

Ronald Reagan Presidential Library
Digital Library Collections

This is a PDF of a folder from our textual collections.

Collection: Carliner, Geoffery O.: Files
Folder Title: Committee on Foreign
Investment in the US (2)
Box: OA 10696

To see more digitized collections visit:

<https://www.reaganlibrary.gov/archives/digitized-textual-material>

To see all Ronald Reagan Presidential Library Inventories, visit:

<https://www.reaganlibrary.gov/archives/white-house-inventories>

Contact a reference archivist at: **reagan.library@nara.gov**

Citation Guidelines: <https://reaganlibrary.gov/archives/research-support/citation-guide>

National Archives Catalogue: <https://catalog.archives.gov/>

Last Updated: 5/22/2024

CFIUS 6/27/83

VADER is not classified, but DOD wants to classify it.
Main objection to sale is commercial, to prevent transfer of technology.

A-L could sell or license VADER and other technologies without selling Specialty Metals, i.e., without CFIUS getting involved. So why don't they? Because they want to unload the whole company.

A-L misled Nippon by saying DOD wouldn't object. Now that DOD threatens not to give Nippon Specialty any more contracts, Nippon would probably back out if it could. A-L won't let them, never guaranteed that DOD would continue contracts

"The only difference between this case and Chipex is between a Communist (China) and a noncommunist (Japan) country. You guys have a double standard."

→ "There is no industrial security in Japan. As soon as it gets there, it's gone (to Russia)."

⇒ joint ventures unnecessary since technology leaks

British Steel - US Steel negotiations not proceeding
Renault - Mack Truck paper.

~~CONFIDENTIAL~~



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

June 30, 1983

MEMORANDUM TO: THE COMMITTEE ON FOREIGN INVESTMENT
IN THE UNITED STATES

SUBJECT: CFIUS Report on Nippon Steel Corporation
Acquisition of Special Metals Corporation

Attached is a draft copy of the CFIUS report on the Nippon Steel Corporation acquisition of Special Metals Corporation. It concludes that the investment per se does not have major negative implications for the United States national interest and that the transfer of technology issues should be handled by the SIG on Transfer of Technology. Since the deal is scheduled to close today, June 30, I will assume that your agency approves the report unless you inform us otherwise by close of business today. Please direct all comments to Frank Vukmanic of my staff at 566-2386.

Charles Schotta
Acting Assistant Secretary
International Affairs

~~CONFIDENTIAL~~

DECLASSIFIED

Authority TREAS WAWER
BY: SLM NARA DATE 12/28/23

CFIUS REPORT ON NIPPON STEEL CORPORATION ACQUISITION
OF SPECIAL METALS CORPORATION

Status of the Acquisition

Allegheny International has announced its intention to diversify outside the metals industry. As a part of that restructuring, and in an effort to bolster its poor performance in early 1983, Allegheny hired Morgan Stanley to assist in the sale of one of its wholly-owned subsidiaries, Special Metals Corporation. A number of companies, including Nippon Steel Corporation, were apparently approached by Morgan Stanley, concerning possible acquisition of Special Metals. On April 27, 1983, Nippon announced that it had reached an agreement with Allegheny and would acquire Special Metals. The investment is scheduled to be completed on June 30.

The Committee on Foreign Investment in the United States agreed to review the investment at the request of the Department of Defense, which received a letter (Tab A) from Mr. Kempton B. Jenkins, Vice President of Armco Inc., in which he expressed concern about the implications of the investment for the transfer of technology. The FTC reviewed the antitrust implications of the investment and had no objection.

The Department of Defense has approached the companies and requested that the investment be delayed beyond June 30 to allow time to complete a review of the technologies involved. At the time of this writing, the companies have indicated they may agree to delay.

The Participants

Nippon Steel Corporation

Nippon Steel Corporation was formed in 1971 from the merger between Yawata Iron and Steel Co. Ltd. and Fuji Iron and Steel Co. Ltd. It is listed by the U.N. as the world's 34th-largest transnational corporation. For the year ending March, 1981, it had net sales of \$13 billion, net income of \$227 million, assets of \$15 billion, and 70,000 employees.

Nippon is the largest producer of iron and steel in Japan, producing a wide variety of semi-finished and finished iron and steel products. In addition, the company offers technical services, including construction and operation of integrated steel

Classified by F. Lukman
 Declassify Review for
Declassification on 6/30/89

Rm
12/28/23

plants. It has provided such services in 35 countries. Nippon also designs and constructs large offshore structures and bridges, and lays pipelines.

Allegheny International Corporation

Allegheny International Corporation is a U.S. producer of hardware and sports products, special metals, metal products, safety and protection products, robotic and electronic equipment and industrial specialities. It has been following a policy of diversifying out of metals into consumer and high technology products. That policy is reflected in its 1980 sale of Allegheny Ludlum Steel Corporation and its 1981 acquisition of Sunbeam Corporation. In 1981, the company also changed its title from Allegheny Ludlum Industries to the present title.

In 1982, Allegheny earned \$47.3 million on sales of \$2.86 billion. In the first quarter of 1983, however, the company posted a loss of \$15.5 million on sales of \$576.7 million.

Special Metals Corporation

A wholly-owned subsidiary of Allegheny International, Special Metals produces and sells high purity vacuum and electro-slag melted superalloys for aerospace applications, nickel base and cobalt base alloys of various types which are used principally in the manufacture of gas turbines for aircraft engines and for power generating turbines. Special Metals employs approximately 700 and has facilities in New Hartford and Dunkirk, New York; Princeton, Kentucky; and Ann Arbor, Michigan. As of January 3, 1982, it had assets of \$56.6 million and \$38.3 million in retained earnings.

