The original documents are located in Box 9, folder "FY 1977 - 11/22/75, Security Assistance, Development Assistance, State Department, Ex-Im Bank (1)" of the White House Special Files Unit Files at the Gerald R. Ford Presidential Library.

MEETING ON FY 1977 BUDGET
(AID, State Department, Export-Import Bank)

Saturday, November 22, 1975

THE PRESIDENT HAS SEEN....

9:30 A.M.

1977 PRESIDENTIAL REVIEW
Security/Development Assistance,
State, Ex-Im Bank

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

THE PRESIDENT HAS SEEN...

MEETING ON FY-1977 BUDGET
Saturday, November 22, 1975
9:30 to 11:00 a.m. (90 minutes)
The Oval Office

From: James T. Lynn

I. PURPOSE

To make decisions on issues raised by the FY-77 budget for Security Assistance, Development Assistance, the State Department, and the Export-Import Bank.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: The FY-77 budget submissions of the State Department, the Agency for International Development, and the Export-Import Bank have been reviewed by the Office of Management and Budget and members of the White House staff. This meeting will focus on issues raised in these budget submissions that require Presidential consideration and determination.

B. Participants: James T. Lynn, Paul O'Neill, Brent Scowcroft, Don Ogilvie, and Dale McOmber.

C. Press Plan: None

D. The attached material is classified and should be treated accordingly.

III. TALKING POINTS

A. Don Ogilvie, what is the first issue we should discuss today?

Security Assistance

[11/22/75]

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1977 Presidential Review
International Security Assistance
Table of Contents

Issue	Effect of issue on program (dollar in millions) 1977 MAP	1977 FMS	1977 SA	1978 MAP	1978 FMS	1978 SA
Middle East						
1.a. Israel	--	-1100	-440	--	-1100	-440
b. Jordan	-50	+5	-28	-50	+5	-28
c. Egypt	--	--	-350	--	--	-350
d. Syria	--	--	-30	--	--	-30
Europe						
2.a. Turkey and Greece	-17	+17	--	-51	+51	--
b. Portugal	--	--	-15	--	--	-10
Asia						
3.a. Indonesia and the Philippines	-15	-5	--	-39	+17	--
b. Malaysia	--	-21	--	--	+5	--
Africa						
4.a. Ethiopia	--	-5	--	-2	--	--
b. Zaire	--	-9	--	--	-17	--
5. Latin America	-5	-58	--	-4	-93	--
6. MAP General Costs	-30	--	--	-22	--	--

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TAB A

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1977 Budget
International Security Assistance
Summary Data
($ in millions)

	Budget Authority	Outlays
1975 actual	6859	1888
1976 February budget	6148	4172
enacted	---	---
supplementals recommended	(51)	(17)
agency request and OMB recommendation	8091	2807
TQ February budget	1560	892
enacted	---	---
OMB recommendation	528	271
1977 planning target	---	---
reduction target	---	---
agency request	7414	2571
OMB recommendation	5713	1543
1978 OMB estimate	5595	1239

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International Security Assistance
1977 Budget
Overview

As was true a year ago, the security assistance programs, particularly the grant military assistance program, continue a precarious existence in the absence of authorizing legislation and appropriations and in the face of growing congressional disenchantment. Congress is currently reviewing the Administration's Middle East package, but will probably not complete action on the 1976 request before the 1977 budget must be wrapped up.

MAP Phasedown

The question of whether the grant military assistance program (MAP) should be phased down and eventually eliminated or carried on at traditional levels is more urgent than ever. Last year, as a compromise in the face of Senate pressures to set an arbitrary date for terminating grant MAP, the House agreed to an amendment to the Foreign Assistance Act (Section 17) expressing the sense of the Congress that the program, except for military training, be reduced and terminated as rapidly as feasible consistent with the security and foreign policy requirements of the United States. Section 17 also directs the President to submit to this session of the Congress "a detailed plan for the reduction and eventual elimination of the present military assistance program."

The Congress is now likely to take steps to phase out MAP regardless of the Administration's response to Section 17. The House International Relations Committee is now considering its draft bill that would terminate grant MAP and eliminate military assistance advisory groups (MAAG's) worldwide after fiscal 1977, except where specifically authorized by law. During Secretary Kissinger's recent appearance before the committee, Chairman Morgan stated his view that "MAP has had its day and should be phased out." He also expressed concern about Administration proposals to resume MAP for countries where the program had previously been cut off--Greece and Turkey. Senator Humphrey has also proposed a bill that would phase out grant military aid and MAAG's after 1977 as well as greatly enlarge congressional controls over all arms exports.

The Administration's position on phasing out MAP is not clear. State takes the position that grant MAP is an essential instrument of foreign policy and that the Administration should oppose any arbitrary termination date for all country programs. Under Secretary Maw, in forwarding State's security assistance request for fiscal 1977 and 1978, expresses the department's intention "to reduce and eliminate country programs as rapidly as possible", but, nevertheless, projects only an 11% reduction from the 1976 request and does not propose the elimination of a single country program over the two years. Secretary Kissinger, however, told Chairman Morgan during the recent foreign aid hearing that the Administration would continue its present process of reducing the grant programs as the situation permitted.

OMB believes the State position to be unnecessarily rigid and likely to be counterproductive. In the absence of some movement by the Administration in the direction of a phaseout, Congress is almost certain to impose arbitrary funding cuts, limits on the number of countries, and reduction or elimination of MAAGs. A phaseout by congressional fiat is far more likely to be harmful to our foreign relations and to inhibit Executive flexibility--a primary concern of Secretary Kissinger's--than an Administration plan would be.

