

Documents in support of Mr. Derek H. Burney's testimony

DEREK H. BURNEY

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David Adam
Export Controls Division
992-9166

SECRET

February 21, 1986

ESE 0841

Memorandum for:
The Secretary of State for External Affairs

c.c. Minister for International Trade
c.c. Minister for External Relations

Subject: Memorandum to Cabinet: Thyssen AG -
Investment in Nova Scotia

PURPOSE

At the meeting of the Priorities and Planning Committee on 11 February 1986, the Prime Minister sought clarification and elucidation from you on an issue raised in your memorandum: the potential US market for Thyssen products.

... I attach an aide-mémoire on this subject. This aide-mémoire may be provided to the Prime Minister and to your Cabinet colleagues if you so wish.

Original signed by
Original signé par
D. H. Burney

D. H. Burney

J. Reid Morden
Assistant Deputy Minister
Economic and Trade Policy Branch

ATLANTIC CANADA OPPORTUNITIES AGENCY/
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Transmittal Date/
 Date de transmission 88.02.03

Time/
 l'heure 5:20

To/
 A J. Wilkins

From/
 De ACOA - Ottawa

No. of pages/
 Nbre de pages 3 + transmittal slip

Comments/
 Remarques



Atlantic Canada
Opportunities Agency

Agence de
promotion économique
du Canada atlantique



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SECRET

I am writing to provide you with an update on recent events concerning the Thyssen manufacturing facility, proposed for the Strait of Canso area on Cape Breton, and to suggest an approach to move this initiative forward.

On Monday, February 1, 1988, the President of ACOA, Mr. Don McPhail, chaired a two-hour meeting involving a detailed presentation by Thyssen senior management on the company's plans for Cape Breton, to senior officials from the departments of National Defence, External Affairs and Industry, Science and Technology.

During the meeting, Thyssen restated its desire to establish, through a subsidiary, Bearhead Industries Ltd., a heavy manufacturing facility in Cape Breton, which would assemble armoured military vehicles. Thyssen expects that this facility would subsequently diversify its operations to manufacture a variety of products for civilian application. Thyssen is prepared to train the required labour force, which would be drawn from the local area, and to provide the Cape Breton plant with all requisite technology. Moreover, Thyssen intends to cooperate closely in its Cape Breton production requirements with Lavalin (particularly if the latter is successful in acquiring Trenton Works) as well as Krauss Maffei, a West German-based company which manufactures the Leopard II main battle tank.

... /2

Mr. Derek Burney
Chief of Staff
Prime Minister's Office
Langevin Block, Room 231
Ottawa, Ontario
K1A 0A2

Canada

SECRET

- 2 -

As a precondition to locating in Cape Breton, Thyssen is requesting that the Government provide the company with a Letter of Intent guaranteeing that DND will purchase between 250 and 300 light armoured vehicles, built to DND technical specifications, at internationally-accepted prices, commencing in 1992. In addition, Thyssen would expect to bid competitively on further DND contracts. The company has already received assurances it considers satisfactory from the government of Nova Scotia on the provision of land and basic infrastructure.

In my view, the Thyssen proposal has considerable potential to contribute significantly towards the economic development of the Cape Breton area. However, Thyssen's request for a directed contract may establish an undesirable precedent for the Government's defence procurement. A successful resolution of this issue may revolve around persuading Thyssen to rethink its position, and to retain its desire to establish the Cape Breton facility, possibly on the basis of an alternative form of Government assistance.

I would suggest, therefore, that the Government request that Thyssen submit a formal business plan, including a detailed assessment of the potential for product diversification, for the manufacturing facility proposed for Cape Breton. At the same time, the Government might advise Thyssen that it has serious reservations concerning Thyssen's request for the directed armoured vehicle contract. This course of action would expeditiously develop the Thyssen proposal, and while possibly raising Thyssen's expectations, would also clearly indicate to Thyssen the nature of the Government's concern.

Yours sincerely,

Lowell Murray
Minister

file # 3080
ACOA-OTTAWA 127
ADVOCACY # JMC-526
ORIGINATOR: JMcDowell
CHRON. FILE
CIR./C.R.
FAXED:
BY-HAND: 9.5.88
S.C. P. BROWN
SECRET



Atlantic Canada
Opportunities Agency

Agence de promotion économique
du Canada atlantique



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MEMORANDUM

February 9, 1988

TO: The Honourable Lowell Murray
FROM: D.S. McPhail
SUBJECT: Letter to Mr. Derek Burney
Chief of Staff to the Prime Minister

Enclosed for your signature, if you agree, is a letter to Mr. Derek Burney describing recent developments on Thyssen's proposal to establish an armoured vehicle manufacturing plant in Cape Breton. The proposed letter suggests a course of action for the Government designed to encourage Thyssen to develop its proposal more fully and, at the same time, indicate the Government's uneasiness with Thyssen's request for a directed contract for some 250 armoured vehicles.

The letter also reports generally on discussion during my meeting of February 1, 1988 with Thyssen representatives and federal officials, including an outline of the merits and risks associated with Thyssen's proposed facility and the details of Thyssen's request for a directed contract for military armoured vehicles.

[Handwritten signature]

Enclosure

Canada

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Signed
→

SECRET

On February 1, 1988, Don McPhail chaired a meeting with Mr. Haastert of Thyssen Industrie AG, Mr. Bernard Charbonneau, Lavalin Inc., and senior officials from the departments of National Defence, External Affairs and Industry, Science and Technology, to discuss Thyssen's plans for the manufacturing plant proposed for Cape Breton.

Thyssen restated its desire to establish an armoured vehicles manufacturing facility, and pointed out that it would expect to work very closely with Lavalin, particularly if the latter were successful in acquiring Trenton Works. In the event, Thyssen, through a cooperative agreement already reached with Lavalin, would direct technology transfers to its Canadian partner and Trenton sub-contractors, and share production working hours with Lavalin Trenton. Thyssen also indicated that military production could involve shared technology with Krauss Maffei, with which it has a cooperative agreement for the production by this West German-based manufacturer of the Leopard II main battle tank.

Thyssen acknowledged that training of local labour would be required, but Thyssen is willing to provide this training, possibly by supplying the Port Hawkesbury technical school with the necessary teaching staff and equipment.

Thyssen also took care to point out that unlike a highly technical automated facility -- such as GM's manufacturing plant in London, Ontario -- its Cape Breton facility would be relatively labour intensive. Thyssen believes that this relative lack of automation would

... /2

Mr. Derek Burney
Chief of Staff
Prime Minister's Office
Langevin Block, Room 231
Ottawa, Ontario
K1A 0A2

Canada

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- 2 -

increase the potential for success of the Cape Breton plant because unlike a fully automated facility, the proposed plant would be profitable on small production runs and readily adaptable to changing DND technical requirements.

Of particular interest, Thyssen emphasized that once the facility and labour force were in place, it would be relatively easy to diversify production into civilian heavy manufacturing: offshore equipment, machine tools, boilers and so on. Thyssen did not however commit to diversification, pointing out that civilian production would have to be driven by market opportunities.

As a precondition to locating in Cape Breton, Thyssen continues to request that the Government provide the company with a letter of intent guaranteeing that DND will purchase between 250 and 300 light armoured vehicles, built to DND technical specifications, at internationally-accepted prices, commencing in 1992. Its original demand in this respect was for advancement of the funding in order that production could start in 1990. This has been waived. If granted the contract the company would proceed immediately to build the plant and fill in the intervening period with work of its own. In addition, Thyssen would expect to bid competitively on further DND contracts. The company has already received assurances it considers satisfactory from the government of Nova Scotia on the provision of land and basic infrastructure.

Don McPhail reported to me that the Thyssen proposal has considerable potential to contribute towards the economic development of the Cape Breton area. However, Thyssen's request for a directed contract may not be the best course of action in light of the Government's DND procurement process, although I understand this process is under review. In any event, a desirable next move for the Government may be to put pressure on Thyssen to broaden its proposal to include firm plans for diversification into civilian production. At the same time, the Government might ask Thyssen why the directed contract weighs so heavily as a precondition and whether alternative financial arrangements might be acceptable. Although such a broad proposal may not

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be immediately attractive to Thyssen, this approach would allow the Government to maintain an ongoing dialogue with Thyssen and would also induce further project definition.

On the basis that it is worth continuing to develop the Thyssen proposal, I would suggest therefore that the Government urge Thyssen to submit a formal business plan for the Cape Breton facility, including a detailed assessment of its plans for civilian production, and the rationale for the directed contract. In the interest of keeping this issue alive, any suggestion to Thyssen along these lines should be made without delay.

If there appears to be a consensus in support of this approach, I will phone Mr. Haastert within the next couple of weeks advising him of the Government's requirements.

