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INTERNATIONAL SECURITY AFFAIRS

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

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Authority: EO 13526
Chief, Records & Declass Div, WHS
Date: DEC 14 2018

In reply refer to:
I-6327/75

File Belgium 1075 br 61 78-0058

MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with Belgian Minister of Defense

Belgian Side

- Minister of Defense - Paul Vanden Boeynants
- Ambassador of Belgium - Willy Van Cauwenberg
- Deputy Chief of Staff - Belgian Air Force, MGen Alphonse Verlooy
- Defense and Armed Forces Attache - BGen Camiel Dewilde
- Ministry of Economic Affairs - Mr. Jean Boland
- Vice Chief of Cabinet, MOD - Colonel Jacques Lefebvre
- Foreign Ministry, Cabinet Member - Mr. Pierre Champenois
- Plans Division, Belgian Air Force - Colonel J. Joseph
- Plans Division, Belgian Air Force - Colonel M. Bamps

United States Side

- Secretary of Defense - James R. Schlesinger
- Military Assistant - Major General John A. Wickham, Jr. USA
- Deputy Secretary of Defense - William P. Clements, Jr.
- Military Assistant - Colonel Perry Smith, USAF
- Secretary of the Air Force - Dr. John L. McLucas
- Director, DR&E - Dr. Malcolm Currie
- General Counsel, DoD - Mr. Martin R. Hoffmann
- Assistant Secretary of Defense (ISA) - Robert Ellsworth
- Assistant Secretary of the Air Force (I&L) - Frank A. Shrontz
- Director, DSAA - LtGen Howard M. Fish, USAF
- Director, European Region, ISA - MGen D. P. McAuliffe, USA
- Assistant for Western Europe, ISA - Mr. Charles T. Lloyd

Interpreter (State Department) - Mr. Alec G. Toumayan

Time: 1000-1215 hours, Monday, 2 June 1975

Place: Conference Room of the Deputy Secretary of Defense, Pentagon

Office of the Secretary of Defense
 Chief, RDD, ESD, WHS
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(C) Following the Secretary's welcoming remarks, Minister Vanden Boeynants expressed his appreciation that the meeting had been arranged on such short notice and hoped that it would be a fruitful meeting which would permit conclusion of the proposed aircraft arrangement. He stated that he was quite aware that this was not the time to ask for changes because that would require consultation with the Consortium colleagues but he would hope to get clarifications and assurances here, perhaps in the form of a letter from Secretary Schlesinger. To facilitate this, he said, they had prepared point-by-point working documents for consideration at the meeting. (They were distributed for each item raised by the Minister about the aircraft.) SecDef agreed to the procedure but pointed out that the phraseology of the letter would have to be generally applicable to all four European members of the Consortium. Minister Vanden Boeynants expressed his understanding of the Secretary's point although he said he himself was only presenting the Belgian case.

1. (S) Price. The Minister said he realized that Defense could not commit the Congress to approve a specific number of aircraft but for psychological reasons he would like to be able to say that if the US does not purchase 650 it would seek to compensate for this either by sales to others or by extending logistic facilities to Belgium (sic). The Secretary indicated that it should be possible to work out language to this effect although we have indicated that the 650 is virtually a quasi-guarantee because we think the figure will be higher. There are already indications from third parties that would total 500 and ultimately sales should be between 1200 and 1500.

2. (U) Decision Making. Minister Vanden Boeynants said that for psychological reasons he would like a declaration that when the SecDef acted as final arbiter under the MOU for mandatory modifications of the aircraft for safety of flight that it would be decided on the basis of essentiality and a favorable cost-effectiveness determination. SecDef said that the Minister's raising this had helped clarify understanding of the procedure. The intent of the US Government is to make any such decision on the basis of a favorable cost-effectiveness determination and he welcomed the opportunity to so state.

