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Office of the Secretary of Defense
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THE SECRETARY OF STATE
WASHINGTON

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July 31, 1981

MEMORANDUM TO: THE PRESIDENT

FROM: Alexander N. Haig

SUBJECT: Your Meeting with Egyptian President Sadat

I. SETTING

Amr Sadat, with the Egypt he leads, is key to many of our Administration's goals in the Middle East/Southwest Asia. He made peace with Israel, and his courage and determination have helped sustain both pillars of our regional strategy. He will welcome renewed U.S. world leadership, having long urged greater awareness of Soviet threats. Since he took Egypt out of the Soviet camp, he has become one of our closest and most reliable partners.

Sadat is politically secure, but Egypt is distressingly poor and faces a troubled economic future. He will seek evidence of our sensitivity to his other concerns, including the peace process as well as the Libyan threat. He will also seek a renewed pledge of economic and military assistance, not as a quid pro quo, but as a demonstration of continuing partnership.

Sadat is a proud and sensitive man, with a warm, dramatic personality. Personal relations are of great significance to him, and the atmosphere of closeness and trust you develop together will strongly affect development of our shared interests.

II. OBJECTIVES

- To convey a clear sense of U.S. purpose and leadership globally, including our regional security strategy.
- To discuss the key role of Egypt in our regional strategy.
- To exchange views on restoring momentum to the peace process.
- To reiterate support for Egypt's economic and military needs, including increased military assistance.
- To express the conviction that Egypt, like your Administration, must begin the painful process of economic reform.

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III. ISSUES

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1. Global Policy and Regional Strategy

Sadat has a global perspective. Your broad foreign policy objectives and determination to resume our world leadership role will interest him, as will your domestic measures to facilitate a more active posture abroad.

Sadat's principal interest, however, will be our regional strategy. He will probably point out how recent Israeli actions--aside from damaging him politically--have benefited the Soviets and other radical forces. He will explain his deep concerns over the threats by Soviet surrogates. He proposed ambitious plans for dealing with Libya about which we had reservations, but we should demonstrate our willingness to develop a viable joint strategy. You should outline steps taken and planned to project US power into the region and to back our friends in their own efforts to resist Soviet-supported threats: a stronger full-time Indian Ocean presence; improved strategic mobility and more prepositioning of equipment; access arrangements and facility upgrading in the area and subute; and increased security assistance for regional friends.

2. Egypt's Role in Regional Security Issues

Sadat has provided major, essential support for a stronger U.S. regional security posture: use of facilities in the Iranian crisis; two major U.S. military exercises; promises of access by U.S. forces in future crises. He has been very forthcoming despite significant domestic sensitivity to appearances of foreign domination and to a foreign military presence.

You will want to stress the value we attach to his cooperation, and express understanding of the political constraints that rule out U.S. bases and restrict use of the Sinai airfields to peacekeeping purposes. Our mutual objectives can be met without creating problems for Sadat in these areas. You should, however, note the importance of Suez Canal transits by nuclear powered warships.

3. The Peace Process

Sadat is acutely aware of the importance of the peace process to our entire regional strategy and to his domestic and inter-Arab standing. He will be looking for at least some progress on the Palestinian issue and for our awareness of the opportunities it provides for the Soviets.

The Israeli attack on Iraq greatly embarrassed Sadat and weakened him politically, but he immediately reiterated his commitment to peace. Similarly, Sadat is clearly concerned

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by the adverse impact of Israeli attacks in Lebanon on the peace process. He will probably seek our thoughts, stemming from the Habib mission, on how to limit the damage in the near term, but he will also look to the future focusing on the autonomy negotiations. I am sending you a separate memorandum on the recommended focus of the discussion of these issues.

4. Continued US Economic and Military Support

Despite recent positive balance of payments indicators, Egypt has monumental development and military modernization problems. Continued major US economic assistance is imperative both for its political significance and because it helps develop a base for sustained growth. You should assure Sadat that our FY 83 economic assistance program will remain at the \$1 billion annual level of the last six years; he would not understand a reduction nor could he explain it to his people.

We must increase our military assistance. The timing outside the budget process is awkward, but it is critical to inform Sadat of the new levels, the authorization of cashflow financing, and our commitment to seek appropriate concessional terms. This should alleviate preoccupation over parity with military assistance to Israel by demonstrating awareness of Egypt's needs and determination to meet them realistically. Sadat will be appreciative of a positive response, and grateful to you for taking the initiative, relieving him of a supplicant's role.

5. Egypt's Need to Pursue Economic Reforms

Outside observers and responsible Egyptian officials agree an effort must begin soon to institute politically difficult economic reforms--e. g., capping and subsequently reducing subsidies for energy and food and liberalizing prices--to take advantage of presently favorable balance of payments conditions. The effectiveness of our aid program similarly depends upon such actions. Failure to act will have serious consequences for Sadat and his successors and for our broader interests in the region. We must ensure he is aware of our continued high-level concern.

We have discussed this subject with Sadat and his senior officials, who understand but are concerned about political risks. Your position is unique: having acted to turn our own economy around, you can talk frankly about the importance of beginning now to build a constituency favoring economic reforms to ensure Egypt's future economic security, while acknowledging his need to tailor reforms to domestic realities. You should tell him you have asked senior Administration officials to follow up the discussion.