Yours sincerely,

Lowell Murray

D.S. McPhail
info: 210
File



Canadian Embassy

Ambassade du Canada

Friedrich-Wilhelm-Str. 18
5300 Bonn 1
Federal Republic of Germany

June 23, 1988

Mr. D. S. McPhail
President
Atlantic Canada Opportunities Agency
Head Office
P.O. Box 6051
Moncton, N.B. E1C 9J8
Canada

Dear Don,

A word of thanks for the information you provided on my arrival in Ottawa concerning the Thyssen plans for Cape Breton.

As you may have been informed, the Chancellor mentioned this matter to the Prime Minister during their Ottawa talks but it was in the tête-à-tête session (in which only Derek participated with the Prime Minister). I understand that the presentation was fairly general and the Prime Minister took note of it without specific comment or commitment. I do not believe that there is anything more to it than that - the interesting point being of course that the matter has been brought to the Chancellor's attention.

The official visit went very well and media coverage has been good; whatever else it may have accomplished, it has certainly focussed attention in a positive way on the importance of the Canada-FRG relationship.

Sorry to have missed you again but there was simply no time for any kind of meaningful contact. Let us hope that the next trip back will be a little less crowded. In the meantime, I understand that you have informed Bob Showman that there is not much possibility of seeing an Atlantic delegation here for the immediate

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Dossier: 3080-2

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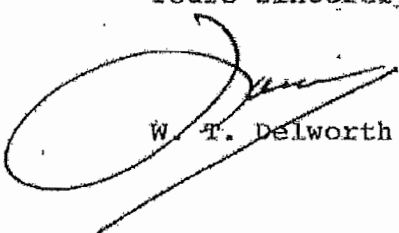
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UNITED STATES
DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION

future. When such a group proves feasible, you can count on the active and enthusiastic cooperation of the mission.

With best personal regards to you and Ruth,

Yours sincerely,



W. T. Delworth

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PCO files

2253-1

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→ 4020-15

July 19, 1988.

MEMORANDUM FOR MR. D. BURNEY

c.c. P.M. Tellier
R. Bilodeau

Thyssen

You asked me to review the proposed
Understanding in Principle with Thyssen.

I have the following comments:

Redacted



document. On that issue I cannot comment, without a review of, in particular, the powers of the Minister of DRIE. I would also be concerned, however, with the authority to agree to the clause that foresees Thyssen's participation in the LAV project.

Although it is not a strictly legal point, you may also want to consider the possible results of a review of the document, by the Auditor General. He will also be concerned with the issue of the authority of Ministers to enter into the proposed agreement. As well since there is likely no "audit trail" or an unusual "audit trial" given the process this proposal has followed, it may ultimately become a source of friction with the Auditor General's Office.

(25)

- ° As to clause 4(b)(ii) which refers to Thyssen participating in the LAV project, I do not believe there is any obligation to proceed with the project set out in the clause. However, clearly Thyssen is entitled under that clause, to participate in the project itself provided that it meets the qualifications set out in the clause. It is not clear to me from reading those qualifications that Thyssen if it were not successful in the tender process, would not be able to participate in the project. In other words the qualifications do not appear to require that Thyssen be the winner of whatever tender process is put in place for the LAV project.
- ° On a minor point, I note that clause 2(b) refers to the Government entertaining an application to the Minister of National Revenue. While the word entertain is normally sufficiently anodyne to avoid problems, I note that in this case the application appears to have been made and is therefore by definition being entertained. The inclusion of a reference to entertaining such an application raises the implication that in this case, entertain has a somewhat stronger meaning.


W.P.D. Elcock

WPDE:rms

2253-1

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DRAFT
July 15, 1988

UNDERSTANDING IN PRINCIPLE

This document signed this day of July, 1988,

between: THE GOVERNMENT OF CANADA, as represented
by:

i) the Minister responsible for the
Atlantic Canada Opportunities Agency
(hereinafter called "the ACOA Minister"),

ii) the Minister of Regional Industrial
Expansion (hereinafter called "the DRIE
Minister"), and

iii) the Minister of National Defence
(hereinafter called "the National Defence
Minister"); and

BEAR HEAD INDUSTRIES LTD., a company
incorporated under the laws of
Nova Scotia, a subsidiary which is
One Hundred (100%) Percent owned by
Thyssen Industries A.G. of the Federal
Republic of Germany (hereinafter called
"the Company").

WHEREAS the Government of Canada desires to foster
the economic expansion and industrial development of Cape
Breton;

WHEREAS the Company must have in place a North
American heavy-industry manufacturing facility on an urgent
basis, and desires to establish such a facility in the Bear Head
peninsula region of Cape Breton;

WHEREAS the Government of Canada recognizes that
the proposed Bear Head facility represents an important economic
development and diversification of the industrial base of
Cape Breton; and

WHEREAS the Company is preparing financial details
on its proposal, to meet the information requirements of the
Government's established regional development capital
contribution, and other assistance programs.

1. In accordance with this Understanding in Principle, the Company shall establish a diversified heavy-industry manufacturing facility in the Bear Head region of Cape Breton, Nova Scotia, which will:

(a) create in Cape Breton a new and diversified activity in the Canadian civilian and defence industrial base, which under the Canada U.S. Defence Production Sharing Agreement qualifies for access to North American defence markets;

(b) transfer to the facility, all technology necessary for the construction of light armoured vehicles, and other heavy-industry products;

(c) source its requirements co-operatively from, and implement arrangements for joint-venture activities with, the Lavalin (UTDC) heavy-industry facility, in Trenton, Nova Scotia, in accordance with existing agreements between the Company and Lavalin;

(d) to the greatest extent possible, source its requirements from, and promote the establishment of, small business enterprises located in Atlantic Canada;

(e) implement arrangements for co-production with Krauss Maffei, in accordance with existing agreements between the Company and Krauss Maffei, if, under the Main Battle Tank project envisaged by the Government of Canada, Krauss Maffei is selected to manufacture Canada's replacement battlefield tanks; and

(f) employ a minimum of 500 people on a permanent, full-time basis and, where necessary, train these individuals in required skills and knowledge, utilizing, where appropriate, local educational facilities.

2. In accordance with this Understanding in Principle, the Government of Canada, in order to facilitate the establishment of the Company's heavy-industry manufacturing activity in Cape Breton, will:

(a) enter into an agreement with the Province of Nova Scotia, in accordance with existing letters to the Company from the Premier of Nova Scotia, to put in place financial arrangements for the co-funding of required physical infrastructure, up to a maximum value of \$27 million, and to use the Strait of Canso Industrial Development Subagreement as a source of funding;

(b) entertain an application by the Company to the Minister of National Revenue for assistance, up to a maximum of \$68 million, under the provisions of the Cape Breton Investment Tax Credit, in accordance with the formal application for such assistance filed by the Company prior to June 30, 1988;

(c) entertain an application by the Company to the Minister of National Revenue for duty remission on the importation of machinery, parts, and components for the manufacturing of vehicles, under the Machinery and Equipment Tariff Program, consistent with this program at the time of such importation; and

(d) entertain an application by the Company to the Minister of Employment and Immigration for government participatory funding, for initial employee training.

3. In recognition of the need to proceed urgently, the Government of Canada and the Company agree to adopt a two-phased approach to the establishment of the Bear Head facility.

PHASE I

4. The Government of Canada and Company agree that in Phase I, the respective parties will undertake the following:

(a) the Company:

(i) the Company will proceed forthwith with the construction of an initial plant, as described in the document submitted to ACOA in March 1988, requiring an initial capital investment of \$58 million, to manufacture defence products for the North American markets;

(ii) the Company will have submitted a formal application to Enterprise Cape Breton, in advance of June 30, 1988, seeking assistance under the Cape Breton Investment Tax Credit (CBITC), and

(iii) the Company will provide by September 15, 1988, financial and other details associated with Phase I, and, in the shortest time possible thereafter, the remaining information required in order to qualify for assistance under the Defence Industries Productivity Program (DIPP), and other government assistance programs, under which funding is sought.

(b) the Government of Canada:

(i) the ACOA and DRIE Ministers will ensure that the Company receives assistance under programs delivered by Enterprise Cape Breton, up to a maximum level of 50 percent of eligible project costs, consistent with these programs at the time the Bear Head project becomes eligible for such assistance;

(ii) The Minister of National Defence, in recognition of the excellent international reputation for quality and performance earned by Thyssen Industries A.G. in the military vehicle sector, and in the context of the major acquisition program for the upgrading of the Canadian Forces envisaged in the Defence White Paper, will ensure that the Company participates in the Light Armoured Vehicle Procurement Program, envisaged to occur in the early-to-mid 1990's, provided the Company:

(a) develops, designs, and manufactures, in its Cape Breton facility, these vehicles from its entire technology range according to the operational requirements of the Government of Canada;

(b) meets the Government's requirements for quality, delivery, and logistic support, including personnel training,

(c) delivers and performs at internationally competitive prices, and

(d) provides acceptable regional and industrial benefits; and

(iii) the DRIE Minister will provide the Company with capital establishment assistance under the Defence Industries Productivity Program (DIPP), consistent with this program at the time the Bear Head project becomes eligible for such assistance.