Area Examined

Technology Transfer

Tables on the technology possessed by Special Metals are at Tab B. Concerns in this area arose because Special Metals' products are used in military aircraft engines, it utilizes state-of-the-art techniques in superalloy production and it is engaged in a research project, which involves some unique technology, for the Department of Defense. After an examination of the Export Administration and International Traffic in Arms regulations by the Departments of Commerce and State, respectively, those agencies concluded that they could not amend those regulations to classify the acquisition of Special Metals as an export of technology. The Department

of State has agreed, however, to add the Special Metals' technology developed in the Defense-sponsored research project to the International Traffic in Arms Control List.

Conclusion

The group concluded the investment does not have major negative implications for U.S. national interests and there was no reason for the Committee to take action. Concerns in this case related to the transfer of technology issue, and not to the investment per se; the CFIUS therefore decided that this issue in the context of the proposed acquisition would be more properly addressed by the Senior Interagency Group on the Transfer of Technology. The group also agreed, however, that direct investment questions involving technology issues of this type may well become more frequent, and that the general question of U.S. policy towards such investment may merit further study.

Classified by F. Vukobratovic
 Declassify Review for
Declassification on 6/30/89

Info Copy for Art M. Mah

ARMCO INC.

GENERAL OFFICES • MIDDLETOWN, OHIO 45043

KEMPTON B. JENKINS
VICE PRESIDENT



ADDRESS REPLY TO
1747 PENNSYLVANIA AVE., N.W.
SUITE 702
WASHINGTON, D.C. 20006
PHONE: 202 • 223 • 5370

April 22, 1983

PERSONAL

The Honorable Fred Ikle
Undersecretary
Department of Defense
The Pentagon
Washington, D. C.

Dear Fred:

I received a call from my President Bob Boni early yesterday concerning the reported sale of Special Metals, Inc., a subsidiary of Allegheny International to Nippon Steel of Japan. Bob points out that SM is the prime quality producer of vacuum melted super duty alloys for defense and aerospace in this country. One of our subsidiaries, Ladish Forging Corporation in Cudahy, Wisconsin, one of the two or three major forge producers in this country which provide fittings for military aircraft and the aerospace industry in general. They rely totally on SM as their sole supplier for these important alloys. Dr. Boni believes that SM has proprietary metal powders processes, which if the sale were consumated, would become the property of Japan.

At a time when we are debating so fiercely the transfer of technology in connection with the reauthorization of the Export Administration Act, the business community has agreed with the Administration that strategic technology transfer has got to be carefully gauged and monitored. You will recall the flap which developed over the purchase of Sante Fe and its subsidiary C. F. Braum by the Kuwaitis approximately a year ago. Sante Fe, a conglomerate, eventually succeeded in insulating their C. F. Braum subsidiary and protecting the defense related technology in that way. In this case, however, we are not dealing with a conglomerate with a possibility of protecting one compartment, but rather a corporation devoted solely to use of a technology in the production of materials of strategic significance. The transfer of this technology in our judgment would be an important advance in Japan's efforts to achieve superiority in aerospace by acquisition.

I regret bringing this to your attention so late but it only came to mine 24 hours ago. We have discussed this with the Wright-Patterson acquisition and procurement people (specifically, Mr. Hank Johnson in charge of materiel at 513/255-2232). I have also brought this to the attention of Lionel Olmer's deputy Olin Wethington who was looking into it today. We could be wrong, of course. A studied review and judgment may have already been undertaken. But, our professional people who depend upon SM products are convinced that this transfer would raise serious questions about our capacity to support defense production.



The Honorable Fred Ikle
April 22, 1983
Page Two

I am delighted to see the evolution of our MX position. We are sorely frustrated in our industry efforts to sell Dense Pack at least partially because of inadequate groundwork and booster club organization. Now it seems to be rolling -- we'll do whatever we can.

Regards,

Jenks

KBJ:ja

cc: Lionel Olmer
Dept. Commerce



DEPARTMENT OF THE AIR FORCE
AIR FORCE WRIGHT AERONAUTICAL LABORATORIES (AFSC)
WRIGHT-PATTERSON AIR FORCE BASE, OHIO 45433

JUN 23 1983

REPLY TO
ATTN OF: MLT (H. A. Johnson, AV785-2232)

SUBJECT: I-06409/83 (Yr ltr dtd 8 Jun 83)

TO: ODASD/IETSP (William M. George)

1. We have enclosed the three tables which you have requested. These tables cover the areas of major concern.

2. Since there are a number of nickel-base alloy compositions which apply to TABLES I, & III, we have not listed them in the table but, instead, listed them on an attached sheet. This list is not all inclusive, but is representative of compositions in critical rotating components in gas turbine engines.

3. We do not have access to GE and UTC "frozen process" specifications. However, GE and UTC may be willing to provide you with this information upon direct request.

