



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

AW

, 9 JUL 1976

INTERNATIONAL SECURITY AFFAIRS

In reply refer to:
I-7220/76

14 JUL 1976

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: F-16 Co-production Status-- **INFORMATION MEMORANDUM**

The attached point paper responds to RAdm Holcomb's inquiry on the status of the F-16 Co-production Program with the European Participating Governments (EPGs) and reported indications that "allies are disenchanted with the F-16 co-production program because of cost overruns".

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Attachment
a/s

[Handwritten Signature]

Assistant Secretary of Defense
International Security Affairs

(9 Jul 76)

Note to C+D -

*Package forwarded to
NSC - Covering MEMO
added to package by
ISA for Adm. Holcomb's
signature. 10000*

[Handwritten Signature]

*Wash
I propose sending this to
ISC staff.*



F-16 CO-PRODUCTION STATUS

BACKGROUND:

- Memorandum of Understanding (MOU) - signed Jun 75
 - MOU Supplement No. 1 - signed Jun 76 - readjusted fixed rates of exchange to enable European co-production to be considered on a fair and realistic basis.
- Preliminary Contracts - signed Jun 75 *(amended Jul 76)
- Letter of Offer' and Acceptance (LOA) - in preparation, expect signatures early 77.
- MOU commitments by U.S. to European Participating Governments (EPG).
 - Offset goal - **100% of procurement value** of initial EPG purchase of ,348 aircraft.
 - USG commitment - to provide **through** co-production,, offset equal **to:**
 - 58% of procurement value of initial EPG purchase of 348 aircraft during production of first 998 F-16s: (650 for U.S. and 348 **for EPG**).
 - 80% of procurement value of initial EPG purchase if General Dynamics produces 500 additional F-16s for third country sales.
 - Not-to-exceed (NTE) level-line price (\$6.091 million) **in MOU** is estimate in FY 75 dollars and does not **impose** either a contingent liability or financial **obligation**.
 - **Offset** achieved through placement of **contracts with** EPG industries.
 - 10% of procurement value of 650 USAF aircraft.
 - 40% of procurement value of all EPG aircraft.
 - 15% of procurement value of all third country sales.



- Procurement value to include aircraft flyaway cost, initial spares, Support Equipment (SE) Data, Training Equipment
 - Does not include replenishment spare parts

CURRENT STATUS:

Definitization and award of European sub-contracts behind schedule.

- Solutions found to most if not **all** problems.
 - European governments funded **excess** tooling costs **outside** of NTE cost.
 - Adjust exchange rates to reflect those on which the co-production **plan** established.
- Should permit implementation of approximately, **90-95%** of CPP.
- Award of sub'-contracts to begin in July 76. General Dynamics will award final sub-contracts by early 77 - Congress notified by letter on 22 Jun 76.
- Price **of** European F-16 is expected to be within the estimated NTE cost of \$6.091 million (FY 75 dollars) stipulated in the MOU.
- Letter of Offer and Acceptance (**LOA**) delayed - pending award of European **sub-contracts** and definition of **costs**.
- **Preliminary contracts** (signed in Jun.75) extended through end of 1976.
- Radar co-production plan revision in process.
 - Award of radar sub-contracts will be **later** than others. Radar **prime** contractor selected significantly later than the majority of other vendors (Nov 75).
- Audit Reports
 - Excessive time in auditing European sub-contract could cause further **delay in** contract awards.



- Correction action: Department of Defense Contract Audit Agency working closely with USAF and EPG auditors in arranging procedures for accelerating the Audit Reports.
- Release of European sub-contracts
 - US goalwasto activate at least one sub-contractor in each of the four countries by 1 July 1976, **and sign** all European co-production contracts by **early 1977.**
 - EPG sub-contract release not met on 1 July because of last minute position change by United Technology' on F-100 pricing for engine sub-contract in Norway.
 - United Technology originally set EPG **engine not-to-exceed** price based only on Europe requirements.
 - **United Technology** now claims EPG **F-100 not-to-exceed**, price is too low and is requesting, price be spread over all F-16 and F-15 buys. This is unacceptable to USG..
 - Commander, Aeronautical Systems Division and President, United Technology **meeting** in next few days to resolve issues.
 - A 10 July release date will **protect** F-16 **co-production schedule.**

SUMMARY:

The problems associated with the F-16 co-production effort.' are typical and not **unexpected for** a program of this magnitude. Major **issues** are identified with actions underway to resolve them.

The Senior National Representatives to the F-16 Multinational Steering Committee Meeting as recently as 30 June 1976 had no major reservations about the status of the co,-production effort.

The F-16 program is on schedule and remains within the estimated not-to-exceed cost per aircraft 'of \$6.091 million.

