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THE UNDER SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

POLICY

8 December 1979

MEMO FOR SECDEF

We may be running too fast on Egyptian bases/access; the risk is that we may queer longer term prospects in pursuit of short-term gains of questionable value vis-a-vis Iran.

As recent events suggest, Sadat's expansive offers should be taken with a grain of salt. I reported Atherton's comment to Saunders that Mubarak was much more negative than his boss. Nor do we want to weaken Sadat by exposing him to more violent Arab abuse and maybe dissent at home, unless the stakes are commensurate.

Lastly, while it would be worth the candle to build Egypt as our main ME base (shades of the British Empire), are we prepared to pay the very high cost? Lucy Benson reports from her recent trip on "the high level of expectations on the part of the Egyptians for US involvement...." (attached is worth reading). Sadat would and could face down the rest of the Arabs--and domestic dissent, only if we handsomely subsidized him economically as well as militarily. And Egypt's economy is a bottomless pit.

Hence I strongly endorse Dave McGiffert's reluctance to go press Mubarak until he has some trade goods in hand. Bob Murray shares our reservations, especially since we just turned Egypt down on PL480, are still debating on defense production help, and haven't decided military aid. We have to put our money where our mouth is.

RWK

R. W. Komer

Atchmt
UnderSec Benson's
Report

cc: CJCS - ~~hand carried~~
ASD/ISA
Bob Murray

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UNDER SECRETARY OF STATE
FOR SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY
WASHINGTON

~~CONFIDENTIAL~~

December 5, 1979

MEMORANDUM FOR THE SECRETARY

FROM: T - Lucy Wilson Benson (LWB)

SUBJECT: Visit to Egypt

In addition to President Sadat, I held meetings with Defense Minister Ali, Minister for Foreign Affairs Dr. Boutros Ghali, Minister of Electric Power and Energy Mr. Sabry and Director of Science and Technology Institute Dr. Ismail. I also paid extended visits to Defense Production plants and the Aswan power generation complex.

There was one general and pervasive message I could not avoid receiving: the high level of expectations on the part of the Egyptians for U.S. involvement, primarily assistance, in their country's development, security, and progress. Not only is this level very high, but President Sadat put us on notice that after the Iranian situation has been resolved, he would seek even greater U.S. assistance and presence in the area.

There are several expectations:

1) The original list of military equipment desired by GOE was costed at \$18-22 billion. A pared-down version, which has become the working document, is valued at \$8 billion, but that is their bottom line and it was clear in discussion with both Defense Minister and General Gamal that they want much more.

2) We have a list of 34 defense production projects on which GOE wishes financial and technical assistance. Some of the projects are co-production schemes which require exemption to PD-13. All of them

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are considered priorities and the Egyptians have worked out a careful time schedule, aimed at maximizing the capabilities of their various defense factories.

3) The Minister of Electricity on two separate occasions expressed his government's desire to contract with an American firm for construction of a nuclear power plant. The key to a successful American bid is Export-Import Bank financing.

4) The Egyptian scientific community is interested in maintaining the considerable cooperative relationships that have existed between it and the U.S. The sources of funding (excess local currency) these projects is drying up. After 1981, all U.S. agencies will have to support projects with appropriated dollars.

Undoubtedly there are also examples of expectations in other areas of U.S. activities. Can we meet these Egyptian expectations? Do we want to? At what price? The dilemma in security assistance is illustrated by their rock bottom requirement of \$8 billion for weapons systems and related procurements and our present thinking of a five-year program of FMS credits of a maximum \$3.5 billion. Can it be doubled? (OMB wants \$2.2 billion.) What are the long-run consequences of Egypt incurring such large debts with us as well as with other suppliers (we are not Egypt's only military supplier)? What are the costs to friendship and to U.S. security of a holding-back attitude on our part?

As for the defense industry projects, I think we can be helpful over a period of time. It would have been a smoother road to date if DOD had shared its discussions, findings and conclusions with State (even better, if we could have sent out joint Defense-State teams with high-level State representation). I think we can recover from this bureaucratic "snafu" but in the process we will leave several Egyptians scratching their heads in some confusion and desperation over discovering that the "decisions" they and DOD had made on

defense industry projects were not yet actual decisions and that not only DOD, but also the Secretary of State, the President and Congress would have to be involved.

On the nuclear side, the problem on financing will not be as difficult as just obtaining NRC approval to participate in the project. Today, that situation appears almost hopeless. As for the S&T projects, will we be forced to reduce our activities in Egypt, perhaps in half?

There is no question that President Sadat hopes to enter into a new and closer relationship with us after the resolution of the Iran crisis. Muddling along from year to year as we do in most places will hardly meet his expectations. Nor will the level of resources that we can currently foresee. We should address this dilemma urgently and decide how we can best respond to Sadat over the longer run. If one of the pillars of our former Gulf policy, which used to be in Tehran, is to become an obelisk, we must be prepared to pay a price similar to what we are now paying in Israel. If that price is too high, then we should look for alternatives.

Finally, from Roy, as well as from an assortment of Egyptians, I received a very distinct message, sometimes expressed very directly, that the slowness of the peace process is undermining Sadat's position and strengthening the conviction of the Arabs that the U.S. will never bring enough pressure on Begin and the Israelis in general to bring about any progress. The handing over of the Sinai to Egypt does not count as progress since that was strictly an Israel-Egyptian matter. What counts is progress on Jerusalem, Palestine self-determination, and boundaries. Until there is progress on these issues which have meaning for all Arabs, the U.S. will continue to be suspect and Sadat seen as a victim of U.S. inability and unwillingness to deal fairly and evenhandedly.

There were also very strongly expressed beliefs that, were there to be progress, there would follow a great lessening of Arab anti-U.S. violence.

cc: P - Mr. Newsom
NEA - Mr. Saunders
NSC - Dr. Brzezinski
S/P - Mr. Lake
Ambassador Atherton
DOD - General Graves
Mr. McGiffert

Drafted:T:Tstern:dls/sl
12/04/79