4. We hope this meets your requirements. Please let us know if additional information is required.

H. A. Johnson

H. A. JOHNSON
Acting Assistant Chief
Manufacturing Technology Division

3 Atchs
1. Tables (3)
2. List of Alloy Comp
3. Glossary of Terms

Copies to: Hq USAF/CVAIP/B. J. Tell
ASD/XOF/B. Behr
AFWAL/MLLM/H.C. Graham
AFWAL/XRPM/A.M. Adair

TABLE I - IDENTIFICATION OF UNIQUE SPECIFIC SENSITIVE STRATEGIC TECHNOLOGIES, PRODUCTS, PROCESSES, SPECIFICATIONS

	Identification of General Categories & Unique Specific: Technologies, Products, Processes, Specifications	Special Metals			Intermediate Customer			Final Customer		
		Composition	Form	Products	Application	Form	Products	Application	Form	Product
ODS (Oxide Dispersion Strengthened Alloy)		ALLOY	FORM	FUNCTION						
Technology - Powder Metallurgy								Name: GE		
Product -		NI-Cr-Al- Y ₂ O ₃	Bar	Vane Stock			Not applicable	Engine	Machined Airfoil	1st Stage Turbine Vane
Processes - Powder Metallurgy/ Mechanical Alloying							Not applicable	"	" "	" "
Specification - GE Frozen Process										
VADER					Ladish	Wyman, Cameron, etc		GE, UTC	Garrett	
Technology - Vader							Forging Disk Blanks	Experimental Turbine	Engine Disks	
Product		NI Alloys	Fine				Plate Rolling (Alcoa)	Experimental Static	Structures	
		Al Alloys	Grained				Ring Rolled Hollows (Ladish)	Experimental Airframe	Structures	
		Ti Al	Ingot							
Process - Vader		DU								
Specifications - None										
POWDER METALLURGY										
Technology - Gas Atomization										
Product		Nickel	Spherical Powder				Forged Disk Blanks		Turbine Engine	Disks
Process										
Specifications		GE & UTC	Frozen Process		GE & UTC	Frozen Process Specs & Cameron/Ladish/Wyman in-house Specs				
POWDER CONSOLIDATION I										
Technology - HIP & COG										
Product		Nickel Alloy Billet	Forging Stock				Forged Disk Blanks		Turbine Engine	Disks
Process		HIP & COG								
Specifications		GE Experimental			GE Experimental			GE Experimental		
POWDER CONSOLIDATION II										
Technology - HIP & Extrude										
Product		Nickel Alloy Billet	Forging Stock				Forged Disk Blanks		Turbine Engine	Disks
Process		HIP & Extrusion								
Specifications		UTC/PWA Frozen Process			UTC Frozen Process Spec & Ladish/Wyman/Cameron In-house Specs					

REMELT STOCK

Technology - VIM-VAR-ESR-EB

Product

Nickel Alloy Ingot Remelt Stock

TRW, Howmet, Precision Castparts
JetShapes

Nickel Alloy Blade Castings

Nickel Alloy Machined Turbine
Airfoil Blades

Process

VIM-VAR-ESR-EB

Specifications

GE, UTC/PWA Frozen Process

GE, UTC/PWA Frozen Process Specs
& TRW, Howmet in-house Specs

GE, UTC/PWA Specs

WROUGHT STOCK

Technology - VIM-VAR-ESR-EB

Product

Nickel Alloy Billet Forging Stock

Forged Disk Blanks

Turbine Engine Disks

Process

VIM-VAR-ESR-EB

Specifications

GE, UTC/PWA Frozen Process

GE, UTC/PWA Frozen Process Specs
Ladish/ Wyman/Cameron in-house Specs

GE, UTC/PWA Specs

TABLE II - IDENTIFICATION OF SENSITIVITY AND LICENSING BY SPECIFIC CATEGORY CODE

Ident. of Gen Categories & Unique Specific Technologies, Products, Processes, Specifications	Commodity Control List (CCL)	Internat. Traffic in Arms Reg (ITAR)	Coordinating Committee (COCOM)	Military Critical Technology 8188 List (MCTL)	Other US Companies (CONUS)	Other Foreign US Firms	Other Foreign Countries	Sensitive Defense Contracts	Classified Defense Contracts	Sensitive Defense Customer	Classified Defense Customer	Sensitive Defense R&D	Classified Defense R&D
OBS	Yes	*	Yes	Yes	SMC INCO (Huntington Alloys) Cabot	INCO Ltd (Henry Wiggins)	INCO (Henry Wiggins) Sherrit-Gordon	No	No	Yes GE	Yes GE	Yes (SMC)	No
VADER	No	*	No	No	No	No	No	Yes (SMC)	No	Yes (GE, UTC etc.)	Yes (GE, UTC)	Yes (SMC)	No
POWDER PRODUCTION	Yes	*	Yes	Yes	Yes Cyclops Cartech Cabot Crucible Cameron	Yes Howmet & Huntington Alloys (INCO)	Yes Henry Wiggins (INCO)	No	No	Yes (GE, UTC)	Yes (GE, UTC)	Yes (SMC)	No
POWDER CONSOLIDATION I	Yes	*	Yes	Yes	No	No	No	No	No	Yes	Yes	Yes	No
POWDER CONSOLIDATION II	Yes	*	Yes	Yes	Yes Cameron	No	Yes Henry Wiggins (INCO)	No	No	Yes (GE, UTC)	Yes (GE, UTC)	Yes (SMC)	No
REMELT STOCK	Yes	*	Yes	Yes	Yes Cannon-Musk	Yes Howmet	Yes H. Wiggins	No	No	Yes (GE, UTC)	Yes (GE, UTC)	Yes (SMC)	No
WROUGHT STOCK	Yes	*	Yes	Yes	Yes Cameron Teledyne - Allvac CarTech Cabot	Yes Huntington Alloys (INCO)	Yes H. Wiggins (INCO)	No	No	Yes (GE, UTC)	Yes (GE, UTC)	Yes (SMC)	No
* Not identifiable in Index to 1982 MCTL													

TABLE III - DETAIL ON SPECIFIC UNIQUE COMPETITION IDENTIFIED BY UNIQUE SPECIFIC SENSITIVE STRATEGIC TECHNOLOGIES, PRODUCTS, PROCESSES, SPECIFICATIONS

