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ASSISTANT SECRETARY OF DEFENSE

WASHINGTON D.C. 20301



INTERNATIONAL SECURITY AFFAIRS

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Chief, Records & Declass Div, WHS
Date: JUL 24 2018

In reply refer to DEB 030 1982
I-24221/82

MEMORANDUM FOR THE SECRETARY OF DEFENSE

THROUGH: UNDER SECRETARY OF DEFENSE FOR POLICY

SUBJECT: Israeli Production of the LAVI Aircraft (U) --
INFORMATION MEMORANDUM

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BACKGROUND

(S) Pending review and due to the Lebanese situation, all approvals and decisions on Israeli requests for technical information and funding support for the LAVI have been on hold. (See Tab A for items on hold.) The Israelis are pushing for approvals.

Israel

(S) In late November, an Israeli team briefed DOD and State on the LAVI development effort. The LAVI was described as a small, single engine, day-only, clear-air-mass fighter to be used primarily as a close air support, air-to-ground weapon system with a self defense capability. They stated it would incorporate current technology in avionics, fly-by-wire flight controls, and delta wing canard configuration. A synopsis of the LAVI program, provided by the Israelis, is at Tab B.

(S) Work on the LAVI has been underway for several years.

- *(S)* In 1979, the Israelis decided to field a force of approximately 625 aircraft in the 1990s, a high/low mix with the F-15/F-16/F-18 the high end and the LAVI (300 aircraft) the low end to replace aging A-4s and Kfir aircraft.

- *(S)* In February 1980, the GOI formally advised us of its LAVI decision and requested approval to begin negotiations for coproduction of the engine. In May 1980, the Carter Administration gave general support to this development effort by approving the request to coproduce the engine. This approval was subject to limitations which Secretary Brown provided to Minister Weizman.

- *(S)* These were:

"The use of available US FMS credits will be limited to procurement in the United States for Israel's use. No FMS credits will be approved for aircraft intended for third country sales.

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"Third country sales will be subject to prior USG approval on a case-by-case basis."

(S) The primary issue at the time the policy was made on engine coproduction was the use of credit funds related to the engine; therefore, no general policy on Israeli use of FMS credit funds for further LAVI development efforts was relayed in writing to the GOI. The views of Defense and State on this subject are contained in a coordinated Defense/State memo (dated June 1980) to the NSC. The two primary guidelines advocated were:

- (S) Funding of the LAVI program will be based on the Kfir model; i.e., FMS credit funds may be used for the procurement of components/materials/services in the US only. Under this guideline, offshore procurement with US credits would not be authorized. Israel would be required to fund its own development costs, although they would be authorized to use credit funds for the purchase of defense articles from US industries during the development phase.

- (S) FMS credits will not be authorized to purchase US origin componentry for inclusion in LAVI aircraft intended for transfer to third countries.

(U) These constraints were communicated orally to GOI.

(S) In March, 1982, we authorized the use of \$181 million of FMS credit funds for the purchase of components and prototype engines. (The engine finally chosen was the Pratt and Whitney 1120.) A basic description of the aircraft is at Tab C.

(S) On May 25, 1982, MOD Sharon requested authorization to use \$100 million in FMS credits a year for the next several years in Israel on the LAVI program, without regard to limitations on the use of FMS funds.

ISRAELI RATIONALE FOR AIRCRAFT DEVELOPMENT

(S) The Israelis desire to develop this aircraft for the following reasons:

- (S) They believe an indigenous aircraft program will provide a broader industrial base and help keep operational the production line originally developed for the Kfir. Employment for 12,000, depending upon the phase of production, is projected.

- (S) An Israeli-designed aircraft can be tailored to fit its individual needs, whereas a US produced aircraft requires expensive and time-consuming modifications.

- (S) They believe the cost of developing and manufacturing this aircraft is less than the cost of purchasing a similar aircraft under FMS.

- (S) With an independent production capability, self-sufficiency in providing their own security is enhanced.

DISCUSSION

(U) There are several issues which we have addressed in summaries below:

Military Viability of LAVI (Tab D)

(S) The Israeli decision to build a day, clear weather attack aircraft is not supportable from our perception of Israel's military operational requirements in the 1990s. In our opinion, this proposed aircraft should have at least a limited day/night capability and possess a radar with improved ground and air acquisition and identification features.