PHASE II

5. The Government of Canada and Company further agree that in Phase II, the respective parties will undertake the following:

(a) the Company:

(i) the Company will proceed not later than twelve (12) months after the commencement of production under Phase I, with diversification into heavy civilian manufacturing, production targeted at Canadian and international markets;

(ii) the Company will provide within six (6) months after the commencement of production under Phase I, financial details including product and market projections associated with Phase II; and

(iii) should Phase II not be proceeded with, the Company will reimburse the Government of Canada for:

(1) assistance as is provided by the ACOA and DRIE Ministers under paragraph 4 b(i) above, and

(2) a portion, to be determined in subsequent negotiations, of the infrastructure assistance provided under paragraph 2 (a) above, in the event that the planned employment level of 400 people for Phase I is not sustained for 5 years.

(b) the Government of Canada:

the ACOA Minister, and the DRIE Minister, will provide the Company with assistance under established regional and industrial development programming, consistent with such programs at the time the Bear Head project becomes eligible for such assistance.

6. This Understanding in Principle may be complemented by future Memoranda of Understanding.

7. The understandings in principle set out in this Understanding in Principle do not create any enforceable, legal or equitable rights, nor obligations, but merely serve to document the:

- (a) parameters that have been set; and
- (b) areas on which discussions have been held, and understandings in principle reached.

Further clarifying negotiations and the requisite approval from all appropriate parties (including without limiting the foregoing, Treasury Board, and the Board of Directors of Bear Head Industries Ltd.) are needed before contractual documentation can be entered into.

5

REPRESENTING THE GOVERNMENT OF CANADA

Kenneth Murray

Minister responsible for the
Atlantic Canada Opportunities Agency

Minister of Regional Industrial
Expansion

Minister of National Defence

REPRESENTING BEAR HEAD INDUSTRIES LIMITED

76-34-56

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Government of Canada

Gouvernement du Canada

MEMORANDUM NOTE DE SERVICE

ACOA-OTTAWA: PB-70
CIR. CHRON FILE/HOLD
C.R.
FAXED: 10-9-88
MICONET:
BY-HAND: 10-9-88
C.C.: J. McDowell

CLASSIFICATION - DE SECURITE

SECRET

N / REFERENCE

-70 3080-1

YOUR FILE - V / REFERENCE

DATE August 10, 1988.

TO
A

Don S. McPhail
C.C.: Jaffray Wilkins
Wynne Potter

FROM
DE

Paul Bernier
ACOA - Ottawa

SUBJECT
OBJET

Thyssen

PCO (Hurtubise) has just advised me of a recent development concerning the above.

Without knowledge of the content of Justice's August 4 legal opinion on the "Understanding in Principle", Derek Burney asked Paul Tellier to proceed as follows:

- if the Justice opinion indicates that no significant commitment on the part of the government would arise from the signing of the "Understanding in Principle" by the three Ministers, arrangements for signature should be made, or
- if the proposed Understanding in Principle is determined to be a legally-binding agreement between the Government of Canada and Thyssen, it should be modified to eliminate its binding nature, with a view to having Ministers sign the modified document.

Hurtubise was simply asked to deliver this message to ACOA. This she did in the knowledge (obtained from Bilodeau with whom I spoke on Friday and who is now on leave) that you would likely be seeing Senator Murray today and would be seeking direction from him on this file.

Paul Bernier
Paul Bernier

3080-T
207
ACO-A-OTTAWA JMC-91
CIRC./CHRON FILE
CR
FAXED:
BY-HAND: 10/8/88
OTHER:
c.c. P. B. F. W. R. H.



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SECRET

MEMORANDUM

September 1, 1988

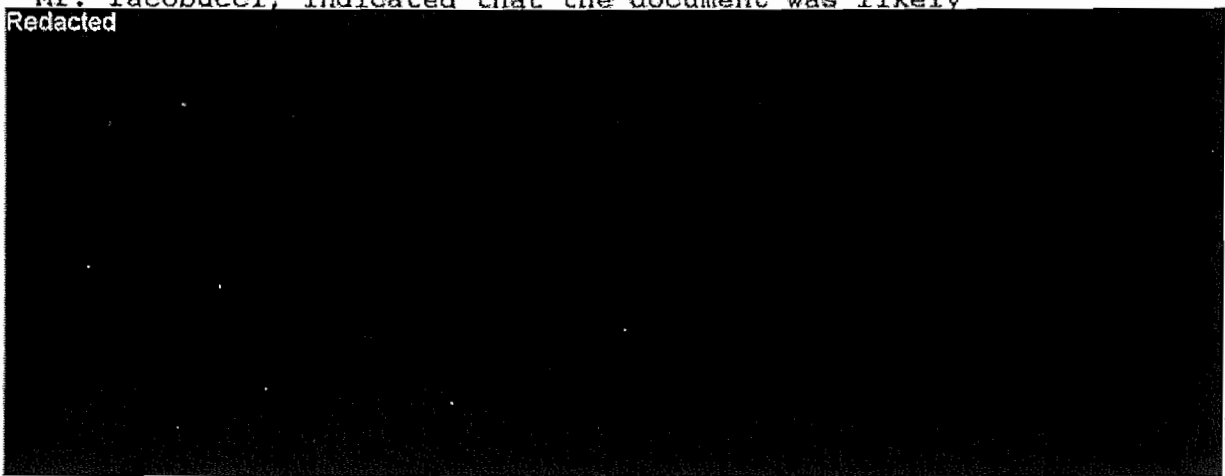
TO: The Honourable Lowell Murray
FROM: D.S. McPhail
SUBJECT: Thyssen: Update, and Attached Letter

Please find attached for your signature, a brief letter to Mr. Karlheinz Schreiber, Chairman of Bear Head Industries (BHI), enclosing the "Understanding in Principle" document tabled during discussions last evening with Messrs. Doucet and Alford, representing BHI.

You will recall that Derek Burney instructed me to modify, if necessary, the "Understanding in Principle" -- if the Department of Justice determined that the document was legally binding -- so as to ensure that "no significant commitment on the part of the Government would arise from the signing of the "Understanding in Principle" by the three Ministers". Once this was completed, the signatures of each Minister were to be sought.

In presenting the departments's formal opinion on August 4, 1988, the Deputy Minister of Justice, Mr. Iacobucci, indicated that the document was likely

Redacted



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Canada

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I have clearly highlighted to the company this amendment in the "Understanding in Principle". Furthermore, I have advised the company that, at this stage, the document does not enjoy the support of the departments of National Defence, and Regional Industrial Expansion, but that a formal reaction from the Company to the Government -- in preliminary acceptance of the arrangements contemplated by the "Understanding in Principle" -- is required at this juncture.

You may wish therefore to sign the attached letter to Mr. Schreiber.

The remaining issue is to seek the signatures of Mr. Beatty and Mr. de Cotret.

You should be aware that -- although this was not the outcome of the July 27 meeting on Thyssen chaired by Mr. Mazankowski -- the Privy Council Office, for reasons of due process, is urging that the Thyssen initiative be discussed by Cabinet, prior to the signature of the document. You may wish to consider this option, if it is the most expedient course to ensure the necessary support of your colleagues.

Indeed, in light of Mr. Wilson's comments at yesterday's meeting of Operations Ministers concerning available funding, you may wish to support strongly the Thyssen project -- as first among the initiatives of Thyssen, Louisiana Pacific, and Westray -- in keeping with your mandate to "assume the responsibility for the coordination and overall planning of all federal activities contributing to economic growth in the Atlantic region", assigned you by the Prime Minister.

D.S. McPhail

Att.

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Atlantic Canada
Opportunities Agency

Agence de promotion économique
du Canada atlantique

Minister

Ministre

Office of the Minister

Dear Mr. Schreiber:

I am pleased to attach a copy of the proposed "Understanding in Principle" document, between the Government and Bearhead Industries, concerning your company's investment in a heavy-industry facility in Cape Breton, Nova Scotia.

I request that you review thoroughly the "Understanding in Principle" to determine whether it will assist you in reaching a positive decision to proceed in Cape Breton.

In my view, this document reflects our considerable progress, and our discussions over the past several months, including our meeting in Charlottetown on July 15th.