Identification of General Categories of Unique Specific Technologies, Products, Processes, Specifications		Domestic U.S. Owned Competitor by Unique Technology, Product Process, Specification			Overseas Foreign Owned Competitor by Technology, Product, Process, Specification			Domestic U.S. Foreign Owned Competition by Unique Technology, Product, Process, Specification		
		ALLOY	FORM	FUNCTION	ALLOY	FORM	FUNCTION	ALLOY	FORM	FUNCTION
Oxide Dispersion Strengthened Alloy	(ODS)	Ni-Cr-Y ₂ O ₃ MA-754 Cabot	Bar	Vane Stock	Ni-Cr-Y ₂ O ₃ MA-754 Henry Wiggins (INCO)	Bar	Vane Stock	Ni-Cr-Y ₂ O ₃ MA-754 Huntington Alloys (INCO)	I Bar	Vane Stock
VADER		Emerging Technology - SMC - sole proprietor								
POWDER PRODUCTION		Nickel Alloy Powder			Nickel Alloy Powder (Henry Wiggins)(INCO)			Nickel Alloy Powder Howmet? Huntington Alloys? (INCO)		
POWDER CONSOLIDATION I		Emerging Technology - SMC - sole proprietor								
POWDER CONSOLIDATION II		Nickel Alloy Billet			Nickel Alloy Billet (Henry Wiggins) (INCO)			None		
REMELT STOCK		Nickel Alloy Ingot Cannon Muskegon			Nickel Alloy Ingot Henry Wiggins (INCO)			Nickel Alloy Ingot Howmet		
WROUGHT STOCK		Nickel Alloy Billet Cameron Teledyne All-Vac CarTech Cabot			Nickel Alloy Billet Henry Wiggins (INCO)			Nickel Alloy Billet Huntington Alloys (INCO)		

REPRESENTATIVE NICKEL-BASE ALLOY COMPOSITIONS

NICKEL BASE												
	Ni	Co	C	Cr	Mo	W	Al	Ti	B	Cb+Ta	Zr	Other
B 1900	BAL	10.00	0.10	8.00	6.00	-	6.00	1.00	0.015	(4.25Ta)	0.07	-
B 1900-H*	BAL	10.00	0.10	8.00	6.00	-	6.00	1.00	0.015	(4.25Ta)	-	1.10 Hf
B 1910	BAL	10.00	0.15	10.00	3.00	-	6.00	1.25	0.015	(7.25Ta)	0.10	-
C 101	BAL	9.00	0.09	12.50	2.00	4.25	3.40	4.00	0.015	(4.25Ta)	0.05	0.95 Hf
HASTELLOY C	BAL	2.50*	0.15*	16.50	17.00	4.50	-	-	-	-	-	0.75 Fe 0.40 V
HASTELLOY X	BAL	1.50	0.20*	21.75	9.00	0.60	-	-	-	-	-	18.50 Fe
IN 100	BAL	15.00	0.16	10.00	3.00	-	5.50	4.75	0.015	-	0.04	1.00 V
IN 625	BAL	-	0.20	21.60	8.70	-	0.20	0.20	-	(3.90Cb)	-	-
IN 713C	BAL	1.00*	0.10	13.50	4.50	-	6.00	0.60	0.010	2.00	0.06	-
IN 713LC	BAL	1.00*	0.06	12.00	4.30	-	5.80	0.70	0.007	2.00	0.06	-
IN 718	S2.5	1.00*	0.05	19.00	3.00	-	0.55	0.90	0.006*	5.00	-	Fe-BAL
IN 738	BAL	8.50	0.09	16.00	1.70	2.50	3.50	3.50	0.010	(0.80Cb) (1.70Ta)	0.10	-
IN 792 MOD 5A	BAL	9.00	0.08	12.50	1.80	4.00	3.40	3.80	0.015	(4.00Ta)	0.02	-
IN 792- 0.5% Hf	BAL	9.00	0.11	12.20	2.00	3.80	3.50	4.00	0.015	(4.00Ta)	0.10	0.50 Hf
IN 939	BAL	19.00	0.15	22.40	-	1.80	1.80	3.70	0.010	(1.00Cb) (1.40Ta)	0.10	-
MA 754	BAL	-	0.05	20.00	-	-	0.30	0.50	-	-	-	1.00 Fe 0.60 Y,C, 1.10 Y,O
MA 6000E	BAL	-	0.05	15.00	2.00	4.00	4.50	2.50	0.01	(2.00Ta)	0.15	1.10 Y,O
MAR-M 002	BAL	10.00	0.15	9.00	-	10.00	5.50	1.50	0.015	(2.50Ta)	0.05	1.50 Hf
MAR-M 200-2% Hf	BAL	10.00	0.14	9.00	-	12.00	5.00	2.00	0.015	(1.00Cb)	-	2.00 Hf
MAR-M 246	BAL	10.00	0.15	9.00	2.50	10.00	5.50	1.50	0.015	(1.50Ta)	0.05	-
MAR-M 247	BAL	10.00	0.16	8.20	0.60	10.00	5.50	1.00	0.015	(3.00Ta)	0.05	1.50 Hf
MAR-M 421	BAL	9.50	0.15	15.50	2.00	3.80	4.30	1.80	0.015	(2.00Cb)	0.05	-
MONDLOY 454	BAL	5.00	0.02*	10.00	-	4.00	5.00	1.50	0.005	(12.00Ta)	0.007*	-
RENE 41	BAL	11.00	0.05	19.00	9.75	-	1.65	3.15	0.005	-	-	-
RENE 80	BAL	9.50	0.16	14.00	4.00	4.00	3.00	5.00	0.015	-	0.03	-
RENE 120	BAL	10.00	0.17	9.00	2.00	7.00	4.30	3.00	0.015	(3.80Ta)	0.07	0.10 Hf
RENE 125	BAL	10.00	0.11	9.00	2.00	7.00	4.80	2.50	0.017	(3.80Ta)	0.05	1.50 Hf
U-500	BAL	18.00	0.07	19.00	4.00	-	3.00	3.00	0.007	-	-	-
U-700	BAL	14.50	0.07	14.60	4.20	-	4.30	3.35	0.015	-	-	-
WASPALLOY	BAL	13.50	0.07	19.50	4.25	-	1.35	3.00	0.005	-	-	-

