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ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

2 JUN 1975

In reply refer to:
I-5911/75

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Meeting with Belgian Minister of Defense, 2 June 1975 (U) - ACTION MEMORANDUM

Minister van den Boeynants asked to meet with you on 2 June in Washington. All other Consortium nations, Denmark, Netherlands and Norway, have announced their selection of the U.S. F-16 provided Belgium does likewise. Belgium has not announced its selection but there is to be a Cabinet meeting on 4 June. Van den Boeynants evidently considers that his scheduling the meeting with you may excuse Belgium from making a decision by the U.S. cutoff date of 31 May.

Although van den Boeynants will have only a Belgian team with him, he may assert that he speaks for the Consortium as he tries to get the U.S. to relent on a number of issues which we consider already definitively answered during the final negotiations on the Memorandum of Understanding. The MOU in its present form has been signed by the Dutch, the Danes and the Norwegians and approved by State Department.

Here are the points we believe van den Boeynants will bring up:

A. Procedure for decision-making in the F-16 Program.

- In general, the day-to-day program decisions will be made at the USAF System Program Office (SPO) in which all participating countries will have representation. In the event program problems are encountered which the SPO representatives do not have authority to resolve, the problems will be elevated to a "steering committee." This steering committee will be comprised of senior officials from each of the five countries and will meet regularly to resolve open issues. Furthermore, the steering committee can be convened whenever necessary to consider an urgent problem. All steering committee decisions having a significant financial impact on the member countries will be made by unanimous vote. In the event such vote is impossible to obtain,

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SUBJECT TO GENERAL DECLASSIFICATION SCHEDULE OF
EXECUTIVE ORDER 11652
AS TWO YEAR ANNIVERSARY OBSERVED ON 3/1/99

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the problem may be raised to the Ministerial level for further consideration. The U.S. Secretary of Defense is considered to be the final arbiter in the event the problem cannot be resolved, after necessary consultation, to the mutual satisfaction of the member countries.

- It is believed that the Belgians desire the effect of an indemnity against any adverse financial impact in the event the U.S. Secretary of Defense makes a program decision contrary to the desires of the other four partners. In the case of full-scale development costs, we have agreed to such request but the General Counsel for the Department of Defense advises that a further commitment is not possible under U.S. law.

B. Guarantee of Price and Compensations linked to the number of Aircraft to be purchased.

- We have provided the European Consortium with a "not-to-exceed" price developed by the contractors for the airframe and engine. This price also includes estimates for the government-furnished equipment and the radar system. The U.S. Government has advised that it cannot guarantee such a price for both policy and legal reasons. Furthermore, we cannot legally guarantee a U.S. buy of 650 aircraft upon which the not-to-exceed price is based. Similarly, the European Governments have not protected the U.S. against an adverse price impact upon the U.S. buy if the European Governments purchase less than 348 aircraft. However, they have agreed to indemnify each other against an adverse impact resulting from reduction in the numbers of aircraft which the respective European country may purchase. Note that the not-to-exceed price extended to them of \$6.09 million each assumes that the European Governments will purchase 348 aircraft and in the event they elect to buy a lesser number under their option agreements, a new not-to-exceed would have to be negotiated on their behalf at that time.

- The coproduction package offered by the U.S. Government also assumed that the European Governments would purchase at least 348 aircraft. Except to determine the point at which a 100% offset is achieved, the coproduction program will not be fundamentally changed if the European Governments purchase the lower option of 306 aircraft. Other than reassurance on this point, it is difficult to guess what their question of "compensations linked to the number of aircraft" means in the context of the Memorandum of Understanding.