You will observe however that following a legal review, the proposed wording of the undertaking by the Minister of National Defence has been amended, to reflect more fully the Government's policy on procurement, and the statutory authority of the Minister.

.../2

Mr. Karlheinz Schreiber
Chairman
Bearhead Industries Limited
Suite 908
350 Sparks Street
Ottawa, Ontario
K1R 7S8

Canada

If you agree that the document, as written, is suitable to your requirements, and if signed by each party, will trigger your heavy-industry investment in Cape Breton, please let me know by noon, September 2, 1988.

Following a positive reply from you, I intend to submit the "Understanding in Principle" to my Ministerial colleagues for their signatures.

Lowell Murray

28
70

SECRET

Exempt @ briefing note for Ministers
on matter before Cabinet / Discussion
paper for consideration by Cabinet

Aide Mémotre

Aide Mémotre

A PROPOSAL BY BEAR HEAD
INDUSTRIES TO ESTABLISH
A HEAVY MANUFACTURING
FACILITY IN CAPE
BRETON

PROPOSITION DE LA BEAR
HEAD INDUSTRIES POUR LA
FABRICATION DE PRODUITS
DE L'INDUSTRIE LOURDE
AU CAP-BRETON

September 16, 1988

le 16 septembre 1988

Duplicates

21

AIDE MÉMOIRE

PURPOSE: To develop an appropriate response by the Government of Canada to the proposal by Bear Head Industries Limited, (a subsidiary of Thyssen) to establish a heavy-industry manufacturing facility in Cape Breton, which would support the region's economic development.

PROPOSAL: Thyssen Industries AG, based in the Federal Republic of Germany, is one of the world's largest industrial manufacturing companies with annual sales exceeding \$30 billion, and 130,000 employees world wide. Of Thyssen's annual sales, less than 5% are in the defence sector.

In Canada, Thyssen's holdings include:

- Budd Canada Inc., Kitchener (automobile parts);
- Northern Elevator Holdings Ltd., Toronto (elevators);
- Greening Donald Co. Ltd., Hamilton (metal fabrication);
- Thyssen Marathon Canada Ltd., Mississauga (steel importers); and
- Thyssen Canada Ltd., Rexdale (steel importers).

In all, Thyssen employs some 3,000 Canadians.

In the U.S., the company has recently reached an agreement with General Dynamics concerning technology sharing for the production of light armoured vehicles for the U.S. military, further increasing Thyssen's existing North American commitment.

13-a

In 1985, the then DRIE Minister during a visit to Germany, requested that Thyssen submit a proposal to establish a manufacturing facility in Cape Breton. In March 1988, Thyssen submitted a revised proposal to the Government, through ACOA, to establish an \$85 million heavy-industry manufacturing facility at Bear Head, Cape Breton.

The initial capital cost of the facility would be \$58 million, assisted by the federal (and possibly the provincial) government in accordance with existing programs and guidelines. A further \$27 million for common-user infrastructure would be provided by the federal and the provincial governments. Thyssen would work closely in its production and subcontracting requirements with Lavalin (through the Trenton Works facility), possibly Sysco (to source its steel requirements), and Krauss Maffei, if the latter is successful in supplying DND with main battle tanks. Formal undertakings in support of these work-sharing arrangements are in place.

20(2)

Thyssen proposes to establish the Bear Head facility in two phases:

- Phase I, the production of military vehicles for the North American defence market; and
- Phase II, diversification, within twelve months, into civilian production.

The exact product mix, and markets, associated with Phase II are currently being discussed with Thyssen, and the company is preparing a formal business plan for Phase II. Thyssen has consistently maintained that Phase I is a necessary launching pad for ultimate

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diversification into civilian production, and the company is willing to commit to repay portions of government funds received under Phase I, should Phase II not proceed.

STATUS: In order to report to the Prime Minister on the Thyssen proposal, Senator Murray asked his officials to take discussions with Thyssen to the point where the minimum undertakings required from the Government of Canada to allow the project to proceed, would be determined.

On September 12, Senator Murray met with Mr. de Cotret to discuss the Thyssen proposal. Mr. de Cotret agreed to sign the Understanding in Principle, in recognition that to proceed, the Bear Head proposal required the document as an interim step, prior to the development of a formal business plan.

Mr. de Cotret observed to Senator Murray that DRIE had some 800 projects seeking applications for financial assistance for which no DRIE funding was available. In this context, Mr. de Cotret stressed that the Government would have to develop a source of funds for projects valued in excess of \$20 million, and that, in the case of Thyssen, funds would have to be earmarked prior to Thyssen's submission of a business plan, and application for funding.

On September 14, Mr. Derek Burney chaired a meeting attended by Senator Murray and Mr. Beatty. Mr. Beatty agreed to sign the Understanding in Principle subject to further Ministerial discussion, as required, providing that:

DND's
21(1)C

- (1) the company be informed clearly that in signing the UIP, the Minister of National Defence was not binding the Government to proceed with the LAV project;
- (2) a letter be sent from the DND Minister to the ACOA Minister noting that in signing the Understanding in Principle, the Minister of Defence was not limiting his discretion to determine the timing of the LAV project, and to recommend a preferred bidder to Cabinet; and
- (3) communications of the initiative be "low-key".

These conditions are entirely in accordance with the Thyssen proposal and Understanding in Principle. Efforts for their implementation are well underway.

DEPARTMENTAL POSITIONS: The Department of External Affairs has no concerns regarding the Bear Head proposal since its stated objective is defence-related production aimed at North American (or NATO) markets, and in the long-term, diversification into civilian production. External Affairs would, however, be concerned, if, in the long-run, with these markets, the Bear Head facility was not commercially-viable, and as a result, petitioned the Government to allow military experts into markets prohibited under Canada's export control policy.

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The Department of Finance is concerned that if Ministers sign the Understanding in Principle, the Government will be entering into a de facto commitment, and moreover, a commitment not supported by a business plan. Finance is also concerned that if Ministers wish to enter into such a commitment, that a source of funds, from existing resources, be identified.

The Department of Regional Industrial Expansion is concerned that within its reference levels, funding for major projects, including Thyssen, is unavailable. On industrial policy grounds, DRIE cannot support the establishment of the Thyssen facility because the Thyssen project would exacerbate existing excess capacity in Canada, in the military-vehicle and heavy-industry sectors.

THE UNDERSTANDING IN PRINCIPLE: The attached Understanding in Principle is not a formal Memorandum of Understanding (MOU), but instead, has been prepared to set out the nature of discussions to date. This document is required to initiate a decision from Thyssen's Board of Directors to proceed in Cape Breton. To this end, it is desirable that this document be signed by the ACOA Minister, the DRIE Minister, and the DND Minister.

While the Understanding in Principle formally binds neither the Government nor Thyssen in a manner which the other side would wish, the company is cited to be considered for participation in the light armoured vehicle project (part of the Government's projected modernization of the Canadian Forces, envisaged by DND to proceed in the early-to-mid 1990s), provided the company meets the Government's technical, operational and industrial/regional benefits requirements.

Since the Prime Minister's direction to Senator Murray in June 1987, to evaluate and report back on the Thyssen proposal, senior ACOA officials, in consultation with officials of DRIE, DND, and on occasion, PCO, Finance, Justice, and External Affairs, have met with Thyssen at length and developed further the company's heavy-industry proposal. Although Thyssen had originally sought a directed contract from the Government to provide DND with 250-LAVs in the early 1990s, the company has softened considerably its position, and is now willing to proceed with the heavy-industry facility on the basis of established government regional and industrial development assistance, and on the understanding that it will be considered for participation in the LAV program.

15(1) b

From the Government's perspective, the heavy-industry proposal for Cape Breton offers very considerable benefits, including technology transfer, to a particularly underdeveloped region of Canada. The Cape Breton plant would also pursue shared production and sourcing arrangements with Lavalin (at Trenton), and is ideally positioned to supply heavy-industry requirements of Hibernia.

At this point, Thyssen will commit to establishing a facility which would employ a minimum of 400 people. Employment is expected to grow considerably when diversification occurs.

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TIMING: Thyssen must establish shortly a manufacturing facility in North America to be in a position to win -- in conjunction with its partner, General Dynamics -- a portion of an upcoming U.S. Department of Defence procurement of armoured vehicles, valued at about \$750 million (U.S.). Moreover, the U.S. government plans to proceed with a massive procurement of armoured vehicles, valued at some \$200 billion, for which Thyssen, at Bear Head, would be eligible to compete, under the Canada-U.S. Defence Production Sharing Agreement.

(1) b

From the Government's perspective, the Thyssen proposal has been developing for some time. Given the timing of the U.S. project, if Ministers wish to support the establishment of the heavy industry facility at Bear Head, a decision to proceed further will have to be reached soon.