* Maximum

GLOSSARY OF TERMS

COG	Cogging (Initial Ingot Breakdown Process)
DU	Depleted Uranium
EB	Electron Beam
ESR	Electro-Slag Remelting
HIP	Hot Isostatic Pressing
ODS	Oxide Dispersion Strengthened
VADER	Vacuum Arc Double Electrode Remelting
VAR	Vacuum Arc Remelting
VIM	Vacuum Induction Melting

COMPANIES

CARTECH	Carpenter Technology Corporation
GE	General Electric Company
INCO	International Nickel Company
PWA	Pratt & Whitney Aircraft
SMC	Special Metal Corporation
TRW	Thompson Ramo Wooldridge Corporation
UTC	United Technologies Corporation

CFIUS

11/10/83

Grand Trunk - Milwaukee Road

DOT wants to postpone

Chicago NW asked CFIUS to review, but ICC already is doing that, not appropriate for CFIUS to intervene

State supports letting ICC

DOD thinks ICC OK but has open mind on CFIUS in general
Justice supports ICC. Commerce also, but will listen to DOT's letter when it's ready.

DOT says 2-3 wks. observes that \$100m of debt will be written off if + when transfer occurs

Int'l Jet Engine Consortium

GE, Pratt+Whitney, Rolls Royce could potentially enter market, but Justice concluded that P+W and R-R wouldn't both enter the market.

Boeing doesn't want to bring out plane in between 737 and 757, will only do so if Airbus does 320, which hasn't been decided, depends a little on new engine.

1. Why are Japanese included
 2. Will Airbus 320 be built if this engine isn't. maybe, but having new engine will make 320 more attractive, and \therefore more likely.
- (1.) Japanese will do some design and testing \sim 3% of total engine program
But 23% development and manufacturing share and 20% equity
Japanese bring money and manufacturing capacity, also marketing. Japanese airlines will then buy airplanes that use their engines, and ASEAN etc may follow.
In return they get technology, mostly ^{from} RR.

No investment in US, issue is technology transfer.
DOD concerned, will talk to Commerce. No CFIUS review likely.

Car Com

joint venture to make mobile telephones in Fort Worth.
Hickman (US joint venture) + Alberta (govt) telephone Co +
Nova (Canadian oil conglo). No comments.

Lexar-Thomson

United-Technologies and Thomson (Fr govt owned) joint
venture to make PBX switching equipment.

Siltec - Rhone Poulenc

RP bought 10% share to get wafer ~~manuf~~ factory in France.
DOD + Commerce will investigate tech transfer problems

Goldsworthy

already done. no DOD classified contracts, but makes
machines used to make composite plastics etc. Bought
by MFL consortium of French machine tool users.
42 people privately owned not reported to Justice, or DOD
or SEC. DOD reviewing for tech transfer problem.

Busicom - Isotimpex

Bulgarian Trading Company Isro bought half of Busicom
to get technology (software?). No notification. All tech
transfers to Bulgaria are controlled, all Bulgarian investments
in US are designed to steal/get ~~trans~~ tech. FBI investi-
gating, can't find it. Maybe in California



ASSISTANT SECRETARY

~~CONFIDENTIAL~~
Unclassified when Classified Attachments Removed
DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 8, 1983

MEMORANDUM FOR: THE COMMITTEE ON FOREIGN INVESTMENT
IN THE UNITED STATES

SUBJECT: Meeting of the Committee on Foreign
Investment in the United States

The Committee on Foreign Investment in the United States (CFIUS) will meet Thursday, November 10, at 9:00 a.m., in Room 4121, Main Treasury. The purpose of the meeting is to develop committee positions on seven foreign investments in the United States. Staff papers on these investments are attached.

George Hoguet
Acting Assistant Secretary
International Affairs

Attachments

~~CONFIDENTIAL~~
Unclassified when Classified Attachments Removed

AGENDA

Meeting of
The Committee on Foreign Investment in the United States
November 10, 1983
Room 4121, Main Treasury

Tab	Investment	Status
1	Grand Trunk Corporation- "Milwaukee Road"	Under review by the ICC; staff recommends no formal review.
2	International Consortium on High Technology Jet Engines	Justice cleared November 2; consortium not yet legally incorporated.
3	Car Com (Hickman-NovAtel)	Joint venture announced on 10/31/83.
4	Lexar-Thomson	Proposed.
5	Siltec Corp.- Rhone-Poulenc S.A.	Proposed.
6	Goldsworthy-MFL	Completed.
7	Busicom-Isotimpex	Completed.

CFIUS STAFF REPORT ON MILWAUKEE ROAD

The Investment

On December 19, 1977, the Chicago, Milwaukee, St. Paul and Pacific Railroad Company (the Milwaukee Road) filed a petition for voluntary reorganization under Section 77 of Federal Bankruptcy Act with the United States District Court for the Northern District of Illinois, Eastern Division. On March 31, 1983, the Court-appointed trustee submitted to the Interstate Commerce Commission (ICC) an Amended Plan of Reorganization involving the acquisition of stock control of the Milwaukee Road by the Grand Trunk Corporation. Grand Trunk is a wholly-owned subsidiary of the Canadian National Railway Company, which is owned by the Government of Canada.