3. (S) Industrial Participation. Minister Vanden Boeynants said that the MOU would be unfair if the Belgian share of production of additional US aircraft did not continue whereas US production sharing of additional procurement by the Consortium would continue. The Secretary noted that the longer production runs for systems and subsystems will give natural advantages for purchases beyond the 650 based on the principle of competitiveness. He said that contrary to the Belgian point paper indicating that this would be an "obstacle" to the application of the principle of "reasonable competitiveness", he believed it would be

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In fulfillment of it. He noted that it was our interest in promoting standardization in NATO that had influenced our designing an attractive package for the Consortium. The Secretary observed that concern may have arisen because of past experience that might lead Europeans to think that a "Buy American" spirit might prevent offset from working. Minister Vanden Boeynants said that there had been two unfortunate situations involving the C-130 purchase and SABENA acquiring Boeing aircraft. The Secretary noted the distinction that in the case of the F-16 it is a government-to-government agreement. Minister Vanden Boeynants expressed his agreement but asked if the US objected to saying that if the USAF purchases further aircraft that the co-production will go on. The Secretary said that he did not, and that appropriate language would be worked out. He also observed that there is every indication that the program will continue with mutual benefits from the flow of trade. Our expectation is that co-production will continue as limited by the need for "reasonable competitiveness". The idea that co-production ceases is wrong. Minister Vanden Boeynants indicated his agreement. The Secretary noted that the intention of the US is to use F-104 follow-on activity to foster commonality within the Alliance rather than for the smaller purpose of securing a commercial transaction. He also mentioned that Deputy Secretary Clements had pointed out that the "reasonably competitive" phrase permits the US Government to make special concessions which overcome small differences. Otherwise the US might have to deal with a low bidder whose bid was only slightly under another's. Minister Vanden Boeynants said he had met with General Dynamics representatives in Brussels before coming to Washington and had been told that the price ranges looked satisfactory for Belgian participation. He went on to urge that comparisons be made on the basis of similar production runs and facilities (some governments, for example, provide plants and tooling for contractors). If the US run is for 2,050 as compared to a Belgian run of 650 the Belgian price would necessarily be different. The Secretary said that it was not intended to work that way and we would standardize conditions as well as could be done. Mr. Boland urged that the language be as succinct as possible.

4. (U) Early Participation of European Industry. Minister Vanden Boeynants explained that the French offer provides for work to begin in Belgium within three months whereas the work scheduled for Belgium under the F-16 proposal is small before 1977-78. He understands that General Dynamics has been working with Belgian firms and that they believe it is entirely feasible to start working as early as 1976. This would be important because of the employment situation in Belgium. The Secretary said we would be happy to support the General Dynamics plan and we would encourage United Technologies to do the same thing.

5. (U) Management-European Program Office. Minister Vanden Boeynants said that they would like a firm USG expression to the effect that the European System Program Office would be located in Brussels. He said that it would be sufficient if we said that the location in Brussels would be subject to agreement by the European partners. The Secretary agreed to so state.

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6. (C) Transfer of Technology. Minister Vanden Boeynants noted that the MOU mentions that the transfer will be unhampered except for security requirements. He would like this confirmed and also suggested that the transfer be accelerated for Belgian subsidiaries of US firms. He said the Government of Belgium would institute the same security measures as the US follows. Dr. Currie said we have already released considerable technology in advance of our original timetables. After a brief discussion by the Secretary and Mr. Shrontz to the effect that there would be no withholding and that release would be time-phased, Minister Vanden Boeynants withdrew his request for a statement on accelerated release.

7. (U) Currencies. Minister Vanden Boeynants said that Belgium would like orders placed by the Prime Contractors in Belgium for sales to third countries to be either in dollars or Belgian francs. The Secretary suggested that he saw no reason not to do so but it would be necessary to check with the Treasury Department. LtGen Fish noted that FMS sales are denominated in US dollars. The Secretary said that language would be developed calling for denomination either in dollars or in Belgian francs.

