



Department of State

ACTION MEMORANDUM
S/S

TAB H

#68

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TO : The Secretary
THRU : T - James L. Buckley
FROM : NEA - Nicholas A. Veliotis
PM - Jonathan T. Howe
SUBJECT: King Hassan's Working Visit to Washington and U.S. Assistance to Morocco

ISSUE FOR DECISION

Whether to be responsive to Moroccan expectations for increased assistance in connection with King Hassan's working visit to Washington May 19.

ESSENTIAL FACTORS

King Hassan has high expectations for his upcoming visit to Washington and his meeting with the President on May 19. He has said that he hopes that the stream of high-level U.S. visits to Morocco will result in greatly increased U.S. aid. He told you that he regards Mitterrand's France as an unreliable partner, and he has said that he wants to broaden and deepen his security ties with us particularly because he has confidence in this Administration. He has told us in principle that he is in favor of granting en route access to the RDJTF for Southwest Asian contingencies. We expect the subject to come up during his visit here.

There are dangers involved for the King in making this policy shift; he must thread his way carefully to avoid overly offending the French, arousing domestic criticism from socialists and Moslem fundamentalists, and provoking condemnation by Africa's non-aligned as well as other Arab states. We want to be prepared to discuss financial support with the King as a part of a dialogue showing that we value his friendship and his commitment to draw closer to the West. All bureaus favor assistance. We believe it can be presented to the Moroccans in such a manner as to enhance the chances of success of the en route talks.

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Office of the Secretary of Defense JUSC 5532
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ANALYSIS OF OPTIONS

Assistance is important in light of the fact that Morocco is suffering its worst economic crisis since independence. Our options for further assistance are limited, however, by budget constraints and Congressional considerations. The following options range from continuation of efforts to achieve the level of the FY 83 request to forgiveness of existing loans and business proposals which are nearly impossible to achieve under present U.S. budget conditions:

A. Seek to Achieve and Maintain FY 83 Levels.

For FY 83 we have requested:

- \$100 million FMS (half concessional)
- \$13.5 million Development Assistance
- \$10.5 million PL 480 Title II
- \$1.6 million IMET
- \$25 million PL 480 Title I

The FMS level represents a significant upward shift from previous years in recognition of Morocco's enhanced importance to the United States. This \$150 million total represents a \$70 million increase over FY 82, nearly a doubling of assistance levels, in the first full Reagan Administration budget. The \$25 million PL 480 Title I is related to the current drought, and therefore is not sustainable unless incorporated into a development strategy such as that in Option B. Past FMS levels have ranged from \$25 million to \$45 million annually. It is unlikely, however, that the Congress will accept the full \$100 million FMS for FY 83. Consequently the actual FY 83 level may well be somewhere in the \$50 - \$70 million range, with only a small proportion being concessional.

All bureaus believe that we should try to do better than continuing this level in recognition of the developing relationship with King Hassan's Morocco.

B. Moderate Assistance Increase.

Within the constraints of the current budget problems, we have developed a series of proposals which WEA, PM, EB and AID support as the kind of package we could begin to discuss with Hassan and his delegation, although without commitment on our part. This package would include:

1. U.S.-Moroccan cooperation on a five year \$200 million AID cereals production strategy.

The purpose is to reduce the country's extreme dependence on cereals imports by alleviating constraints to domestic production. By combining Development Assistance and PL 480 Title I and II, as much as \$200 million over the next five years (FY 83-88) could be made available representing a substantial increase over current levels. This would require a GOM commitment to such a strategy, including some policy changes.

2. Provide a PL 480 Title II drought relief assistance program of \$3 million. The Interagency Committee has agreed to consider such a program for FY 82 to help Morocco feed its rural population. Morocco's on-farm reserves are exhausted due to last year's catastrophic drought.

3. Increase IMET further in FY 84 to perhaps \$2 million which represents an increase over the \$1.1 million in FY 82 and \$1.6 million in FY 83. This would provide training for more Moroccan military officers in the U.S.