(1) b

EVOLUTION OF THE THYSSEN PROPOSAL: Since Thyssen's original request in 1985, the Federal Republic of Germany has revised its armaments exports policy to allow for specific arms exports from Germany to the Middle East. Accordingly, the current proposal by Thyssen is entirely independent of domestic German exports policy.

RELATED ISSUES: In the course of responding to the Thyssen proposal, Ministers may wish to weigh the following considerations:

Suitability of the Thyssen vehicle for DND: The operational and technical requirements for the LAV vehicle must be determined solely by DND, and, as noted in the Understanding in Principle, Thyssen will be required -- as will other potential contractors -- to satisfy fully these operational requirements prior to being considered for participation in the LAV project foreseen for the early-to-mid 1990s.

Availability of Government funding to provide regional development assistance: The common-user infrastructure assistance (\$7 million) required by a facility of this nature can be largely provided under the federal-provincial Strait of Canso Industrial Development Agreement.

13-c

It may be necessary to agree with the Government of Nova Scotia to augment the funds currently available in the Strait of Canso Industrial Development Agreement, which will be used to provide assistance for the common-user infrastructure required by the Bear Head project. This funding would come from the Atlantic Cooperation (ERDA) funds notionally set aside.

Funding under the Defence Industry Productivity Program (DIPP), which historically has not been a particularly active program in Atlantic Canada, is not available within existing DRIE reference levels.

Additional funding for this project must eventually be considered within the broader issue of how -- following the expiration of the IRDP -- the Government is to provide assistance to industrial projects in Atlantic Canada, valued at greater than the \$20 million ceiling for ACOA participation.

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Support of the Government of Nova Scotia: Thyssen has already entered into an agreement with the Government of Nova Scotia regarding the provision of land, and provincial site-establishment assistance.

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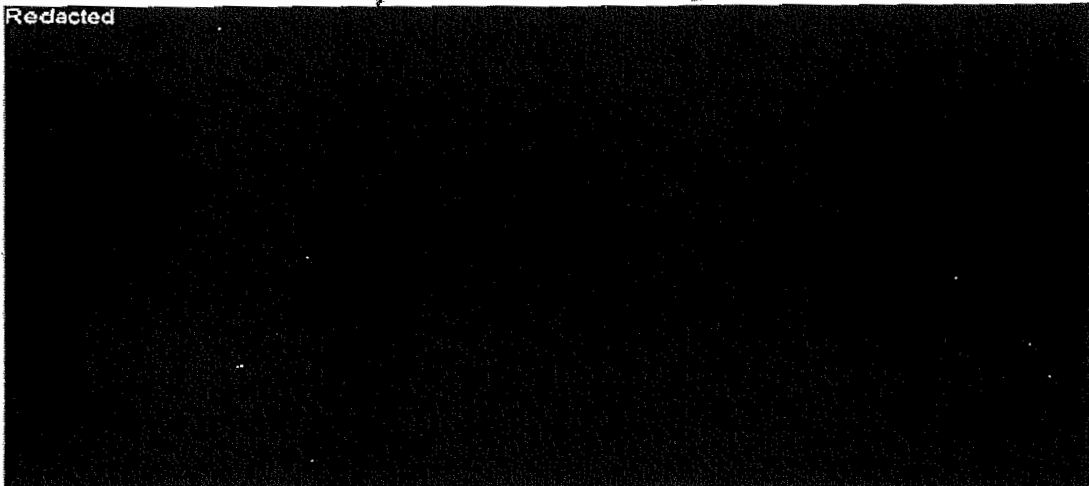
Creation of additional Canadian military vehicle production capacity: While there is no question that the Bear Head heavy-industry facility would add to Canada's existing industrial capacity in this sector, now comprising primarily the GM plant in London,

Ontario, the proposed arrangement with Thyssen for participation in the LAV contract would not exclude others -- including GM -- from participating as well. Moreover, when diversification into civilian production occurs, the Bear Head facility would contribute greatly to the industrial base of Atlantic Canada, and create a facility capable of competing for military vehicle contracts -- and in other civilian markets -- in the U.S. GM's approach, on the contrary, is to continue to seek directed, sole-source military contracts on a single-product-facility basis, with little of the regional or other industrial diversification benefits of the Thyssen proposal.

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Consistency of the "Understanding in Principle" and the Government's procurement policy: The Government would stress from the beginning that, while Bear Head would be considered for participation in the LAV contract, the proposed arrangements in no way constitute sole sourcing, nor guaranteed participation, and that the fundamental principles of operational requirements and competitive pricing are protected fully.

Redacted



WPA

NEXT STEPS: Should Ministers wish to contemplate a regional development proposal of this kind, the following course of action could be pursued:

September 1988

- immediate finalization of the Understanding in Principle; and
- agreement on, and signature of, the Understanding in Principle by involved Ministers.

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Fall 1988

- formal, detailed negotiations between key federal departments (ACOA, DRIE, DND, Supply and Services) and the company to develop fully a corporate business plan and assistance package;
- concluding negotiations between the federal Government and the Government of Nova Scotia on the common-user infrastructure arrangements;
- preparation of a formal Memorandum of Understanding between the Government of Canada and Bear Head Industries Ltd.;

- formal submission of a Memorandum to Cabinet to CCERD;
- the signing of a formal contractual, legally-binding agreement between Bear Head and the Government.

REC-100
6969 #142

2



Minister of National Defence

Ministre de la Défense nationale

September 19, 1988

The Honourable Lowell Murray, P.C., Senator
Leader of the Government in the Senate and
Minister of State (Federal-Provincial Relations)
Room 271-S² Centre Block
The Senate of Canada
Ottawa, Canada
K1A 0A4

Dear Colleague:

I refer to the enclosed ~~"Understanding in Principle" between the Government of Canada and Bear Head Industries Ltd.~~ and our meeting with Mr. Derek Burney of September 14, 1988.

69

In agreeing ~~to sign the document~~, I did so with the understanding that it does not thereby commit the Department of National Defence, either internally with respect to other Government Agencies or private industry, to a project for the acquisition of light armoured vehicles, now, or in the future.

Further, I am led to believe that in lending my support for the "Understanding" I will not find myself in the position of abrogating my commitment to our colleague, Mr. Wilson, as regards funding of future defence projects:

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Lastly, I am pleased to see that you intend to adopt a low-key approach to the public announcement of this ~~"Understanding"~~. Let me assure you that senior officers of my Department look forward to lending assistance in creating a communications plan as well as preparing correspondence to Bear Head Industries Ltd., as well as its parent, Thyssen Industries A.G.

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.../2

SECRET

Ottawa, Canada K1A 0K2

- 2 -

For your information, I am sending copies of this letter to our colleagues, the Minister of Regional Industrial Expansion, the Minister of Finance, Mr. Derek Burney at the Prime Minister's Office, and also to the Honourable Gerald Merrithew.

Sincerely,

Perrin Beatty
Perrin Beatty

Enclosure: 1

cc: The Honourable Gerald S. Merrithew, P.C., M.P.
The Honourable Michael H. Wilson, P.C., M.P.
The Honourable Robert De Cotret, P.C., M.P.
Mr. Derek Burney, Chief of Staff, Prime Minister's Office

SECRET



Atlantic Canada
Opportunities Agency

Ottawa Office
P.O. Box 3442, Stn. "D"
Ottawa, Ont.
Canada K1P 6N8

(613) 954-8060
FAX: (613) 954-0429

Agence de promotion économique
du Canada atlantique

Bureau d'Ottawa
B.P. 3442, Succ. "D"
Ottawa (Ont.)
Canada K1P 6N8

(613) 954-8060
FAX: (613) 954-0429



MEMORANDUM

September 23, 1988

TO: The Honourable Lowell Murray

FROM: Don S. McPhail

SUBJECT: Letter to Bear Head Industries attaching
"Understanding in Principle"

Please find attached for your signature a letter to Mr. Karlheinz Schreiber, Chairman of Bear Head Industries Limited, formally transmitting the Understanding in Principle from the Government to the company for signature. As the letter indicates, following signature by the company, the Understanding in Principle will be returned to you so that you may seek the necessary signatures of your colleagues.

As you may recall during your meeting with Mr. Beatty and Mr. Burney on September 14, Mr. Beatty insisted, as a precondition to signing, that the company be informed that the Understanding in Principle in no way compromise the ability of the Minister of Defence to recommend to Cabinet, a preferred bidder for the LAV project. Accordingly, in order to satisfy the request of their Minister, the Department of National Defence has inserted the second sentence, paragraph 3, page 2.

In addition, this letter has been reviewed by the Department of Justice to ensure its legal appropriateness, and the minor amendments suggested by Justice have been incorporated.