8. (C) Compensation. The Minister suggested that if for any reason the total offset were not achieved in the F-16 program, work should be placed in the Belgian aeronautical sector. Mr. Clements and Mr. Shrontz noted that the US would expend its best efforts to do so. Minister Vanden Boeynants withdrew his request for a statement on the subject.

9. (C) Purchases by Additional Governments. The Minister said that he would like to have it stated that the opportunity would be offered to Belgian industry to participate in the partial and final assemblies. They want to optimize their assembly line. Mr. Shrontz said that this was neither precluded nor specifically authorized by the MOU, that it would depend on the desires of the buying countries. The Secretary suggested that other European countries might in fact want to give preference to Belgium in order to strengthen the base of the European aircraft industry. He said that we would have no problem in saying that Belgium would have the possibility of participating.

10. (C) Comment on the Meeting. The Secretary announced that it would be helpful to the Minister if there were no public comment about the meeting. He asked the US personnel to observe this constraint strictly.

11. (C) US Purchase of Belgian MAG 58 Machine Gun. Minister Vanden Boeynants related that the French will terminate their proposed purchase of the carbine manufactured by Fabrique Nationale if the Belgians opt for the F-16. He said it would be meaningful if the US were to purchase the Belgian MAG 58 machine gun. He noted that the factory is located in the heart of the Walloon area of Belgium, in Liege. The Secretary said the Belgian gun had passed preliminary Army testing very well but final decision will not be made until January 1976 for some 19,000

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guns at approximately \$30 million. He said DOD is leaning favorably toward the Belgian gun because it would advance the cause of greater equipment commonality for NATO, but it depends on the final testing. We are attempting to achieve greater trade and weapons standardization benefits within the Alliance by the procurement of weapons systems that are both militarily effective and cost effective.

12. (C) US Purchase of Belgian 20mm ammunition. Minister Vanden Boeynants said that each year he buys 20mm ammunition for Belgian forces from the Belgian manufacturer, Fabrique Nationale, and pays 30 to 50% more than what the US does for the same ammo made in the US. Fabrique Nationale says that if the US could purchase about 1/5 of its ammunition from FN it would give that company a production run enabling it to meet the US price. This would permit him to save money within his budget and would not raise the total cost of the US purchase of this calibre ammunition. The Secretary said that the US would study the Minister's suggestion.

13. (C) Netherlands MOD Vredeling Submission to Parliament. The Minister observed that Vredeling's submission to the Netherlands Parliament was dangerous to the Consortium because it contained a statement that the US was going to make counterpart facilities available to The Netherlands as a result of the Netherlands early funding of its payments. Mr. Bamps translated and read the Dutch text. Mr. Clements and Mr. Shrontz related that when the Dutch had sought a guarantee against a lowering in the US dollar exchange rate the US had suggested that The Netherlands buy US bonds. The Secretary said that nothing special had been done for the Dutch. Such pre-payment arrangements are not unique to the Netherlands or F-16 procurement. These are open to any foreign purchasers and involve pre-payments which are put into treasury bills which draw interest on behalf of the country making the pre-payment. No special counterpart facilities are being made available to the Dutch.

14. (U) Letter for Minister Vanden Boeynants. The Secretary told the Minister that Mr. Shrontz would prepare a letter for the Minister with the help of others in the room and that it would be provided to the Minister before his departure. (Subsequently a meeting was set for 1600 hours. Messrs. Lefevre, Boland, Champenois and BGen DeWilde attended and upon their agreement that the draft was acceptable, Mr. Ellsworth secured Secretary Schlesinger's signature. A copy of the letter is attached for reference.)

