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INTERNATIONAL SECURITY POLICY

ASSISTANT SECRETARY OF DEFENSE  
WASHINGTON, D.C. 20301

DECLASSIFIED IN FULL  
Authority: EO 13526  
Chief, Records & Declass Div, WHS  
Date:

In reply refer to:  
I-08438/84  
24 APR 1984

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JUN 15 2018

MEMORANDUM FOR THE DEPUTY SECRETARY OF DEFENSE

24 APR 1984

THROUGH UNDER SECRETARY OF DEFENSE FOR POLICY *MLB/f/CI*

SUBJECT: Arms Cooperation and the Two-Way Street (U)

NATO 400

(U) This responds to your request for information on the two-way street issue and arms cooperation with our NATO allies, in anticipation of a meeting with Secretary Weinberger next week.

(U) Two-Way Street. The US defense equipment trade balance with other NATO countries has bothered our allies for years, but their concern has increased during the recent recession. Their concern has been manifested in many ways:

- calls for the US to buy more from Europe and Canada;
- insistence on commercial offsets in arrangements for acquisition of major US arms and equipment;
- allegations that US initiatives such as Emerging Technologies (ET) and protection against loss of technology to the East are intended to promote US sales and protect US defense industry; and
- warnings that US firms will simply be frozen out of the European defense market unless there is real progress toward a two-way street.

(U) The "two-way street" is generally considered to relate to the development, production and acquisition of defense armaments and equipment. By this narrow definition there has consistently been an imbalance favoring the US. For 1983 the ratio in military equipment trade favored the US by slightly more than 4:1 (see Columns C and D of chart at Tab A). However, there are other relevant measures that must be taken into account. When one broadens the calculation to embrace total military trade between the US and NATO Europe/Canada, the ratio changes to 0.3:1 in our disfavor, due largely to large expenditures made by or on account of US forces stationed in Europe (Tab A, Column B).

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Classified By: ~~ASD/ISP~~  
Declassify By: 20 APR 96

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DEP SEC HAS SEEN  
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JUN 15 2018 <sup>2</sup>

Broadening the comparison still further, the total merchandise trade balance runs 0.8:1 in our disfavor, with a large deficit of \$17.2 billion for FY 83 (Tab A, Column A).

(C) It is noteworthy that in other contexts the allies themselves have recognized and expressed serious concern about burgeoning US trade and current account deficits and expressed "doubts as to whether the present trend of very large trade and current account deficits can be sustained" (from NATO document DRC/WP(84)8, 29 March 1984).

(U) The point is not to deny or reject the Europeans' legitimate concern over the defense equipment trade balance, which is particularly adverse to them in areas of high technology. We have a clear interest in a strong allied defense industrial base and we do need to work to bring the two-way street into a more equitable balance, in our own self-interest, and to promote continuing allied investment in conventional force improvements. Nevertheless, it behooves our allies as well as ourselves to keep in mind the larger context of trade and payments balances as we proceed.

Obstacles to Reducing Adverse Two-Way Street Ratio for Allies. (U)

(U) Although a balance in defense equipment trade of 1 to 1 seems to be a goal of our NATO allies, achievement is probably impossible because US equipment is generally technologically better than allied equipment, European defense industries are not organized to compete effectively with the US defense industry, and the US will probably continue to predominate in the production and sales of high-cost, high-tech items while individual European allies tend to concentrate on more limited quantities of lower-cost, lower-technology items.

(U) Moreover, the concept that each nation should specialize in arms and equipment which it develops most efficiently is negated by the reluctance of any nation to rely totally on foreign sources for an important part of its defense structure.

(U) Increased US participation in armaments cooperation on "Buy European" is inhibited by (1) political realities in Congress which belie Congressional agreement in concept (Roth-Glenn-Nunn Amendment); (2) reluctance of US industry to give up the profits of sales to allies and third countries for the lesser benefits of coproduction; and (3) fears of the Military Services that participation in NATO armaments cooperation will force compromise in specifications they have designed to fit their military requirements, disrupt and lengthen acquisition schedules and increase unit costs.

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(U) Another view, which alleges that technology transfer controls impede the "two-way street", obviously misunderstands or misinterprets our intent to encourage reciprocity in defense technology arrangements to facilitate arms cooperation within NATO while, at the same time, restraining the ability of the Warsaw Pact to field advanced weapons systems. Statistical studies (see Tab B) demonstrate that restrictions on exports of arms generated by the export license review process have a relatively small impact on the quantity and timeliness of exports of military items to, from and among our NATO allies.

Improving Armaments Cooperation and the Two-Way Street. (U)

(U) Implementation of the Weinberger Emerging Technologies Initiative within NATO and the Abshire Initiative within the US offer great promise in this area.

(S) We should press for expeditious action on ET in several areas. The US should call meetings in the near future of national armaments representatives to lay out action plans for expediting progress on the seven projects (in which the US indicated willingness to participate) of the eleven ET projects recently endorsed by the CNAD. We should also seek similar action by allies on the other four projects in which other allies indicated interest. At the same time, we should work within CNAD and bilaterally to institute NATO action on national systems recommended by the US or by the European allies in the candidate list recently sent by the Independent European Program Group (IEPG) to Secretary Weinberger.

(S) To facilitate this effort and to reduce the effect of some of the obstacles discussed above, we should move forward with Secretary Weinberger's plan for implementing the Abshire Initiative within the US Government (with which State and Bud MacFarlane have agreed). After identifying promising candidates for armaments cooperation (the seven CNAD ET projects are a good start), we would first initiate an in-house approach to seek a consensus with the Services, other Executive Branch Departments, Congress and US Industry and then work with our allies on launching the cooperative programs.

(S) To organize and lead this effort within the Pentagon, we visualize a DoD Steering Group for NATO Arms Cooperation with you as the chairman, supported by appropriate working groups.

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(S) If this effort achieves success, one might envisage a second phase: creation of an ad hoc committee with representatives from all organizations mentioned above to encourage further cooperative undertakings and to consider broader changes needed in the structure of trans-Atlantic armaments cooperation.

(U) In short, improving the two-way street through better armaments cooperation needs strong consensus with Service support, consistent apolitical help from Congress, and understanding cooperation by US defense industry.

*Richard Perle*  
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Authority: EO 13526  
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JUN 15 2018

Office of the Secretary of Defense  
Chief, RDD, ESD, WHS  
Date: 15 JUN 2018 Authority: EO 13526 + 5 U.S.C. 552  
Declassify: X Deny in Full: \_\_\_\_\_  
Declassify in Part: \_\_\_\_\_  
Reason: \_\_\_\_\_  
MDR: 18 -M- 1066

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