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SUBJECT: United States Military Sales to the United Kingdom

The US has had two major military sales transactions with the UK in the last few years: (1) the sale of equipment and missiles for four Polaris Submarines and (2) the sale and option arrangements for up to 82 C-130, 290 F-4, and 110 F-111 aircraft.

Polaris. Following the Nassau Agreement of December 21, 1962, a Polaris Sales Agreement was signed on April 16, 1963, under which the UK is constructing four Polaris Submarines and the US is providing 16 Polaris Missiles (less war heads) for each, together with equipment and supporting services. The entire program is currently estimated to include a US content of \$438 million. The UK is financing this purchase by paying cash on delivery, with costs calculated on the basis of the average US production cost for the entire US Polaris Program, including overhead, and with a payment from the UK of an additional 5% (of US contract costs) representing the UK share of US research and development costs incurred after January 1, 1963.

Aircraft. In an agreement of February 9, 1965 the UK has undertaken to procure 24 C-130 aircraft (with an option for 58 more) and 40 F-4M aircraft (with an option for 110 more). In an agreement of April 6, 1965, the UK agreed "in principle" to buy 10 F-111 aircraft (with an option for 100 more). In a separate arrangement, the UK has an option for 140 F-4K -- with a firm order for the first 20 signed on 30 June 1965. Negotiations are now in progress which are expected to lead to partial production in the UK -- possibly 40% -- of the F-4M and F-4K aircraft, including installation of a UK engine. The value of the US-produced portion of the C-130, F-4M, F-111 purchase is estimated at about \$1.5 billion -- not including follow-on support purchases, but including an estimated \$100 million for the UK share of the US research and development investments in the F-111. The US Treasury and the Export-Import Bank have granted a line of credit in the amount of \$1.5 billion at an interest rate of 4-3/4% for these three aircraft under which the UK will make minimum payments through 1968 and level payments thereafter through 1978. The F-4K purchase is being financed by the UK with payments for the US content, estimated at about \$350 million, to be received as required to make payments to US manufacturers (this arrangement may be changed to bring the F-4K procurement under the above credit arrangement).

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