An alternate plan was submitted to the ICC by the Chicago and Northwestern Transportation Company on July 27, 1983. That alternative involved acquisition of the assets of the Milwaukee Road by a wholly-owned subsidiary of Chicago and Northwestern.

CFIUS Staff Review and Recommendation

The Committee staff was approached by attorneys for Chicago and Northwestern who argued that, if the Grand Trunk bid for the Milwaukee Road was successful, the Canadian Government interest in the Grand Trunk would result in damage to U.S. national interests. This staff report is designed to explore issues connected to possible Canadian Government ownership of the Milwaukee Road.

Based on the agency submissions, the ongoing review by the ICC and the broad powers the ICC possess to affect the investment, the CFIUS staff recommends against a formal CFIUS review of the proposed acquisition by Grand Trunk of the Milwaukee Road.

Status of the Investment

The ICC is currently reviewing the Grand Trunk and Chicago Northwestern plans for the Milwaukee Road and will issue a single decision covering both plans. In its review the ICC is required to consider at least the following:

Controlled by: Frank Vukmanic
Date: November 8, 1983

- (1) the effect of the proposed transaction on the adequacy of transportation to the public;
- (2) the effect on the public interest of including, or failing to include, other rail carriers in the area involved in the proposed transaction;
- (3) the total fixed charges that result from the proposed transactions; and
- (4) the interest of carrier employees affected by the proposed transaction.

In considering the "public interest", the ICC considers inter alia, the following: the competitive impact of carrier combination; the adequacy of economy and efficiency of transportation service; and the appropriate provision and best use of transportation facilities. Before any plan goes into effect it must also be approved by the bankruptcy court.

Parties to the Transaction:

Chicago, Milwaukee, St. Paul, and Pacific Railroad Company
(the Milwaukee Road)

The Milwaukee Road is the effective successor company to Milwaukee and St. Paul Railway Company, incorporated in 1863. It is principally a common carrier of freight serving the Midwest and the Northern tier of states to the Pacific Northwest. It also operates commuter service between Chicago and its suburbs. The most important revenue generating commodities it transports are farm products, food and food products, lumber products, pulp paper products, motor vehicles and other transport equipment. (A map of its lines is at Tab A.)

Canadian National Railway Company (CN)

The Grand Trunk Railway Company of Canada was amalgamated with the Canadian National Railway Company in 1923, as a result of an agreement sanctioned by the Canadian Parliament and a subsequent Order-in-Council. That order declared all Grand Trunk preferred and common stock vested in His Majesty, to be held in trust by the Minister of Finance. The 1933 Canadian National-Canadian Pacific Act resulted in the appointment by the Government of three trustees to replace the previous CN Board of Directors and re-incorporated as Dominion Corporations, declared to work for the general advantage of Canada, all companies comprising Canadian National Railway.

CN has expanded into other sectors including telecommunications, trucking, marine transportation and hotels, although the bulk of its revenues remain in rail. In 1980, it earned \$192 million and had assets of \$6.4 billion.

In 1971, CN formed the Grand Trunk Corporation, a Delaware corporation, which is a holding company for CN's U.S. subsidiary operating companies: Grand Trunk Western Railroad and Company, Central Vermont Railway, Inc. and Duluth, Winnipeg and Pacific Railway Company. (A map of CN's lines is at Tab B.)

Areas Examined

Transportation Policy - Department of Transportation staff report that it is a participant in the Interstate Commerce proceedings on the Grand Trunk and Chicago and Northwestern proposals. It indicated that from a national transportation policy viewpoint, the Department does not currently perceive an objection to the fact that the Canadian Government would have an ownership interest in the Milwaukee Road. (See Tab C for more information.)

Taxation - Internal Revenue Service staff report that Section 892 of the Internal Revenue Code exempts from United States income tax all the income of foreign governments from investments in the United States in stocks owned by the foreign government, or from any other investment sources with the United States. For this purpose the term "foreign government" includes a controlled entity of a foreign sovereign, but only to the extent that the entity is not engaged in commercial activities in the United States. CN appears to meet all the requirements to be considered a foreign government and it appears that dividends paid by Grand Trunk to the Canadian National Railway company would be exempt from U.S. income taxation. If Grand Trunk were owned by a private Canadian interest, Grand Trunk's dividends to such owners would be subject to tax at the 15 percent rate on dividends provided by the U.S.-Canadian income tax treaty. With that exception, the income tax consideration is essentially neutral as between an acquisition by Grand Trunk and an acquisition by U.S. interests. (See Tab D for more information).

Strategic Rail Corridor Network - Department of Defense staff report that regardless of who owns and controls the railroad, its U.S. rail lines are governed by the Interstate Commerce Commission. In addition, under the Defense Production Act, the President may order railroads, irrespective of ownership, to give priority performance to DOD controls and orders. Therefore, they conclude that U.S. national security interests are satisfactorily protected. (See Tab E for more information.)