Don S. McPhail
Don S. McPhail

Attachments

Canada

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~~3420 0000099~~

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Leader of the Government
in the Senate and
Minister of State for
Federal-Provincial Relations

Leader du gouvernement
au Sénat et
Ministre d'État aux
Relations fédérales-provinciales

Dear Mr. Schreiber:

On behalf of the Government of Canada, I am pleased to acknowledge your proposal, submitted to the Atlantic Canada Opportunities Agency in March 1988, to establish a diversified heavy-industry facility in Cape Breton, Nova Scotia.

The Government considers that the Bear Head facility will make a very significant contribution to the long-run economic strength and diversity of Canada, and in particular, Cape Breton.

For your consideration, I am attaching a document entitled "Understanding in Principle", which I understand has been supported in discussions with you as an appropriate interim vehicle to advance the Bear Head initiative.

You will observe that the "Understanding in Principle" is to be signed, on behalf of the Government of Canada, by the Minister responsible for the Atlantic Canada Opportunities Agency, the Minister of Regional Industrial Expansion, and the Minister of National Defence.

.../2

Mr. Karlheinz Schreiber
Chairman
Bear Head Industries Limited
Suite 908 - 350 Sparks Street
Ottawa, Ontario
K1R 7S8

Ottawa, Canada K1A 0A4

16

- 2 -

I believe that we have made quite considerable progress to this point, and I consider that this progress has been incorporated into the "Understanding in Principle".

The Government has reflected upon this document at some length, and in particular, has focussed its attention upon the manner in which it addresses your Company's request for involvement in future Canadian procurement contracts, should the Bear Head heavy-industry facility be established.

In this regard, it is the Government's view that the "Understanding in Principle" reflects, to the maximum extent, your request, in keeping with the Government's established procurement policy, and programming guidelines. I would emphasize that the Government of Canada, in so signing, can not, and does not, thereby commit itself to any military, or other, procurement projects with which you may have a present interest.

Moreover, while I am mindful of the difficulties you are experiencing in preparing exact financial details on your proposal, this information will, of course, be required in order to evaluate a formal application by Bear Head Industries, for assistance, under the Government's regional development, and other programs.

Having stated these points however, I trust that this document will prove successful in facilitating your investment in the Cape Breton heavy-manufacturing plant. I would ask you to signal your intention to proceed further, by signing both copies and returning them to me, by September 26, 1988.

Upon receipt of an affirmative response from Bear Head Industries, I will seek to obtain the required signatures of my colleagues.

Once all signatures are in place, a signed original will be provided to you.

I look forward to hearing from you.

Lowell Murray

Attachment

96-34-20



Government of Canada

Gouvernement du Canada

MEMORANDUM

NOTE DE SERVICE

TO
A

File
c.c. Don S. McPhail
Jaffray Wilkins
Wynne Potter

FROM
DE

John McDowell

SUBJECT
OBJET

THYSSEN: SEPTEMBER 25TH MEETING

SECURITY - CLASSIFICATION - DE SÉCURITÉ	DRAFT "C"
OUR FILE - N / RÉFÉRENCE	JMC-949
YOUR FILE - V / RÉFÉRENCE	
DATE	September 26, 1988

During the evening of September 25th, I met with Mr. Karlheinz Schreiber, Bear Head Industries Ltd., and Mr. Greg Alford, Government Consultants International, to deliver the proposed Understanding in Principle (UIP) from the Government to Bear Head Industries.

After a brief discussion, Mr. Schreiber signed the UIP. He observed that the covering letter of September 23th from Senator Murray (attached) was the first formal communication from the Government to Bear Head Industries. Mr. Schreiber stressed that the UIP, when signed by all parties, meant that Thyssen Industries would come to Canada, and that the document itself would be very helpful in initiating the release of funding for the Cape Breton plant from the Thyssen Board of Directors.

Mr. Schreiber read the letter from Senator Murray with considerable care. Mr. Alford pointed out that paragraph 3, page 2 was effectively a disclaimer because it indicated that in offering the UIP for signature the Government was not necessarily committing to proceed with the LAV project.

I observed to Mr. Schreiber that the UIP to be signed was identical to the version for which he had earlier indicated support, except that paragraph 4(a)(iii) now called for the company to submit its business plan by October 21, instead of September 15, the deadline in the earlier version. Mr. Schreiber understood this minor amendment and indicated that Bear Head Industries would work towards this date.

Attachment

John McDowell
ACOA/APA
John McDowell RECEIVED/RECU
11565
SEP 26 1988

Referred to
Référé à:
File
Dossier: 3080-2



Atlantic Canada
Opportunities
Agency

Agence de
promotion économique
du Canada atlantique

I. D.S. McPhail
96-34-20 info.

**REQUEST FOR FACSIMILE TRANSMISSION
DEMANDE D'ENVOI PAR FAC-SIMILÉ**

URGENT ROUTINE
NORMAL

NO. OF PAGES FOR THIS TRANSMISSION
N° DE PAGES À TRANSMETTRE
3 + TRANS

DATE RECEIVED - REÇU LE	LOG NO. - N° DE REGISTRE
DATE SENT - ENVOYÉ LE <i>26. 9. 88</i>	SENDER'S FAX NO. - N° DU FAX DE L'EXPÉDITEUR <i>954. 04029</i>

TO - A <i>D.S. McPhail - H.O.</i>
<i>WYNNE POTTER - N.S.</i>

FROM - DE
<i>John McDowall</i>

REMARKS - COMMENTAIRES:

Inc. 949

_____ SIGNATURE _____ DATE

96-34-20

67



Government of Canada

Gouvernement du Canada

MEMORANDUM

NOTE DE SERVICE

TO A
FROM DE

File
c.c. Don S. McPhail
Jaffray Wilkins
Wynne Potter

John McDowell

SUBJECT
OBJET

THYSSEN: SEPTEMBER 25TH MEETING

SECURITY - CLASSIFICATION - DE SÉCURITÉ	
DRAFT "C"	
OUR FILE - N / RÉFÉRENCE	
JMC-949	
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DATE	September 26, 1988

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Attachment

John McDowell
ACOA/APA
John McDowell RECEIVED/RECU
11565
SEP 26 1988

Referred to / Référé à: 128
File / Dossier: 3080-2



76-34-20

Leader of the Government
in the Senate and
Minister of State for
Federal-Provincial Relations

Leader du gouvernement
au Sénat et
Ministre d'Etat aux
Relations fédérales-provinciales

23 September 1988

Dear Mr. Schreiber:

On behalf of the Government of Canada, I am pleased to acknowledge your proposal, submitted to the Atlantic Canada Opportunities Agency in March 1988, to establish a diversified heavy-industry facility in Cape Breton, Nova Scotia.

The Government considers that the Bear Head facility will make a very significant contribution to the long-run economic strength and diversity of Canada, and in particular, Cape Breton.

For your consideration, I am attaching a document entitled "Understanding in Principle", which I understand has been supported in discussions with you as an appropriate interim vehicle to advance the Bear Head initiative.

You will observe that the "Understanding in Principle" is to be signed, on behalf of the Government of Canada, by the Minister responsible for the Atlantic Canada Opportunities Agency, the Minister of Regional Industrial Expansion, and the Minister of National Defence.

.../2

Mr. Karlheinz Schreiber
Chairman
Bear Head Industries Limited
Suite 908 - 350 Sparks Street
Ottawa, Ontario
K1R 7S8

96-34.70

- 2 -

I believe that we have made quite considerable progress to this point, and I consider that this progress has been incorporated into the "Understanding in Principle".

The Government has reflected upon this document at some length, and in particular, has focussed its attention upon the manner in which it addresses your Company's request for involvement in future Canadian procurement contracts, should the Bear Head heavy-industry facility be established.

In this regard, it is the Government's view that the "Understanding in Principle" reflects, to the maximum extent, your request, in keeping with the Government's established procurement policy, and programming guidelines. I would emphasize that the Government of Canada, in so signing, can not, and does not, thereby commit itself to any military, or other, procurement projects with which you may have a present interest.

Moreover, while I am mindful of the difficulties you are experiencing in preparing exact financial details on your proposal, this information will, of course, be required in order to evaluate a formal application by Bear Head Industries, for assistance, under the Government's regional development, and other programs.

Having stated these points however, I trust that this document will prove successful in facilitating your investment in the Cape Breton heavy-manufacturing plant. I would ask you to signal your intention to proceed further, by signing both copies and returning them to me, by September 26, 1988.

Upon receipt of an affirmative response from Bear Head Industries, I will seek to obtain the required signatures of my colleagues.

Once all signatures are in place, a signed original will be provided to you.

I look forward to hearing from you.

