortar is in British Army service and has been operated in all climatic conditions. US Forces seem to ignore our own experience with weapon.

The Searchwater radar is another example - after RAF radars were made available for testing for over six months,

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with very satisfactory results, we now understand the DOD are considering a totally untested US radar instead.

B. Security Problems faced by UK-owned Firms in US

5. Several British companies have bought US firms, hoping to improve their chances of winning US defence contracts, only to find that the security clearances needed to allow them to compete for orders for certain classified projects is withdrawn, eg Systron Donner (EMI), Cincinnati Electronics (Marconi). We treat US-owned companies in UK in exactly the same way as the rest of British industry.

C. Technology Transfer

6. We support US efforts to prevent militarily valuable technology being passed to the Soviet Union. However, tighter US security regulations are being applied too widely and are impeding co-operation within NATO, eg:

- a. signs that US industry is being prevented from sharing fully with us information needed for collaborative projects such as MLRS; *(Multiple launch rocket system)*
- b. there have been restrictions on British military and scientific personnel attending conferences and seminars - even General Moore's presentation on the Falklands classified "No Foreign". However, I now understand that Secretary Weinberger is reviewing these regulations. I am grateful for his efforts to alleviate this problem.

PROBLEMS IN EQUIPMENT CO-OPERATION WITH THE US -

BACKGROUND NOTES

Over recent months a number of problems have arisen in equipment co-operation with the US. Several factors have contributed to somewhat unhelpful American attitudes, including their dissatisfaction with the effectiveness of COCOM in controlling the flow of militarily valuable technology to the Eastern bloc (although the UK has adopted a more helpful policy than most in this area), and protectionist and anti-European attitudes on the Hill encouraged by the effects of recession on US industry and by beliefs that the European Allies are not pulling their weight. The effects have shown in DOD unwillingness to fight hard for co-operative interests.

2. A great effort has been made by Defence Ministers and Procurement and Sales officials to persuade the Americans to take a more co-operative line, on the grounds that this is in their own long term interests. These representations at last appear to have made some progress.

Defence Sales

3. On Defence Sales, the major problems have stemmed from protectionist measures proposed by Congress which stymied a number of deals. However, the Department of Defense is fighting back and at the recent meeting of the UK/US Defence Equipment Rationalisation Committee (DERC) it was discovered that:

a. the waiver of the Berry Amendment restricting the import of specialty metals has been restored by House Appropriations Committee and should now be passed into law. (It may still affect bar metal, but not defence equipment). The Defence Secretary himself testified in support of the waiver;

b. it is now expected that Martin Baker will be allowed to enter the new F-18 ejector seat competition.

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However, other problems often encountered will be less easy to overcome. These include the US Forces' tendency to perform stringent and drawn out tests on UK equipment, and the activities of the Small Business Administration which has claimed that the combat support boat, currently supplied by Fairey Marine, should be built by small businesses in the US.

Security Problems faced by UK-owned Firms in US

4. British companies realise that in order to improve their chances of winning major production orders in the US they have to enter teaming arrangements with American industry or agree licensed production. An alternative which has its attractions is for British companies to purchase US firms. When this has happened, however, the US companies find that the security clearances needed to allow them to compete for orders requiring highly classified information are withdrawn, even though the work force remains 100% US. In contrast we treat US-owned companies in the UK in exactly the same way as British industry. Representations about this have been made at up to Ministerial level and the US are now seriously considering what can be done to alleviate the problem. This is a complicated issue, however, involving more than one American Department and no immediate solution is in sight.

Technology Transfer

5. The US are making a major effort to clamp down on the flow of militarily valuable technology to the Soviet bloc and regulations restricting the flow of technology are being strictly enforced. Unfortunately they are being applied in an inflexible way and are adversely affecting the flow of technology within the Alliance. Even in the case of collaborative projects, such as MLRS, the US are reluctant to engage in essential technology sharing.

6. A particularly annoying manifestation of this problem has been that UK scientists and military personnel have been

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excluded from seminars and conferences which they would previously have expected to attend. This matter has been raised by HMA Washington with Secretary Weinberger who has agreed to review regulations in an effort to promote international defence co-operation.

The Current Position

7. There are signs, particularly from the recent DERC meeting, that the constant UK pressure on all these problems is beginning to have an effect. The Americans seem to be looking for ways round the difficulties, even though solutions are not always readily apparent, and this is reflected in the suggested Speaking Note. It is still advised, however, that by raising these issues with the President, the Prime Minister can help to ensure that they are followed up rigorously by the DOD. In doing so, however, the Prime Minister should avoid undue criticism of the US system (which is often as frustrating for them as it is for us) but stress that it is only through competition that both Governments can ensure that our joint capability and resources are employed to the best effect. Unless our companies are seen to have the opportunity to bid into US programmes it will be difficult for the MOD to continue to buy US equipments where it is most cost effective to do so.

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MR COLES

Monsieur Attali, the Special Adviser to the President of the French Republic, rang me this morning to inform me that the French Finance and Trade Ministers would be refusing Mr Donald Regan's invitation to the Finance and Trade Ministers of the seven summit countries to meet in Paris in the margins of the forthcoming OECD Ministerial meeting.

2. Monsieur Attali said that a subsidiary reason for this decision was that the French Government did not regard it as acceptable that the United States Secretary to the Treasury should issue an invitation to his colleagues in other summit countries to attend a meeting in Paris without any prior consultation: he should have at least engaged in prior consultation, and it would have been better to propose to the French Government that they should organise such a meeting. But the main reason for refusing the invitation was that the French President was not prepared to accept that the meeting should be held and presented as part of the preparations for the Williamsburg Summit. That Summit was a meeting of Heads of State and Government, and preparations for it were to be made by the Personal Representatives of those Heads of State or Government: meetings of the kind proposed could only complicate and confuse the process, and add to the bureaucratic process of preparation ^{and} to the degree of public expectations of the Summit in a way which President Mitterrand thought that President Reagan and all his colleagues wished to avoid.

3. It would of course be up to Finance and Trade Ministers of other Summit countries to decide whether or not to accept Mr Regan's invitation; the French Government would naturally have no objection if any of them decided not to accept.

4. I am sending copies of this minute to the Private Secretaries to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary and the Secretary of State for Trade.

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ROBERT ARMSTRONG

28 April 1983