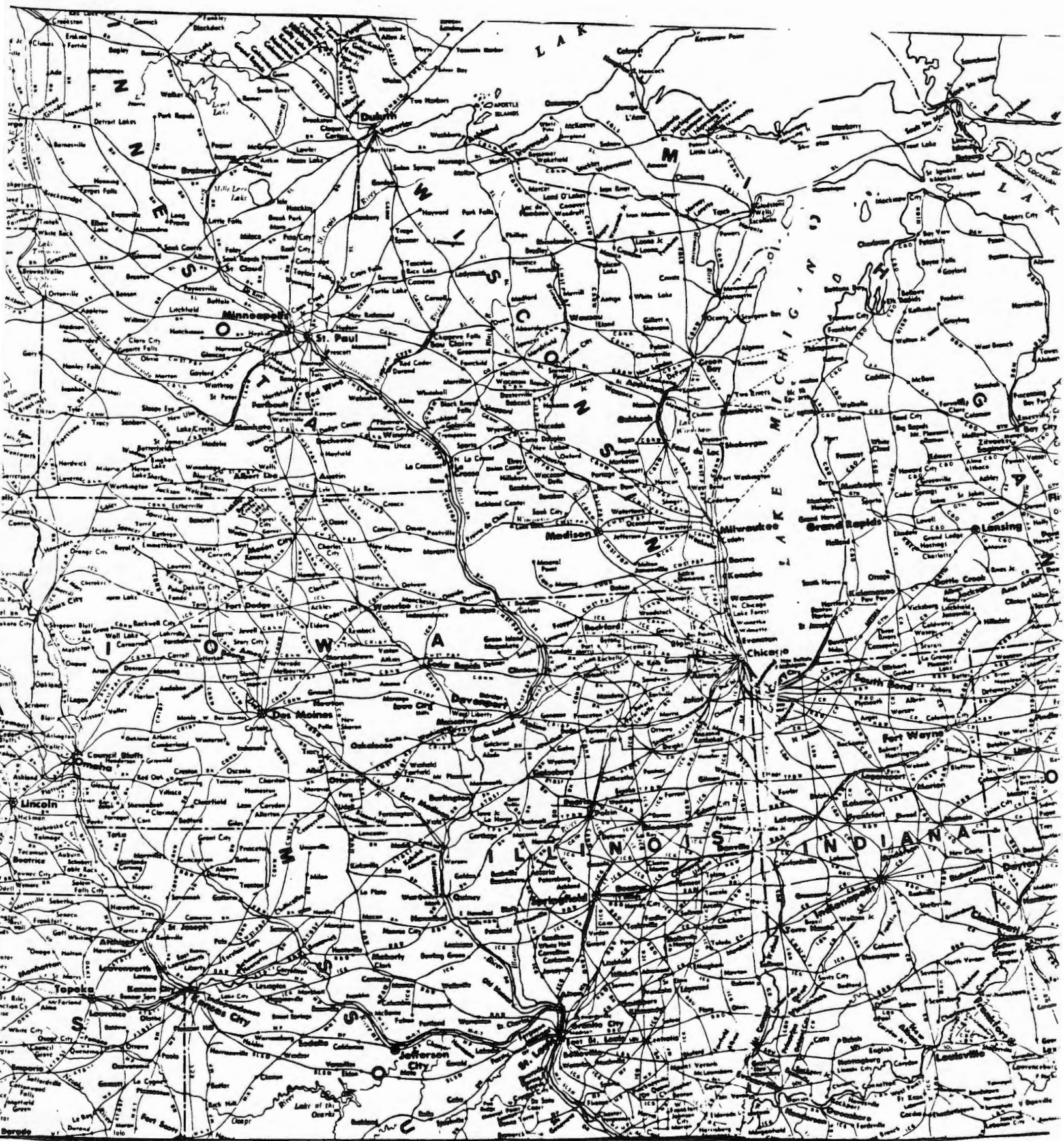
Competition - Justice Department staff recommend against a review by the Committee on Foreign Investment in the United States (CFIUS). The Justice Department bases its recommendation on: the mandate of the ICC to review the competitive aspects of the merger; the history of Canadian government ownership and operation of railroads in the United States; and the broad powers of the ICC to address any national problems concerning Canadian Government ownership of Milwaukee Road. (See Tab F for additional discussion).

Foreign Economic Policy - Department of State staff indicate that the investment does potentially raise some policy concerns, particularly in light of the Canadian Government's refusal to permit the Consolidated Rail Corporation (Conrail) to continue to control the Canada Southern Railway, which operates between Detroit and Buffalo. State staff do not, however, recommend a CFIUS review at this time, since they believe the ICC is in the best position in terms of expertise, staff resources, and legal authority to ensure that United States' interest are fully taken into account. (See Tab G for additional discussion.)

TABS

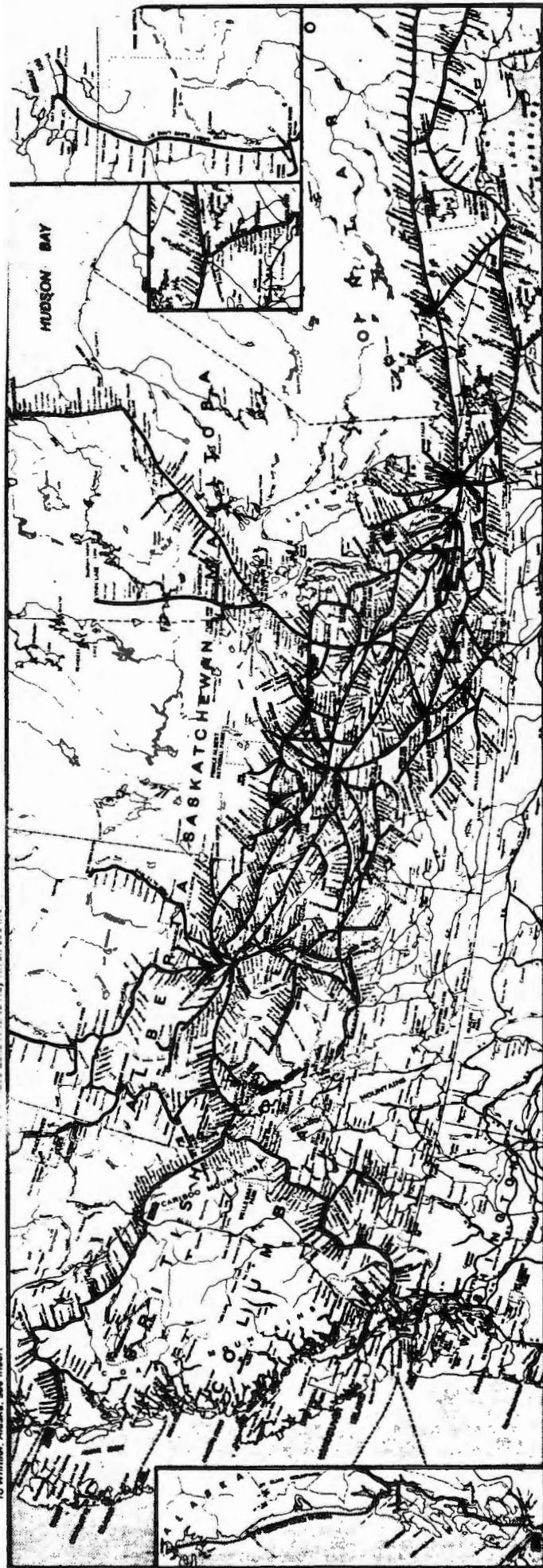
- A. Map of Chicago, Milwaukee, St. Paul and Pacific Railroad Company Lines
- B. Map of Canadian National Railway Company Lines
- C. Transportation Policy
- D. Taxation
- E. Strategic Rail Corridor Network
- F. Competition
- G. Foreign Economic Policy