C. General Aspects of Coproduction.

- The Belgian Government apparently wants to be assured that they will have a meaningful participation in the full-scale development and production programs. I am personally satisfied that

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it is the intention of both General Dynamics and United Technologies to insure that the European Governments are given a reasonable opportunity to participate. Both U.S. prime contractors recognize that their ability to perform on the F-16 program will be linked in a significant way to their effective management of the coproduction effort. The commitment of 40% European content for the Consortium airplanes and the 15% European content on aircraft being sold to third countries continues for the life of the program. However, we have limited the 10% European content on USAF aircraft to the initial 650 airplane program. I suspect we may be asked to extend the 10% commitment for all F-16 aircraft purchased for the U.S. inventory. A decision not to make that concession, after consultation with Secretary Clements at an earlier date, has been based on the belief that the coproduction program is already very attractive and further improvement unnecessary.

D. General Aspects of Competitiveness.

- We have conditioned the U.S. offset offer on the European industry being "reasonably competitive." The Belgian Government, in particular, appears to be quite concerned that the U.S. Government will use that qualification as an excuse to disqualify European bids. Both contractors and ourselves have given further assurance that such will not be the case. The total aircraft and engine prices anticipate that some differential will be necessary to accommodate the European content. I believe it would be a mistake to fix "reasonably competitive" by a percentage of the U.S. quotation since that action would almost insure the European bids would never be less than the percentage differential agreed upon. While the Lockheed C-130 offset program was not successful in Europe and is frequently quoted as an example of U.S. industry unresponsiveness, we have attempted to convince the Europeans that the U.S. Government feels a direct obligation in the performance of this program. All of the European countries other than Belgium appear to have accepted those assurances.

E. Other Possible Issues.

(1) Sale and Transfer to Third Countries

During the negotiations the Consortium countries have been told that there is a statutory requirement that sales and transfers to third countries require U.S. approval. The Europeans would like to have full-clear unencumbered title to their aircraft -- at least after 10 years after delivery of an aircraft -- so that they could at some future time sell their F-16s to customers of their own choice without securing U.S. approval. Under present law we have no "give" here.

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(2) U.S. Purchase of Belgian Machine Guns for Tanks

As a part of the search for a replacement for the M219 machine gun used on tanks, the Army has conducted limited bench tests of a single Belgian MAG-58 machine gun produced by FN. Its tests were limited because it was configured for tank mounting. Of all the foreign guns tested, the MAG-58 was the best. The U.S. candidate tested was the standard infantry M60 machine guns modified for tank mounting (M60E2). These underwent both technical and operational testing with excellent results. Because the MAG-58 also provided excellent results, the Army decided to obtain 10 production models with tank mounts to test side by side against low rate production models of the M60E2. In parallel with the hardware evaluation will be an examination of licensing options, acceptability of off-shore procurement and relative costs. Decision on weapon selection is scheduled for January 1976. Army will need 19,000 weapons for its tank fleet. This would represent a \$30 million purchase from Belgium and would be a particularly palatable and "politically symbolic" procurement for van den Boeynants and Tindemans to announce as evidence of USG intent to purchase European equipment when that equipment has demonstrated superior characteristics. You might wish to indicate to van den Boeynants that you favor procurement from Belgium unless the final testing reveals unexpected performance inferiority or if the costs are prohibitive.

Van den Boeynants may also have ulterior motives for his visit. For example, he could use any unrelenting U.S. attitude as an excuse to withdraw from the Consortium and be subject to the least amount of blame from the other members. He might also use the results of the meeting to justify his decision domestically. In Belgium the French-speaking Belgians support the MIRAGE and the Flemish-speaking Belgians favor the F-16. Alternatively, since the Belgians just recently proposed to the members of the Western European Union (WEU: UK, France, Germany, Italy, Belgium, Netherlands, Luxembourg) that they form a study group on European arms production, and the French have suggested a new Council for European Security or some other armament grouping, it may well be that van den Boeynants is seeking a "clean way" to postpone a selection decision which he knows would kill the present Consortium. We believe the current French Belgian ideas -- only suggested in late May -- for intra-European arms production outside of the NATO framework are probably intended as spoiling efforts to delay or nullify any Consortium decision to buy the F-16

Attached are:

- (a) The list of issues for discussion as provided by Belgian MOD.
- (b) Point paper outline of MOU.