(S) Other aircraft (e.g., the F16) can offer more combat capability and mission flexibility to the Israeli Air Force at less cost.

Technology Release (Tab E)

(S) Support of the LAVI aircraft would require large scale transfer of advanced US technology, much of which we have not released to other foreign governments, including NATO.

(S) Support would not enhance our technology base, benefits at best are limited and most likely nonexistent.

(S) With the technologies requested, such as composites and the programmable signal processor, the GOI could upgrade the LAVI to F-16/F-18 capabilities. This would probably be a two-step process. The GOI secures our agreement now to the LAVI; and later the GOI modifies the aircraft (before production begins) to be capable in the 1990s and beyond.

Financial Aspects (Tab F)

(U) Legally, FMS credit funds can be used to fund research and development, offshore procurements and purchase of US origin components for products provided to third countries.

(S) However, US policy on the LAVI, as previously stated to the Israelis, precludes the use of FMS credit funds for R&D, offshore procurements, and the purchase of components intended for sale to a third country. Approval in the Israeli case will open us for requests from many other countries.

(U) Use of US funds to finance the LAVI will be opposed by some US aircraft manufacturers, such as Northrop, and encouraged by others who gain through Israeli purchases.

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(U) The Israelis have used FMS credit funds, without US approval, for LAVI R&D efforts on the composite wing and vertical tail. They did so by contracting below the one million dollar threshold above which we approve each line item.

Economic Aspects (Tab G)

(S) The LAVI program will significantly help Israel's short-run employment problems, but it could hinder solution of long-run economic problems by delaying the development of viable export industries.

(S) The GOI has told us the LAVI is not intended for export. Nevertheless, we believe the GOI will press hard several years hence for third country sales.

(S) The LAVI project requires the commitment of a significant portion of GOI resources. LAVI development was estimated by the Israelis in early 1980 at \$750 million and is now estimated at \$1.4 billion. Fly-away cost is estimated at \$15-16 million (including R&D). If the LAVI is upgraded (as we believe it will be), costs will rise concomitantly. For political reasons, the GOI is portraying the LAVI as a "small, low cost" aircraft.

SUMMARY

(S) At present, the Israeli decision to produce this aircraft is based primarily on domestic, economic considerations and not on utility. From a cost standpoint, we believe that the Israeli defense resources (FMS credit funds and country funds) could be better utilized. Even with export sales, the present LAVI (or an upgraded version) will not be cost competitive with available US aircraft. However, nothing precludes the Israelis from lowering the export price.

(S) Under Secretary of the Air Force, Pete Aldridge, summarized the Department of Air Force position as follows:

"In closing, buying an aircraft apparently less capable in terms of range, payload, and avionics growth potential than the F-16 for roughly the same cost does not make military or economic sense."

(S) We are presently engaged in an effort to find markets for the FX intermediate fighter aircraft. The USG did not provide funding assistance to Northrop or General Dynamics on the FX program, and we should not provide assistance to Israel to subsidize a competing aircraft industry.

(S) We would set a precedent for other requests from countries wishing to use their FMS credits for coproduction efforts; e.g., Egypt and Turkey.

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(S) The LAVI appears to be a method of acquiring sensitive technology which Israel could not otherwise obtain.

(S) While the LAVI is supposedly an "FX" low-end of the mix fighter/attack aircraft, the Israelis are asking for technology release of the F-16, not of the FX, variety. The consensus within DOD's staffs is that the LAVI is intended to become an F-16/F-18 aircraft, which more closely addresses the US and Israeli perceived threats to be faced in the 1990s and beyond.

(S) There are several options available to us on this program:

(1) (S) We could continue with our present de facto policy of permitting the use of FMS funds for the LAVI program; but only to procure components and production equipment in the US. This is the Kfir approach. Technology releases must be closely scrutinized. Case-by-case review of proposed technology releases will provide maximum protection for advanced US design.

(2) (S) We could prohibit the further use of any FMS funds and US technology for the LAVI program. The Israelis cannot build the LAVI completely from their own resources. However, we have already authorized the use of credit funds for the purchase of engine components and indicated our general support for the program.

(3) (S) We could agree to MOD Sharon's request for \$100M FMS credits per year to be used for LAVI in Israel as well as US.

Office of the Secretary of Defense
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Attachments
a/s

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COORDINATION:

USDR&E _____
Under Secretary of the Air Force _____
Director, DSAA _____
DASD/NESA (ISA) _____