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INTERNATIONAL SECURITY POLICY

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

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Chief, Records & Declass Div, WHS
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In Reply Refer To:
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MEMORANDUM FOR THE SECRETARY OF DEFENSE

THROUGH: UNDER SECRETARY OF DEFENSE FOR POLICY

SUBJECT: Status of PATRIOT/ROLAND Negotiations with the FRG (U)
-- INFORMATION MEMORANDUM

(S) Following Paul Thayer's meeting with Minister Woerner on 18 October, a German group of experts headed by Brig Gen Roland Opperman, Deputy Director Military-Political Directorate, Joint Staff met with OSD and Army staff for two days (November 3-4) of discussions, in conjunction with Woerner's request for details of our proposal to facilitate their analysis (Tab A). These details, including the cost basis underlying our proposal, were presented to the German delegation. Follow-on discussions clarified the positions of both sides and established the basis for more accurate program planning and cost analysis. A Memorandum for the Record (Tab B) summarizes the results of the German visit.

(S) As matters now stand, agreement cannot be achieved because of the following issues that divide the US and the FRG:

- o The number of Patriot fire units provided to the FRG. With the cooperation of OSD offices, the Army, Air Force and JCS, we were able to offer the FRG 12 Patriot fire units. We made clear that we could not possibly exceed that number. The FRG experts, and, concurrently, Lothar Ruehl in a letter to Paul Thayer (Tab C) proposed that we give the FRG 15 fire units. In addition, the FRG proposes that we waive R&D recoupment and FMS charges (\$300+ million) without receiving their value in offsets, and credit the FRG for manning two Patriot battalions at a rate that far exceeds the savings to the US. This proposal clearly would shift the defense burden to the US and reopens the contentious issue of reducing Army force structure.
- o FRG insistence that it can commit no more than 5.8 billion DM over the period 1984-1996 for the Patriot program, related acquisition of Rolands, and other offsets to the US.

336-85-0023, bx 8, Germany (out - Dan)

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It had been the US understanding that operations and maintenance costs would not be included in the \$5.8 billion figure. Moreover, given this cost constraint it is impossible to acquire the required number of Patriots and Rolands for the FRG without the United States providing an unreimbursed "gift"--i.e. foregoing the value of offsets that the FRG should provide for US assistance--in excess of \$500 million. These offsets are scheduled to begin in the late 1980s, however, and extend through the 1990s, with a majority of the costs to be borne during the 1984-1996 time frame.

o The discount rate issue.

(c) The agreement, as envisioned, calls for the U.S. to provide funds early on with offsets being provided by the FRG at a later date. In calculating the value of the offsets due to the U.S., we have insisted that an appropriate discount rate be applied to recognize the differences in the timing of our respective expenditures, and thus equate the burdens to be borne by each country. The FRG has refused to recognize discounting as a means for calculating burden. In effect, we would be giving the Germans an interest free loan of more than a billion dollars if we were to ignore discounting. This violates your equal burden principle and would not be acceptable to the Congress.

(c) We face a serious constraint in trying to work out these issues in time to have an agreement you and Minister Woerner could sign in Brussels. Another meeting with the Germans is necessary, which Ruehl in his letter proposed to chair. Since his level is relatively equivalent to my own, it would be appropriate for me to head a small U.S. negotiating team that could meet in Bonn during the week of 28 November.

Richard N. Perle
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Office of the Secretary of Defense
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