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(Signed)
Robert Ellsworth
Assistant Secretary of Defense

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ACTION: TWINF=DDY SAFOS-6

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SUBJECT: ~~TOPICS FOR SECDEF~~ SCHLESINGER MOD VANDEN ROEYNANTS

MEETING W/ F-16. MONDAY, 2 JUNE

1. COL. LEFEVRE HAS JUST TELEPHONED US TO SAY THAT MOD WOULD NOT WPT. NOT SEND LETTER FROM VANDEN ROEYNANTS TO SCHLESINGER. INSTEAD LEFEVRE LISTED FOLLOWING ISSUES AS THOSE THAT BELGIAN TEAM WISHED TO DISCUSS:

- 1) PROCEDURE FOR DECISION-MAKING IN F-16 PROGRAM;
- 2) GUARANTEE OF PRICE AND COMPENSATIONS LINKED TO THE NUMBER OF AIRCRAFT TO BE PURCHASED;
- 3) GENERAL ASPECTS OF CO-PRODUCTION AND
- 4) GENERAL ASPECTS OF COMPETIVENESS.

2. WE TOLD LEFEVRE THAT SOME OF THESE QUESTIONS APPEARED TO BE ADDRESSED QUESTIONS OF HIS LAW AND THAT ALL THESE POINTS HAD BEEN DISCUSSED IN GREAT DETAIL ON NUMEROUS PREVIOUS OCCASIONS. LEFEVRE APPEARED SOMEWHAT EMBARRASSED OVER THE LIST OF QUESTIONS FOR WHICH WE HAD BEEN PRESSING HIM. HE SAID SHEETISMLY THAT THERE WAS NO INTENTION TO RAISE NEW OR DIFFICULT POINTS.

3. COMMENT: IT APPEARS TO US THAT PURPOSE OF TRIP IS A FACE-SAVING DEVICE FOR VANDEN ROEYNANTS TO PERMIT HIM TO SAY PUBLICLY HERE THAT BELGIUM HAS EXHAUSTED EVERY OPPORTUNITY TO MAKE THE US OFFER AS GOOD AS POSSIBLE FOR BELGIUM.

4. MOD IS GREATLY APPRECIATIVE OF NEW YORK - WASHINGTON - NEW YORK TRAVEL ARRANGEMENTS. ALSO REMINDED US THAT VOR WOULD NEED FRENCH TRANSLATOR FOR MEETING WHICH BELGIANS HOPE MOD CAN PROVIDE. FIRESTONE

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FACT SHEET

on

MULTINATIONAL F-16 PROGRAM

MAJOR ASPECTS OF THE
MEMORANDUM OF UNDERSTANDING

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- The formal agreement of the five countries (U.S., Belgium, Denmark, the Netherlands and Norway) to enter into a cooperative program for procurement and production of the F-16 aircraft is reflected in the following two documents which have just been signed:
 - Memorandum of Understanding signed by the U.S. Secretary of Defense and the four Ministers of Defense for the four European countries (five party document).
 - Preliminary Contract signed by the U.S. Secretary of Defense and the Minister of Defense for each country (bilateral document)
- The Memorandum of Understanding (MOU) is the prevalent document or basic charter for the multinational F-16 program. The MOU sets forth the general policies and principles agreed to by the five countries for the operation and management of the cooperative program.
- The Preliminary Contract, on the other hand, is principally a financial document which sets forth each individual European country's aircraft requirements, prices, and payment schedules, as well as an initial financial commitment (\$114M) by the European countries for the first year of the program. The Preliminary Contract will be further developed and refined in the next few months.
- The major aspects of the MOU are as follows:
 - The United States Government (USG), subject to Congressional authorization and appropriations, plans to procure 650 F-16 aircraft and base a substantial number in Europe.