Attachment a/s

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Memorandum of Conversation
Prepared by
Charles T. Lloyd

Approved: 

Robert Ellsworth
Assistant Secretary of Defense
International Security Affairs

Date: 7-8-75

Distribution:
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THE SECRETARY OF DEFENSE
WASHINGTON

F-104

2 JUN 1975

The Honorable Paul Vanden Boeynants
Minister of Defense
Belgium

Dear Mr. Minister:

As a result of our discussions today, I wish to affirm the commitments made in the F-16 Memorandum of Understanding now awaiting your signature. Our discussion demonstrated the need for certain clarifications for emphasis which I am most pleased that we were able to provide to your satisfaction. As I indicated to you this morning, these clarifications are also being provided to the other signatories to the MOU.

Price. We confirm that it is our intention to purchase substantially more than the stated 650 F-16 aircraft. In the unlikely event that fewer than 650 aircraft should be purchased, offsetting compensation would take the form of third country sales or by the USG granting the consortium countries particular preference for logistic support such as overhauling of engines, airframes and avionics for USAF aircraft stationed in Europe.

Decision Making. We welcome the opportunity to emphasize once again that the USG will make decisions on a favorable cost effective basis. This will be in full compliance with the spirit and intent of Paragraph 47 and 51 of Section 0 of the Memorandum of Understanding. Modifications for safety of flight are considered as mandatory for all parties to the MOU. Any matters referred to the United States Secretary of Defense as final arbitrator will be decided on essentiality and cost effectiveness considerations.

Industrial Participation. The spirit and intent of the MOU will continue to be the base point for arranging further production sharing in the case of orders for additional aircraft by one or more of the participating countries. It is both the U.S. Government's expectation and its clear intention that the signatories to the Memorandum of Understanding be afforded a continuing opportunity to participate in the production of aircraft for the U.S. inventory beyond the minimum 650 aircraft quantity. It is, of course, recognized that such participation would be subject to the industries in such countries desiring to participate and remaining reasonably competitive. Additional buys would not be considered an obstacle to the application of "reasonable competitiveness" as defined in the MOU.

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Reasonable Competitiveness. In evaluating whether European industry is reasonably competitive with United States companies for the coproduction program, provided in the MOU, it has always been our intention and that of the program prime contractors that such evaluations will be on an equitable basis. In general, this would mean that comparative prices should include the same cost elements and give due consideration to differences in the contemplated production runs. The "reasonably competitive" concept was developed to specifically insure that European contractors would be evaluated in light of differing taxes, transportation, accounting and other factors which might be present at the time of contract award.

Early Participation of European Industry. It is recognized that it would be most helpful to European participants if work could be placed in Europe during 1976. We agree to encourage General Dynamics and United Technologies in the placement of orders in Europe which could be filled during such a period. Such work may be outside of the F-16 coproduction program but would, nevertheless, be considered as meeting a part of the U.S. Government obligations to achieve a certain level of offset on the F-16 program. Requests will be made of the two prime contractors mentioned above to undertake discussions with European industry as soon as possible after signature of the MOU.

Management-European Program Office. The United States would agree that location of the European System Program Office for the F-16 program can be in Brussels, Belgium if that location is acceptable to the other European participating governments in the F-16 Memorandum of Understanding.

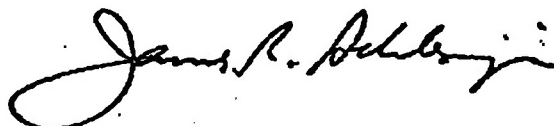
Transfer of Technology. The USG reaffirms that the transfer of technology will not be restricted by the USG for reasons other than those strictly required by security.

Currencies. Orders placed by third countries for purchase of the F-16 should be denominated either in U.S. dollars or in a currency mutually agreed to by the parties concerned.

Purchases by Additional Governments. Should other European countries desire to purchase the F-16, a reasonable opportunity will be afforded the European Consortium industry to participate in the partial and final assemblies of the F-16 aircraft purchased by these countries.

On behalf of the United States Government, it is hoped that the clarification provided above will permit the four governments to make an early firm commitment on participation in the F-16 program.

Sincerely,



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