

THE SECRETARY OF STATE
WASHINGTON

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WHITE HOUSE
SITUATION ROOM

MEMORANDUM FOR: THE PRESIDENT

FROM: Alexander M. Haig, Jr.
Frank C. Carlucci, III, Acting *[Signature]* 6 FEB 1982

SUBJECT: Discussions with the British
Concerning Purchase of the
TRIDENT D-5

Last August, when you announced the U.S. Navy would develop the D-5 missile, you agreed to sell it to the United Kingdom. We know that Prime Minister Thatcher is anxious to announce a decision to buy the D-5 missile if we can agree on a price.

The Prime Minister is sending a delegation to Washington next week to discuss this purchase. Our delegation will be headed by Bud McFarlane, Counselor of the State Department, now acting as Judge Clark's Deputy at the National Security Council.

The British know that the price of the missiles themselves will be about \$3.7B. In addition, our law requires that we charge a pro rata share of the research and development costs of the missile, which depending on the number of missiles they purchase, could amount to about \$700M - \$900M. However, you have the discretion to waive some of this amount, and we believe that it is in the U.S. interest to do so. We anticipate that the British will make a first offer of a package of cash and "offsets" (actions they will take which will save us money) amounting to about \$275M. That leaves a shortfall of about \$400M - \$600M.

We intend to open the negotiation by suggesting to the British an arrangement similar to that agreed two years ago for the TRIDENT I (C-4) missile, in which we forgave on the order of 25% of the R&D, recovered about 25% in cash, and received 50% in the form of offsets. The effect of this would be to

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approximately double both what the UK will pay for R&D, and what we will forgive. The new offsets we will ask for fall in two important areas in which the British are cutting forces and we would otherwise have to take up the slack; maintaining surface naval forces in the North Atlantic, and peacetime presence in the Indian Ocean. If the British agree to do more than they had planned in these two areas, it will save the U.S. Government money and bolster Western defenses.

We do not anticipate that we will be able to complete the negotiations at next week's session. We will make our first offer, the British will make theirs, followed by some clarifying discussions. We will keep you informed as the negotiation progresses.