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- The European Participating Governments (EPG) plan to procure 348 F-16 aircraft
- The U.S. Department of Defense (DOD) will implement and fund the development program for the F-16
- Upon delivery of EPG production aircraft, the USG will recoup approximately \$470,000 per aircraft (\$164M total) from the EPG for F-16 research and development costs. This R&D recoupment charge includes a share of the development costs for the F-100 engine which was originally designed for the F-15 aircraft and is now being used in the F-16 as well.
- While the USAF will be ultimately responsible for the day to day management of the F-16 program, both in the United States and in Europe through its prime contractors (General Dynamics and United Technologies Corporation), a significant number of EPG personnel will be assigned to and fully integrated into the USAF F-16 System Program Office at Wright Patterson AFB, Ohio, the European F-16 System Program Office to be established in Europe, the test program being conducted at Edwards AFB, California, as well as various other management activities
- A high-ranking European officer will be assigned as the EPG attache or liaison officer to the Commander of the Aeronautical Systems Division at Wright Patterson AFB, Ohio
- During production, the USG will, through its prime contractors, implement a European industrial participation program which could ultimately provide opportunities for compensating production offset in Europe exceeding 100% of the procurement value of the EPG's initial purchase of 348 aircraft.
 - The European industrial participation plan is based on the four European countries producing 10% of the components and support material for the USAF F-16 aircraft, 40% of the EPG aircraft, and 15% of third country purchases of the F-16 aircraft. In this regard, the continuation of industrial participation into third country sales is indicative of the partnership relationship among the five countries for the Multinational F-16 Program.

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- Final airframe assembly lines for the EPG aircraft will be established in Belgium and the Netherlands. Belgium will also provide final assembly of the F-100 engine for EPG aircraft.
- The EPG have agreed among themselves that the work distribution shall be proportional to the procurement value of each country's initial buy.
- To reduce the risk of currency fluctuations, the USG and its prime contractors have agreed to an arrangement which permits the use of national currencies for subcontract work placed in Europe.
- The USAF will establish Contract Administration Operating Locations at two or three of the major European co-production plants which will interface with European government contract administration activities.
- The intergovernmental level management of the program will be through a five nation "Multinational Fighter Program Steering Committee." The Steering Committee will be responsible for broad policy matters, advice, and counsel to the USAF System Program Director.
- Matters addressed by the Steering Committee which involve substantial financial consequences for any Government will be decided on a unanimous basis.
- In the event of any disputes, appeals may be made to the Ministers of Defense and the U.S. Secretary of Defense. The Secretary of Defense will, in the interest of the common program, act as final arbitrator for those decisions which have not otherwise been resolved.
- Advanced technology cooperation and transfer is an important feature of the MOU. All elements of the F-16 aircraft, with a few exceptions, will be released to the EPG for advanced technology transfer. Even the few items currently withheld will be released on a time phased basis when security restrictions permit.
- The USG retains all rights for sales of the F-16 to third countries while taking into account the agreement with the EPG for 15% industrial participation.

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- The unit price of the aircraft to the EPG as described in the MOU is \$6.09M per aircraft in January 1975 dollars although the final cost to the EPG is expected to be lower.
- The planned buy of F-16 aircraft by the parties to the MOU are:
 - United States: 650 (approx 15% two place)
 - Belgium: 116 (of which 12 are two place)
 - Denmark: 58 (of which 12 are two place)
 - The Netherlands: 102 (of which 22 are two place)
 - Norway: 72 (of which 12 are two place)
- Three countries have the following options to reduce quantities at a later date (subject to price adjustments):
 - Belgium: 14 F-16A
 - Denmark: 10 F-16A
 - The Netherlands: 16 F-16A and 2 F-16B (two place)
- All parties to the MOU undertake to avoid configuration changes to the F-16 unless such changes are clearly indispensable and also cost effective.
- The USG will provide data for and encourage participation in future aircraft, engine, avionics and munitions update on modification programs for the F-16.
- The USG will provide integrated USAF aircrew and maintenance training on a reimbursable basis.
- The USG will use European depot level maintenance and overhaul facilities on a mutually agreed basis for USAF F-16 aircraft operated in Europe.
- The USG will provide logistic and technical support on a reimbursable basis as required by the EPG.

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Chief, RDD, ESD, WHS

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