4. In response to King Hassan's proposal to you during your visit to Marrakech in February, help establish a military hospital on the American model. We could develop a proposal involving training of Moroccan medical personnel and medical administrators through possible increases in IMET funds. The first step in this process would be to send a representative from the DOD's Office of the Assistant Secretary for Health Affairs to determine the true requirements. In addition, we can provide a number of training programs through IMET and FMS. Post-graduate training for Moroccan military physicians could also be provided under DOD auspices.

This moderate increase would enable us to speak to the King in terms of an assistance program for the next five year period of \$700 - \$750 million--that is \$100 million annually in FMS, the \$200 million agricultural program and the additional drought relief, IMET, and medical programs.

C. Start an ESF Program

Embassy Rabat has proposed beginning an ESF program for Morocco in FY 84. The Embassy has suggested a level of \$50 million annually. Most agencies believe that level of ESF

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would be most difficult to accomplish in the foreseeable future. Ambassador Reed strongly urges that this level be established. With a \$50 million ESF level for five years, we would be talking about a combination of development assistance, military sales, and economic support of roughly a billion dollars.

Alternatively, a more achievable objective would be to add \$10 - \$20 million annually in ESF to augment the aid development program. This would enable us to think in terms of a grand total of \$800 - \$850 million over a five year period. All bureaus except NEA support this level of increase. AID does not believe there is developmental justification for ESF. NEA supports the Embassy's recommendation for a \$50 million ESF program. Whatever level we choose, it would have to be cast in terms of our overall economic development strategy in Morocco.

D. Assistance with Past Debts

In order to provide quick substantial resources to the government of Morocco, Ambassador Reed recommends a series of efforts to ease the debt service burden on the government of Morocco. PM and EB oppose this due to lack of available resources, the harmful precedent that would be set in dealing with other FMS recipients, as well as the massive opposition these steps would provoke from Treasury, OMB, and the Congress. The ideas include:

1. A two year moratorium on Morocco's FMS repayments which total about \$50 million annually. This would require Congressional legislation, would be inconsistent with USG debt policy, and would be strongly opposed.

2. Convert past FMS loans amounting to about \$164 million to non-interest loans. Treasury would pay the Moroccan balance due the FPB, and the GOM in turn would pay Defense \$164 million over the next ten years, interest-free. OMB, backed by Treasury, would strongly resist such a move, and it would also require Congressional approval.

3. Forgive Morocco's FMS loan balance of \$164 million. Not only would this be resisted in the Administration but it would require new legislation.

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CONCLUSION

It will be virtually impossible to come up with any quick fix money either in FY 82 or FY 83 for Morocco. However, since the King is talking about a new long term relationship with the United States, it may be desirable for him to begin to talk in terms of an expanded longer-term relationship, rather than a quick fix. We believe that the King needs to feel that we are committed to a continuing substantial relationship. We believe that the combination of options B and C above provide that reassurance. We do not believe, however that it will fully meet the King's expectations. It is the most we see possible in the present budget environment, and we expect it will enable us to manage the visit successfully.

RECOMMENDATIONS

A. That no additional aid be discussed for Morocco (opposed by NEA, PM, DOD and AID).

Approve _____ Disapprove _____

B. Seek interagency approval of moderate assistance increase including (DOD, PM, NEA, EB, and AID support):

-- A \$200 million AID cereals production program.

-- PL 480 Title II drought relief for FY 82.

-- Increased INET for FY 84.

-- Pursue the hospital program for support of a military hospital in Morocco.

Approve _____ Disapprove _____

C. Start an ESF program for Morocco in FY 84:

-- At a level of \$10 - \$20 million per year in connection with the AID agricultural program (PM and EB support).

Approve _____ Disapprove _____

-- At the initial level of \$50 million dollars per year (NEA supports).

Approve _____ Disapprove _____

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D. Provide assistance to Morocco for past debts (Embassy Rabat supports).

- A moratorium on FMS repayments
- Convert past loans to non-interest loans.
- Forgive past FMS loan balances,

Approve _____ Disapprove _____

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