

THE SECRETARY OF STATE
WASHINGTON

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[12 Aug 81]

MEMORANDUM FOR: THE PRESIDENT
FROM: Alexander M. Haig, Jr.
Caspar W. Weinberger
SUBJECT: Five-Year Military Assistance
Planning for Egypt

ISSUES FOR DECISION

Egypt's need for additional military assistance will be a key topic during Sadat's August 5-6 visit. We therefore need your decisions now on (1) funding levels in FY 1983, (2) extension of the cashflow authorization for the program and (3) repayment terms.

BACKGROUND

Egypt is central to our vital interests in the Middle East; and Sadat is clearly the key to Egypt. To establish a personal relationship with the Egyptian leader, on which we can further develop these interests, we must demonstrate genuine concern with his priorities. Responding to Egypt's security requirements--both for self-defense and in a limited regional role--provides an opportunity to demonstrate to Sadat and to the states of the region that we respond to the needs of our friends. Sadat's needs are twofold: to modernize and replace rapidly deteriorating military equipment; and to demonstrate that the United States, in responding to those military needs, treats its full partners in the region--Egypt and Israel--even-handedly.

In April we renewed an earlier commitment to support Egypt's five-year military modernization program. Its most urgent requirements (see Tab 1) adhere quite closely to earlier, mutually agreed priorities, but are even more pressing now given the heightened regional security threats.

Sadat believes his commitment to peace and to support of our common regional security concerns is second to none. Egypt's 43 million people, with a per capita income of under \$500, expect a better life as a peace dividend. In this

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context of both shared interests and economic/military needs, Sadat has twice in recent months asked that our response to Egypt's outstanding security requirements be on a par with that which we offer to Israel; he pushed Frank Carlucci again in June for greater support. Sadat is aware of the likelihood of a \$300 million increase (to a total of \$1.7 billion) in FMS credits for Israel in FY 1983--especially if the Saudi AWACS sales is approved--and that Congress could increase the forgiveness portion as well. We do not believe Sadat expects absolute equality in military assistance; but if we are to do more for Israel, he will clearly expect a more forthcoming response to Egypt's even greater needs.

Our FY 1982 economic support request for Egypt is already greater than that for Israel: \$1063 million (\$313 million in PL-480, \$750 million in ESF), versus \$785 million (ESF alone) for Israel. Thus, our overall response to Egypt's needs is not that much less than that we offer to Israel. We have stressed to Sadat this aggregate assistance; but given anticipated FMS increases for Israel, the disparity will grow. If we are to maintain his support and our own credibility, we are going to have to respond to Egypt's politico-military requirements.

ISSUES

FY 1983 Funding Level

There are two issues:

-- whether to make a commitment now on FY 1983 FMS levels outside the normal Administration budget process; and

-- at what level.

We believe it essential that you tell Sadat your decision on the FY 1983 level even though it may distort the orderly prioritization of our limited security assistance funds. (See further discussion at Tab 2.)

We propose an FY 1983 level of \$1.3 billion. Militarily this will be a substantial move towards meeting Egypt's most critical priorities and enhancing its defensive and regional security capabilities. (See Tab 3 for description of support possible at this level.) While the Egyptians will not be entirely satisfied, we believe that they will see such a program as a genuine effort to be responsive.

Politically, the increase of \$400 million over the FY 1982 level will serve as evidence that we recognize Egypt's military requirements just as we do Israel's and will bring our overall assistance for both countries to near parity. This would be a political gesture of great significance to Sadat.

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There are, of course, other possible levels but they are either inadequate or could cause major problems for us here at home. (See Tab 4 for a discussion of alternative levels and their shortcomings.)

Cashflow Funding

The ceiling imposed by President Carter on Egypt's cashflow funding--the special authorization to defer out-year obligations to the year in which they fall due--has already been reached. Unless it is modified, Egypt's modernization program will be severely constrained; even substantial increases in FMS levels will permit only minimal new orders. The solution we propose is to provide Egypt with a continuing cashflow authorization, with payments due in a given out-year limited to the same level as the most recent Administration budget request. (See fuller explanation at Tab 5).

Cashflow does involve an implicit obligation to maintain a substantial military assistance program over an extended period, but straight-lining is already inherent in our agreement to undertake five-year planning with Egypt.

Terms of Funding

Sadat attaches great importance to improving the terms of our FMS funding. His concerns are political and economic, with Egypt finding the burdens of prevailing high interest rates increasingly onerous. Although reluctant to enter into another forgiveness program, we are determined to ease the overall costs to Egypt. To date, however, Congressional reaction to the alternative of concessional loans has been negative. A mix of grant and guaranteed credits for the Egyptian program (at least \$500 million grant) may be all that Congress will approve.

We recognize the substantial budget impact of the course we propose. But we believe that assistance for key countries like Egypt, as with our own defense needs, requires increased funding even while cuts are being made elsewhere.

Congressional and Israeli Concerns

Congressional support for Egypt and recognition of the importance of Egypt's role to US interests remains strong. We believe that Congress will accept our assessment that the proposed program for Egypt will not alter adversely the military balance in the region and that Egypt, confident in its own security, is in the best position to contribute to peace in

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the region. There will be Congressional concerns about the costs, but we believe the merits of the case and your personal involvement will carry the day. We will take preliminary soundings on the Hill on the basis of your decisions prior to Sadat's arrival.

Israel will raise objections, but we believe the reaction will be muted. It too has a stake in enhancing Sadat's position. Moreover, time continues to reinforce the reality of peace between the two nations.

RECOMMENDATIONS:

1. That, while not seeking a multi-year appropriation from Congress, we inform Sadat that the FY 1983 Administration proposal to Congress will be \$1.3 billion and that we enter into joint five-year planning anticipating that as an annual level.

Approve _____ Disapprove _____

Alternatively:

-- \$1.5 billion _____

-- \$900 million _____

2. That the "cashflow" approach be authorized with out-year commitments limited to the most recent proposal to the Congress.

Approve _____ Disapprove _____

3. That, on the assumption that Congress will not agree to direct credits, the FMS program for Egypt should consist of a mix of guaranteed credits and grant (forgiveness or MAP), keeping in mind Israeli levels.

Approve _____ Disapprove _____

Attachments:

Tab 1 - Egyptian Priorities
Tab 2 - Decisions Outside Budget Cycle
Tab 3 - Impact of \$1.3 billion Level
Tab 4 - Alternative Levels
Tab 5 - Cashflow Formula

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