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THE SECRETARY OF DEFENSE
WASHINGTON, THE DISTRICT OF COLUMBIA

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Date:

27 JUL 1983

MEMORANDUM FOR THE PRESIDENT JUL 24 2010

SUBJECT: Outstanding Security Assistance Issues with Israel (U)

(S) This provides my comment on Secretary Schultz's letter to you on July 26, 1983 on this subject. During my discussions with Minister Arens, it became clear that Israel has a major objective of developing its industries by financing such improvements with Foreign Military Sales (FMS) credits. This not only is indicated by the specific requests addressed below; we also have received several similar overtures for FMS financing for directed procurements from Israeli industries. We can be somewhat accommodative to Israel's objective with respect to certain aspects to the F-16. However, I believe that we will encounter major problems with our own industry, and possibly with Congress, if we further acquiesce to the Israeli desire. As the General Accounting Office has noted, we already go further in using FMS credits toward meeting Israel's special financing needs than we do for any other country. Generally speaking, I believe that the financial support which we may choose to provide to improve Israeli industrial capability should come from economic assistance rather than military credits. To use military credits for this purpose surely will lead to pressure from several other countries for similar treatment.

With this as background, my recommendations on the three issues raised by Secretary Schultz are:

- Use of FMS financing for Research and Development projects in the U.S. for LAVI-related systems. I agree with the assessment that the LAVI fighter aircraft program is of great importance to Israel. It is doubtful that this program will provide an improved military capability from that which would be provided by using the same amount of funds to purchase U.S. equipment. I believe that a primary impetus behind the LAVI program is to improve the Israeli aircraft industry, both through acquisition of advanced technology and economic support. We already have agreed to provide FMS financing for the cost of LAVI related items to be produced in the U.S. This in itself has brought objections from certain elements of U.S. industry. Even though the State proposal would limit FMS financing to R&D projects in the U.S., the ultimate result will be major improvement in Israeli industrial capability. I continue to believe that we should not provide FMS

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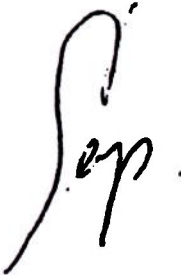
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credit to cover R&D projects for the LAVI. There are two bases for this. First, the primary result of using such funding would be to develop a Israeli capability to compete with our own industry, and it is far from clear that this is an acceptable objective for the use of FMS credits. Second, it is quite possible that these credits can be used to purchase comparable or better U.S. equipment at a lesser cost.

- Release of the AIM-9M air-to-air missile. I agree that we should ultimately release the missile, to insure Israeli superiority in the area, but at a later date. A more appropriate timeframe may be 1985 following a general NATO release. Again, my position has two bases. First, the AIM-9L currently in the Israeli inventory has demonstratively provided a clear qualitative advantage over the most likely opponents that Israel will face in the near term (e.g. Syria). Second, there is little doubt that the release of the AIM-9M missile will cause an immediate request for "equal" treatment from our Arab friends such as Egypt and Saudi Arabia. We would prefer not to deal with this now, because the missile includes such advanced technology that we prefer to avoid its general release for the foreseeable future.

- Use of FMS financing for procurement in Israel of one element of Peace Marble II (the second 75 F-16s). I agree with the use of FMS financing for the procurement of certain Israeli produced equipment for the F-16 program. This is equipment that Israel currently is producing and, providing they can submit competitive bids on this equipment, I believe use of credits for such procurements is consistent with our reciprocal procurement agreement with Israel. We have initiated the offshore procurement determination which -- provided Treasury concurs -- will set this in motion. However, I should note that we have disapproved a separate Israeli request for credit financing of nonrecurring costs which would be incurred in Israel to develop and further its capabilities for producing components of the F-16. State has supported this particular denial.



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