Yours sincerely,

Lowell Murray

~~Lowell Murray~~

Attachment

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UNDERSTANDING IN PRINCIPLE

This document signed this 27 day of September, 1988,
between:

THE GOVERNMENT OF CANADA, as
represented by:

i) the Minister responsible for
the Atlantic Canada Opportunities
Agency (hereinafter called "the
ACOA Minister"),

ii) the Minister of Regional
Industrial Expansion (hereinafter
called "the DRIE Minister"), and

iii) the Minister of National
Defence (hereinafter called "the
National Defence Minister"); and

BEAR HEAD INDUSTRIES LTD., a
company incorporated under the
laws of Nova Scotia, a subsidiary
which is one hundred (100%)
percent owned by Thyssen
Industries A.G. of the Federal
Republic of Germany (hereinafter
called "the Company").

WHEREAS the Government of Canada desires
to foster the economic expansion and industrial
development of Cape Breton;

WHEREAS the Company must have in place a
North American heavy-industry manufacturing facility on
an urgent basis, and desires to establish such a
facility in the Bear Head peninsula region of Cape
Breton;

WHEREAS the Government of Canada
recognizes that the proposed Bear Head facility
represents an important economic development and
diversification of the industrial base of Cape Breton;
and

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WHEREAS the Company is preparing financial details on its proposal, to meet the information requirements of the Government's established regional development capital contribution, and other assistance programs.

1. In accordance with this Understanding in Principle, the Company shall establish a diversified heavy-industry manufacturing facility in the Bear Head region of Cape Breton, Nova Scotia, which will:

(a) create in Cape Breton a new and diversified activity in the Canadian civilian and defence industrial base, with access to the North American defence markets, under the Canada U.S. Defence Production Sharing Agreement;

(b) transfer to the facility, all technology necessary for the construction of light armoured vehicles, and other heavy-industry products;

(c) source its requirements co-operatively from, and implement arrangements for joint-venture activities with, the Lavalin (UTDC) heavy-industry facility, in Trenton, Nova Scotia, in accordance with existing agreements between the Company and Lavalin;

(d) to the greatest extent possible, source its requirements from, and promote the establishment of, small business enterprises located in Atlantic Canada;

(e) implement arrangements for co-production with Krauss Maffei, in accordance with existing agreements between the Company and Krauss Maffei, if, under the Main Battle Tank project envisaged by the Government of Canada, Krauss Maffei is selected to manufacture Canada's replacement battlefield tanks; and

(f) employ a minimum of 500 people on a permanent, full-time basis and, where necessary, train these individuals in required skills and knowledge, utilizing, where appropriate, local educational facilities.

2. In accordance with this Understanding in Principle, the Government of Canada, in order to facilitate the establishment of the Company's heavy-industry manufacturing activity in Cape Breton, will:

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(a) enter into negotiations with the Province of Nova Scotia, in accordance with existing letters to the Company from the Premier of Nova Scotia, to put in place financial arrangements for the co-funding of required physical infrastructures, up to a maximum value of \$27 million, and to use the Strait of Canso Industrial Development Subagreement as a source of funding;

(b) entertain an application by the Company to the Minister of National Revenue for assistance based on eligible project costs up to a maximum of \$68 million, under the provisions of the Cape Breton Investment Tax Credit, in accordance with the formal application for such assistance filed by the Company prior to June 30, 1988;

(c) entertain an application by the Company to the Minister of National Revenue for duty remission on the importation of machinery, parts, and components for the manufacturing of vehicles, under the Machinery and Equipment Tariff Program, consistent with this program at the time of such importation; and

(d) entertain an application by the Company to the Minister of Employment and Immigration for government participatory funding, for initial employee training.

3. In recognition of the need to proceed urgently, the Government of Canada and the Company agree to adopt a two-phased approach to the establishment of the Bear Head facility.

PHASE I

4. The Government of Canada and Company agree that in Phase I, the respective parties will undertake the following:

(a) the Company:

(i) the Company will proceed forthwith with the construction of an initial plant, as described in the document submitted to ACOA in March 1988, requiring an initial capital investment of \$58 million, to manufacture defence products for the North American markets;

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(ii) the Company will have submitted a formal application to Enterprise Cape Breton, in advance of June 30, 1988, seeking assistance under the Cape Breton Investment Tax Credit (CBITC); and

(iii) the Company will provide by October 21, 1988, financial and other details associated with Phase I, and, in the shortest time possible thereafter, the remaining information required in order to qualify for assistance under the Defence Industries Productivity Program (DIPP), and other government assistance programs, under which funding is sought.

(b) the Government of Canada:

(i) the ACOA Minister, and the DRIE Minister, will consider assistance to the Company, up to a maximum of fifty (50) percent of eligible project costs, under programs delivered by Enterprise Cape Breton, consistent with these programs at the time the Bear Head project becomes eligible for such assistance.

(ii) The Minister of National Defence, in recognition of the excellent international reputation for quality and performance earned by Thyssen Industries A.G. in the military vehicle sector, and in the context of the major acquisition program for the upgrading of the Canadian Forces envisaged in the Defence White Paper, will consider the participation of the Company in the Light Armoured Vehicle Procurement Program, envisaged to occur in the early-to-mid 1990's, provided the Company:

(a) develops, designs, and manufactures, in its Cape Breton facility, these vehicles from its entire technology range according to the operational requirements of the Government of Canada,

(b) meets the Government's requirements for quality, delivery, and logistic support, including personnel training,

(c) delivers and performs at internationally competitive prices, and

(d) provides acceptable regional and industrial benefits; and

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(iii) the DRIE Minister will consider capital establishment assistance to the Company, under the Defence Industries Productivity Program (DIPP), consistent with this program at the time the Bear Head project becomes eligible for such assistance.

PHASE II

5. The Government of Canada and Company further agree that in Phase II, the respective parties will undertake the following:

(a) the Company:

(i) the Company will proceed not later than twelve (12) months after the commencement of production under Phase I, with diversification into heavy civilian manufacturing production targeted at Canadian and international markets;

(ii) the Company will provide within six (6) months after the commencement of production under Phase I, financial details including product and market projections associated with Phase II; and

(iii) should Phase II not be proceeded with, the Company will reimburse the Government of Canada for:

- (1) assistance as is provided by the ACOA and DRIE Ministers under paragraph 4 b(i) above, and
- (2) a portion, to be determined in subsequent negotiations, of the infrastructure assistance provided under paragraph 2 (a) above, in the event that the planned employment level of 400 people for Phase I is not sustained for 5 years.

(b) the Government of Canada:

the ACOA Minister, and the DRIE Minister, will consider assistance to the Company, under established regional and industrial development programming, consistent with such programs at the time the Bear Head project becomes eligible for such assistance.

6. This Understanding in Principle may be complemented by future Memoranda of Understanding.

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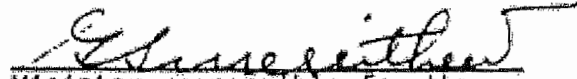
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7. The understandings in principle set out in this Understanding in Principle do not create any enforceable, legal or equitable rights, nor obligations, but merely serve to document the:

- (a) parameters that have been set; and
- (b) areas on which discussions have been held, and understandings in principle reached.

Further clarifying negotiations and the requisite approval from all appropriate parties (including without limiting the foregoing, Treasury Board, and the Board of Directors of Bear Head Industries Ltd.) are needed before contractual documentation can be entered into.

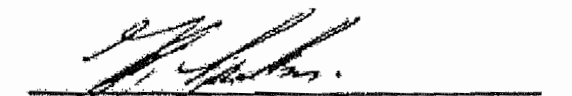
THE GOVERNMENT OF CANADA


 Minister responsible for the
 Atlantic Canada Opportunities Agency


 Minister of Regional Industrial
 Expansion


 Minister of National Defence

BEAR HEAD INDUSTRIES LIMITED


 Mr. Karlheinz Schreiber, Chairman

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26/9/88
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PRESS RELEASE

Bear Head Industries Ltd., a wholly-owned subsidiary of Thyssen Industrie AG of West Germany, one of Germany's largest industrial concerns, is pleased to announce that it will establish Thyssen Industrie AG's major North American base for heavy, high-technology industrial manufacturing in Port Hawkesbury, Nova Scotia.

This new facility in Port Hawkesbury, with a projected initial capital investment by Bear Head Industries of \$58 million, will play an important role in Thyssen's strategy to increase substantially its North American investments and activities. Thyssen is already a major employer in Canada. Bear Head Industries is pleased to make this long-term commitment to the workforce of Eastern Nova Scotia through the establishment of a versatile, state-of-the-art manufacturing facility serving the North American market. This facility will hold North American product mandates for selected Thyssen technologies.

Construction of the new facility will begin in the Spring of 1989, and is expected to be completed by the Fall of 1990. When full production is reached, this facility will employ a minimum of 500 people in the manufacturing of a mix of sophisticated, high-value equipment as North American market opportunities demand. Evaluation of personnel, sub-contractors and training facilities will begin immediately.

