

04-F-0625



DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, D.C. 20301

12 NOV 1983

In reply refer to:
I-04874/83

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12 NOV 1983

MEMORANDUM FOR THE SECRETARY OF DEFENSE

THROUGH: UNDER SECRETARY OF DEFENSE FOR POLICY *751*

SUBJECT: Saudi Arabian Offsets for PEACE SHIELD (U) --
INFORMATION MEMORANDUM

As you are aware, the Saudis desire to establish some industrial base which will lessen their dependence on oil. They have started the development of industries through their own means and have made some progress. However, the recent drop in oil revenues has placed some restraints on these development plans and their economic outlook for the next few years indicates that the situation will not improve.

OSD 3.3(b)(6)

Prompted, in part, by this problem, the Saudis have decided to ask for offsets in connection with future purchases from foreign sources. A concrete example of this new policy is their recent request for offsets on PEACE SHIELD, [redacted]. Their request for offsets, however, would create policy problems for us if the U.S. Government becomes involved:

a. They want DOD to support and help ensure the success of their offset ventures. We have neither the authority nor the means to do this and will have to make this clear while relaying our supportive position toward the success of PEACE SHIELD.

b. The current DOD policy on offsets is set forth in a May 1978 Deputy Secretary of Defense Memorandum which states that "DOD shall not normally enter into such agreements." This policy was recently reaffirmed in the Task Force Report on International Coproduction/Industrial Participation Agreements (the DeNoon Study) which was approved by Deputy Secretary Thayer and published on 15 August 1983.

c. The Saudis initially wanted their offset requests to be part of the FMS cases so that non-complying U.S. contractors would be excluded from competition. This would have been a bad precedent which would result in all FMS customers imposing similar demands. What we have done in this case is offer the Saudis a FMS case which will be signed once they are satisfied by U.S. industry that there will be acceptable offsets.

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Chief, Records & Declass Div, WHS
Date: SEP 17 2013

13-M-3129

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d. ~~10~~ Their initial offset position (35% of the value of undefined technically related goods and services) is to be negotiated with industry. We think their demands are overly ambitious, but will be toned-down by dialogue with the U.S. industries involved.

~~6~~ Our response to the Saudi request to insert their offset demands in FMS cases is at the attachment and we hope the Saudis are receptive to this DOD position. This reply states that while the U.S. Government is not a guarantor of the offset, DOD will support policies not injurious to the PEACE SHIELD Program regarding offsets within existing laws and regulations.



WALTER B. LIGON
Acting Director
Defense Security Assistance Agency

Attachment
as

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Date: SEP 17 2013

Office of the Secretary of Defense SUSC 852
Chief, RDD, ESD, WHS
Date: 17 SEPT 2013 Authority: EO 13526
Declassify: _____ Deny in Full: _____
Declassify in Part: X
Reason: 3.3(b)(6)
MDR: 13-M-3129



DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, D.C. 20301

4 NOV 1983

In reply refer to:
I-003969/83CT

Colonel Fahad bin Abdullah, R.S.A.F.
Director of Air Operations
R.S.A.F. Headquarters, Riyadh

Page determined to be Unclassified
Reviewed Chief, RDD, WHS
IAW EO 13526, Section 3.5
Date:

SEP 17 2013

Dear Colonel Fahad:

I have the honor to refer to your letter, 4/3/10/3495 28/11/1403H, in which you proposed U.S. Government cooperation in establishing economic offset requirements under the PEACE SHIELD program.

The U.S. Government agrees with and supports the objectives of the Peace Shield program and understands that the Saudi Arabian Government requires a satisfactory offset arrangement as an essential prerequisite to the program. Specifically:

"It is the intention of the SAG that the PEACE SHIELD program be tied to an economic offset which is to benefit the industries of both the United States and the Kingdom of Saudi Arabia. It is the desire of the SAG that the selected prime contractor and its associated subcontractors agree to invest and participate in joint venture industries involving high technology related processes and/or products. The SAG internal offset investment objectives for technically-related products and services are to be provided as guidelines to the prospective contractors. Pursuant to these guidelines, contractors will submit to the SAG a letter of commitment to offsets before the PEACE SHIELD Letter of Offer and Acceptance (LOA) is signed by the SAG. If one or more of the competing prime contractors fail to agree to participate, the LOA will not be accepted by the SAG. It is recognized that the long term success of the offset program depends on the economic success of the resulting joint venture industries and that this is helped by the SAG and the USG continuing those policies which will discourage and avoid protective disincentives which would be detrimental to the success of the offset program, subject to the laws and regulations of the two countries."

Although the U.S. Government is not a guarantor of the offset, DOD will support policies not injurious to the PEACE SHIELD Program regarding offsets within existing laws and regulations concerning export licensing, technology transfer, and security arrangements in force at the time.

I firmly believe that the Royal Saudi Air Force and the U.S. Department of Defense can and will work closely together to ensure the success of the PEACE SHIELD program in accordance with our mutual desires.

I look forward to seeing you during your upcoming visit to the United States.

Sincerely,

SIGNED

PHILIP C. GAST
LIEUTENANT GENERAL, USAF
DIRECTOR

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