

0521

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MEMORANDUM FOR: THE PRESIDENT

FROM: JAMES V. LYNN and HENRY A. KISSINGER

SUBJECT: Budget Appeal on Foreign Aid

The State Department is appealing your decisions on: (1) the Middle East; (2) FMS credits to Latin America; and (3) military assistance to the Philippines. OMB recommends that you reconfirm your earlier decisions.

(1) Middle East (Program in \$ millions)

	1976	1977			
		Original Request	OMB Recom.	Presidential Decision	State Appeal
Israel	2,240	2,240	700	1,600	2,000
(FMS)	(1,500)	(1,500)	(400)	(1,000)	(1,350)
(Economic)	(740)	(740)	(300)	(600)	(650)
Jordan	253	253	180	210	250
(MAP)	(100)	(100)	(50)	(75)	(75)
(FMS)	(75)	(75)	(80)	(70)	(100)
(Economic)	(78)	(78)	(50)	(65)	(75)
Egypt	750	750	400	550	650
(Economic)					
Syria	90	90	60	70	75
(Economic)					
Total ^{a/}	<u>3,333</u>	<u>3,333</u>	<u>1,340</u>	<u>2,430</u>	<u>2,975</u>

a/ Excludes P.L. 480

The basic issue concerns the level of assistance to Israel. We understand that your primary concern is to avoid creating the expectation of continued aid at the very high 1976 levels, while at the same time avoiding the appearance of a punitive reduction in aid levels to Israel. The assistance levels to the other countries are largely based on the perceived balance with Israeli aid.

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E.O. 12958 Sec. 3.3

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MR 92-69, #21; NSC LHM 3/4/98

By let NARA, Date 4/13/98

Arguments for the State Appeal

- The \$700 million reduction in total aid to Israel from the 1976 level of \$2.3 billion would be interpreted by the Israelis as punitive.
- It would also be viewed by Israel as further evidence of lack of U.S. support at a time when we are not supporting them on other issues (e.g., PLO participation in UN debates).
- The State appeal program of \$2.0 billion, a \$400 million increase over your earlier decision, is judged to be the minimum necessary to substantially ease these Israeli concerns and continue the flow of military equipment perceived as essential by the Israelis.
- The State proposed increase in aid to the Arab countries is primarily required to balance the increase for Israel.
- The \$1.35 billion in military financing is needed to assure financing for military imports at the full MATMON level in both 1976 and 1977.

Arguments for Maintaining Your Initial Decision

- The \$1.6 billion level should provide adequate psychological assurance of U.S. support in view of the high level of military imports, without encouraging Israeli intransigence.
- The \$1.6 billion aid level for Israel meets essential economic import needs and provides for high levels of military imports (full MATMON in 1976 and 1/3 MATMON in 1977), whereas the \$2.0 billion level would more than cover full MATMON in both years.
- Military imports even approaching the MATMON B levels for 1976-1980 will be highly destabilizing and are likely to force an escalation of the Arab military buildup. (The draft NSSM 231 study indicates that the MATMON B level of Israeli military purchases should be rejected and the level held to the minimum needed for essentially political purposes since Israel's defense capabilities are fully adequate through 1980 without any new orders from the U.S.)
- Increases in aid to the other countries are programmatically unjustified and would merely increase excessive Syrian foreign exchange reserves and add to the large pipeline in the Egyptian aid program and further encourage the Egyptian refusal to follow IMF and U.S. Government recommendations for essential economic reform.

- Finally, the State appeal would raise the "base" from which future aid levels will be calculated and would increase 1977 outlays by about \$200 million.

(2) Latin America FMS Credit Levels

(Program in \$ millions)

	1976	1977			State Appeal
		Original Request	OMB Recom.	Presidential Decision	
FMS Credits	180	238	180	185	238

State recommends reconsideration of your decision to request \$185 million in 1977. Principal increases within the \$238 million regional program would be in Brazil (up from \$60 million in 1976 to \$90 million), Argentina (up from \$34 million in 1976 to \$50 million), and Chile (up from nothing in 1976 to \$20 million). These and some smaller increases for Bolivia and Colombia would be partially offset by dropping Venezuela, Mexico, and the Bahamas.

Arguments for the State Appeal

- The increase for Brazil is necessary to preserve our position as the primary source of military equipment for Brazil's forces.
- The Argentine program must be increased to accommodate Argentina's force modernization plans and maintain our overall relations with a country where the military is taking increasing responsibility for government.
- The \$6 million increase for Bolivia is needed to offset the phaseout of grant MAP.

Arguments for Your Earlier Decision

- The \$185 million already provides a small increase over the 1976 request, and is substantially above the \$134 million the region was able to utilize in 1975.
- The \$185 million level is adequate to cover desired increases for Bolivia and Colombia, allow up to \$20 million for Chile, and permit funding Brazil and Argentina at the 1975-76 levels.
- Secretary Simon opposes increases for Argentina as a poor credit risk.
- Congress is likely to delete funds for Chile for human rights reasons and may question a 50% increase for Brazil on similar grounds.

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(3) Philippines

(Program in \$ millions)

	1976	1977			
		Original Request	OMB Recom.	Presidential Decision	State Appeal
Grant MAP	19.6	20	15	15	20
FMS Credits	17.4	20	25	25	20
	37.0	40	40	40	40

Arguments for the State Appeal

- We are about to enter negotiations with the Philippines on the status of our military bases and on the entire range of our bilateral economic relations. A reduction in our MAP level would probably toughen Philippine positions on both these issues.
- It is Ambassador Sullivan's judgment that if our MAP level falls much below \$20 million, the Philippines will demand rent for continued use of the bases.
- You already approved a MAP level of \$19.6 million for Indonesia in FY 1977. We should not have a lower MAP figure for the Philippines, which permits us to have bases on its soil, than for Indonesia. The Philippines is highly sensitive to such comparisons.

Arguments for Your Earlier Decision

- The MAP phasedown for the Philippines is part of a gradual worldwide substitution of FMS credits for grant MAP.
- The Philippines may request large increases in aid as part of the base negotiations, and the going-in position should not be increased above the minimum necessary.

Decisions

1. Israel

- Accept State appeal (\$2 billion) _____
- Reconfirm original decision (\$1.6 billion)
(OMB recommendation) _____

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2. Jordan

- Accept State appeal (\$250 million) _____
- Reconfirm original decision (\$210 million)
(OMB recommendation) _____

3. Egypt

- Accept State appeal (\$550 million) _____
- Reconfirm original decision (\$550 million)
(OMB recommendation) _____

4. Syria

- Accept State appeal (\$75 million) _____
- Reconfirm original decision (\$70 million)
(OMB recommendation) _____

5. Latin America FMS

- Accept State appeal (\$238 million) _____
- Reconfirm original decision (\$185 million)
(OMB recommendation) _____

6. Philippines

- Accept State appeal (\$20 million MAP, \$20 million
FMS) _____
- Reconfirm original decision (\$15 million MAP, \$25
million FMS) (OMB recommendation) _____

CC: Official File - DO Records
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IAD:EGSanders/HJShaw:neh 12/11/75