Principal products of Thyssen's Bear Head Industries will include:

- environmental plants and processes, including fluidized bed combustion, metal scrapers and waste-water recycling;
- industrial conveyor and transport systems;
- light military vehicles for the Canadian and United States markets; and
- machine tooling, involving the fabrication of Thyssen-developed technology.

This modern, diversified manufacturing facility will bring new strength to the economy of Eastern Nova Scotia. In addition to the 500 full-time employees, it is anticipated that the facility will generate over 800 indirect jobs and encourage new activities and skills among potential sub-contractors. Production will involve the

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transfer to Canada of many of the internationally-competitive technologies held by Thyssen Industrie AG. The company expects to co-operate actively with industrial training facilities in Eastern Nova Scotia.

Bear Head Industries Ltd. expects that environmental protection equipment will be among the products of the facility most in demand. Bear Head Industries Ltd. hopes to participate in the production of the next generation of light armoured vehicles for the Canadian Forces in the early to mid-1990s. Should the company become involved in the production of Light Armoured Vehicles for the Canadian Forces, a portion of the work will be carried out, through an agreement with Lavalin Inc., at the Trenton works plant at Trenton, Nova Scotia. This will involve important transfers of technology to and diversification of the Trenton Works.

Bear Head Industries also expects to enter the American market for light military vehicles and to perform ongoing upgrading and maintenance work. An immediate opportunity to bid on such an American contract prompts the announcement of these plans at this time. While Bear Head will have full access to U.S. defence markets under the Canada U.S. Defence Production Sharing Agreement, all exports by Bear Head Industries, including those outside of North America, will of course be in full accordance with the Government's policy on export controls.

Thyssen Industrie AG has chosen to base its North American heavy manufacturing capability in Port Hawkesbury because of its excellent location, transportation facilities, workforce and training facilities.

The Corporation began serious consideration of this project in 1985. One year ago, ACOA took on the co-ordination and lead role on the part of the Canadian Government. The result is today's decision to proceed with the project. The assistance and co-operation by the Government of Nova Scotia has contributed throughout to the success of this project. Numerous discussions were held with the then Department of Development, now the Department of Industry, Trade, and Technology, and with Premier John Buchanan on land acquisition, infrastructure and other matters vital to the project.

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For Information
Charles McGuire
(902) 429-7460

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Atlantic Canada
Opportunities
Agency

Agence de
promotion économique
du Canada atlantique

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REQUEST FOR FACSIMILE TRANSMISSION
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DATE RECEIVED - REÇU LE	LOG NO. - N° DE REGISTRE
DATE SENT - ENVOYÉ LE	SENDER'S FAX NO. - N° DU FAX DE L'EXPÉDITEUR

NO OF PAGES FOR THIS TRANSMISSION N° DE PAGES À TRANSMETTRE
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TO - A Wynne Totten c.c. Wilkins.	FROM - DE Rex Bowen

REMARKS - COMMENTAIRES:

DELIVER BEFORE WYNNE'S MEETING WITH MR MCPHAIL at 16:30.

Wynne/Totten AL-

A further reminder:

(14:35) this letter was signed, but may not be sent.

Senator Murray has spoken to Bowney this morning - and accordingly, the letter may be redundant.

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Rex Bowen 22/2/02

SIGNATURE DATE

Canada

Given the Deputy Prime Minister's interest, I am writing to you regarding my intended course of action over the next few days, concerning the Bear Head heavy-industry facility planned for Cape Breton.

At this point, I would see Bear Head Industries announcing on Wednesday, September 28, its intention to proceed in Cape Breton.

In accordance with this schedule, I intend to submit the "Understanding in Principle" document to the company for their signature on Monday. Upon receipt of an affirmative response from Bear Head Industries, I will seek the required signatures of my colleagues.

While the location for this announcement has not been determined, and may well be Halifax, or even Ottawa, the announcement is to be low-key in nature and of primary interest to the business media.

For your information, I have attached a copy of the press release that is being drafted for use by the company. I have requested ACOA officials to circulate this draft press release among the key departments for their views. To date, the Department of National Defence has indicated that they have no difficulty. As other departments respond, the press release will of course be adjusted as required.

.../2

Mr. Derek H. Burney
Chief of Staff to the Prime Minister
109 Langevin Block
Privy Council Office
Ottawa, Ontario
K1A 0A2

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The posture that will be adopted by the Government concerning the Bear Head announcement will be low-key. Our approach will simply be to point out that the company and the Government have been developing the heavy-industry proposal for some time, that the agreement reached so far is interim in nature, that the Government has made no commitment to the company concerning defence contracts or even funding, and that any decision by the Government concerning site establishment and other assistance will of course be depend on the receipt of a formal business plan and application from the company.

Lowell Murray

Attachment

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SECRET

AIDE-MEMOIRE

SUBJECT: THYSSEN INDUSTRIES/BEAR HEAD INDUSTRIES -- DETAILS WITHIN UNSOLICITED PROPOSAL SITUATION.

PURPOSE

1. To precis the "Understanding in Principle" (UIP) between the Govt of Cda and Bear Head Industries Ltd. (enclosed), and a letter on that subject from MND to The Hon Lowell Murray (enclosed)

ASD

PCO

UNDERSTANDING IN PRINCIPLE

2. On 27 Sep 88, an "Understanding in Principle" was signed by the ACOA Minister, the DRIE MINISTER, and the National Defence Minister on behalf of the Govt of Cda, and Mr Karlheinz Schreiber, Chairman, on behalf of Bear Head Industries Ltd. (BHI). 69

3. The preamble founds the Govt of Cda position on a Govt desire to develop both the economy and a diversified industrial base in Cape Breton.

4. This UIP commits the Federal Govt to certain matters:

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- a. To negotiate with the Province of Nova Scotia to put in place co-funding arrangements under the Strait of Canso Industrial Development Subagreement, for required BHI physical plant to a max of \$27M.
- b. To entertain a BHI application to MNR for assistance with eligible project costs up to \$68M, under the Cape Breton Investment Tax Credit Programme.
- c. To entertain a BHI application to MNR for duty remission on imported machines and parts for vehicle manufacture, under the Machinery and Equipment Tariff Programme as it exists at the time of importation.
- d. To entertain a BHI application to Minister of Employment and Immigration for Govt participatory funding for employee initial training.

*2d(1)b
13(1)c*

*13(1)c
20(1)b*

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5. Based on a stated need to proceed urgently, responsibilities are presented for implementation in two phases.

6. PHASE 1. In Phase 1 the Govt of Cda:

- a. ~~represented by the ACOA Minister and the DRIE Minister, will consider assistance of up to 50% of eligible costs through Enterprise Cape Breton programmes extant when BHI becomes eligible;~~
- b. represented by MND, will consider participation of BHI in the LAV procurement programme of the 1990s, provided BHI;
 - (1) ~~develops, designs and manufactures these vehicles in its Cape Breton facility, using its entire technology range, to the op requirements of the CF,~~
 - (2) meets Govt requirements for quality, delivery and log sp,
 - (3) delivers and performs at internationally competitive prices, and
 - (4) provides acceptable regional and industrial benefits; and
- c. represented by the DRIE Minister, will consider capital establishment assistance under DIPP as it exists when BHI becomes eligible.

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B(1)C

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7. PHASE 2. In Phase 2 the Govt of Cda, represented by the ACOA Minister and the DRIE Minister, will consider BHI for assistance under regional and industrial development programmes as they exist when BHI becomes eligible.

8. As the Government of the Province of Nova Scotia is not a signatory to the UIP, it would appear that it bears considerably less, if any, responsibility for promised actions, than that borne by the Govt of Cda. Responsibilities such as: to participate in negotiations

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69 (with the Govt of Cda on co-funding through the Strait of Canso Industrial Development Subagreement, and to facilitate assistance through the Cape Breton Investment Tax Credit; are inferred rather than explicit. 13(1)C

LETTER BY MND

9. On 19 Sep 88, MND signed a letter to The Hon Lowell Murray, copied to the ACOA Minister, the Finance Minister, the DSS Minister, and the COS to the PM, on the subject of the UIP. In this letter he details certain clarifications which he considers integral to his signing of the UIP:

- a. Signing does not commit DND to carry out a LAV acquisition project.
- b. Signing does not represent abrogation of a future defence project funding commitment to Mr Wilson. 2(1)C 69
- c. Satisfaction is expressed with a low-key approach to the public announcement, and a desire is expressed that the Dept participate in creating the necessary correspondence to BHI and Thyssen.

Prepared by: LCol Crookston, DDIR 3, 87080
Date Prepared: 7 Dec 88

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