A

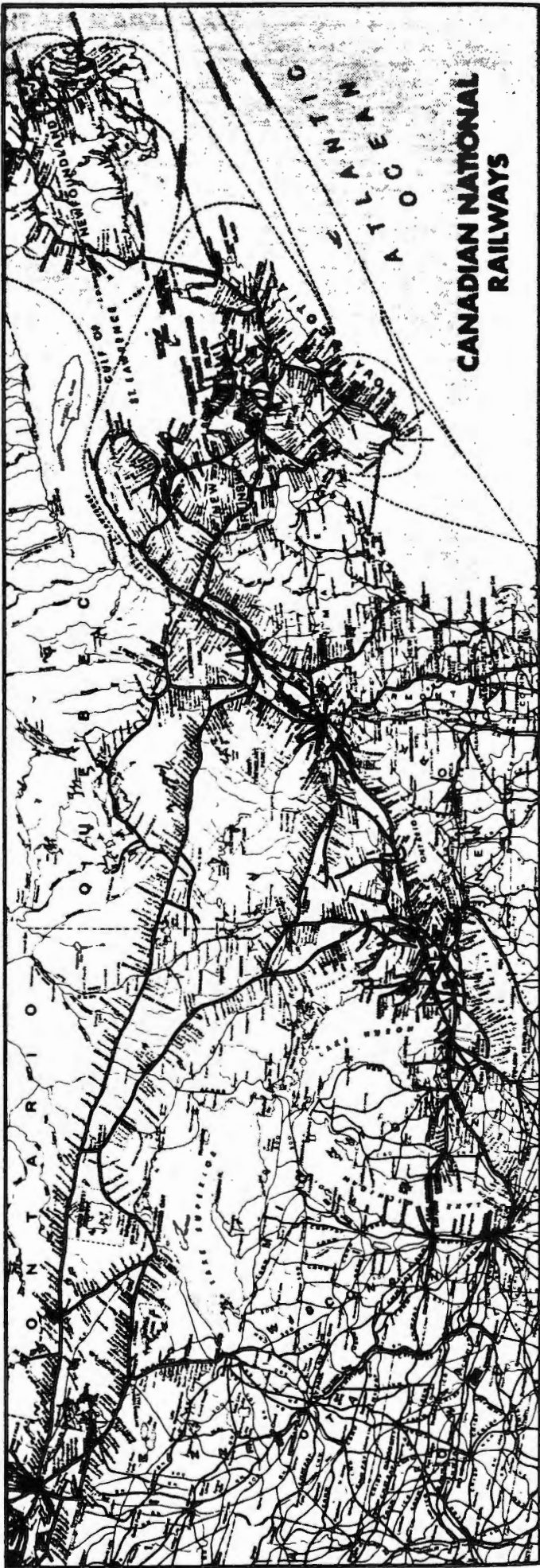


The Milwaukee Road is denoted by C.M., St. P. & P. for Chicago, Milwaukee, St. Paul and Pacific.

B



To Duluth Minn. see insert



CANADIAN NATIONAL RAILWAYS

C



**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

400 Seventh St., S.W.
Washington, D.C. 20590

OCT 24 1983

Mr. Frank Vukmanic, Director
Office of International Investment
Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Re: Committee on Foreign Investment in the United
States Review of the Grand Trunk Corporation
Proposal to Acquire the Milwaukee Road

Dear Mr. Vukmanic:

The Committee on Foreign Investment in the United States (CFIUS) has asked the Department to comment on the proposal of the Grand Trunk Corporation (GTC), a wholly-owned subsidiary of the Canadian Government-owned Canadian National Railway, to acquire the reorganized Milwaukee Railroad.

Since the Department is a participant in the Interstate Commerce Commission's proceedings on the GTC proposal and counter-proposals by other railroads, we do not believe that it would be proper to express an opinion to CFIUS at this time on issues that have a potential bearing on these cases.

From the national transportation policy viewpoint, however, we do not currently perceive an objection to the fact that the Canadian Government would have an ownership interest in the Milwaukee.

Sincerely,

A handwritten signature in cursive script, appearing to read "Rosario Scibilia".

Rosario Scibilia
Director
Office of International Policy
and Programs