In the absence of State recommendations showing the kind of phasedown implied by Secretary Kissinger and necessary to avoid leaving the field to the Congress, OMB recommends in the issue papers that follow a MAP reduction of approximately 50% over the 1977 and 1978 period. The OMB recommended program is compared below with the 1975 actual program (less Indochina), the 1976 request, and State's request in dollar terms and by number of countries.

	1975	1976 Amended	1977		1978	
	Actual	Budget	State req.	OMB rec.	State req.	OMB rec.
MAP funding ($ in millions)	285 1/	438	417	319	388	220
Number of Countries	17	19	19	10	19	10

1/ Excludes training funded separately from MAP in the 1976-78 estimates.

You should be aware that your decisions on the country issues will determine the character of the report to this session of the Congress required by Section 17.

- Approval of State's recommendations in their entirety would imply that the Administration does not intend to significantly reduce grant programs and would make it likely that a Section 17 report consistent with the budget request could, at best, offer only lip service to the concept of a phasedown.

- Approval of OMB's recommendations in their entirety would imply a serious Administration intention to reduce grant levels and the number of recipients. The OMB approach would permit transmittal of a Section 17 report responsive to congressional sentiment but without any commitment to either a complete phaseout or to giving up the option of requesting additional grant MAP if future circumstances dictated.

Spain

On the basis of base negotiations to date, you approved State's recommended five-year security assistance levels for Spain. However, because the negotiations have not been completed and because State wishes to submit the final agreement to the Congress for approval, the 1976 increment has been withheld from the recent budget revision for later submission as a supplemental. On the assumption that the negotiations will be completed before submission of the 1977 budget, we have included the Spain program in the 1977-78 MAP and SA totals. If this assumption proves unwarranted, these amounts can later be subtracted and included in a budget amendment when the negotiations are final.

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GRANT MILITARY ASSISTANCE (MAP) AND FOREIGN MILITARY CREDIT SALES (FMS)
($ in millions)

	1975 Actual MAP	1975 Actual FMS	1976 Amended Budget MAP	1976 Amended Budget FMS	1977 State MAP	1977 State FMS	1977 OMB MAP	1977 OMB FMS	1978 State MAP	1978 State FMS	1978 OMB MAP	1978 OMB FMS
EA												
China	2.2	80.0	.9	80.0	.4	35.0	.4	35.0	---	35.0	---	35.0
Indonesia	13.1	5.0	19.4	23.1	20.0	25.0	10.0	15.0	30.0	12.5	5.0	20.0
Korea	81.2	59.0	74.0	126.0	47.3	150.0	47.3	150.0	17.6	179.0	17.6	150.0
Malaysia	---	4.7	---	15.0	---	36.0	---	15.0	---	10.0	---	15.0
Philippines	20.5	14.0	19.6	17.4	20.0	20.0	15.0	25.0	23.9	19.8	10.0	30.0
Thailand	28.3	8.0	28.3	36.7	20.0	30.0	20.0	30.0	15.0	25.0	15.0	25.0
EUR												
Greece	---	86.0	50.0	110.0	40.0	120.0	33.0	127.0	40.0	90.0	17.0	113.0
Portugal	.1	---	.3	---	.3	---	.3	---	.3	---	.3	---
Spain	1.0	---	15.2	120.0	15.2	120.0	15.0	120.0	15.0	120.0	15.0	120.0
Turkey	15.7	75.0	75.0	130.0	60.0	140.0	50.0	150.0	53.0	145.0	25.0	173.0
NEA												
Israel	---	300.0	---	1500.0	---	1500.0	---	400.0	---	1500.0	---	400.0
Jordan	68.8	30.0	100.0	75.0	100.0	75.0	50.0	80.0	100.0	75.0	50.0	80.0
Lebanon	---	---	---	5.0	---	5.0	---	5.0	---	5.0	---	5.0
Morocco	---	14.0	---	30.0	---	30.0	---	30.0	---	30.0	---	30.0
Tunisia	1.8	5.0	.2	15.0	.2	15.0	---	15.0	---	15.0	---	15.0
Yemen	---	---	1.5	---	---	---	---	---	---	---	---	---
AF												
Ethiopia	11.7	25.0	11.7	10.0	10.0	15.0	10.0	10.0	9.7	10.0	8.0	10.0
Kenya	---	5.0	---	2.0	---	5.0	---	5.0	---	5.0	---	2.0
Liberia	---	1.8	---	.5	---	.5	---	.5	---	.5	---	.5
Zaire	---	3.5	---	19.0	---	28.0	---	19.0	---	36.0	---	19.0
LA	6.7	134.3	4.6	180.0	4.5	238.0	---	180.0	3.5	273.0	---	180.0
General Cost	33.6	---	37.1	---	79.5	---	67.8	---	79.5	---	57.1	---
Total Program	584.1*	850.3	437.8	2494.7	417.4	2587.5	318.8	1411.5	387.5	2585.8	220.0	1422.5
- Financing	-34.1	-550.3	-28.3	-1417.7	-27.4	1462.5	-18.8	-1031.5	-17.5	-1460.8	-15.0	-1037.5
Total BA	550.0	300.0	409.5	1077.0	390.0	1125.0	300.0	380.0	360.0	1125.0	205.0	385.0
- Spain			-15.0	-12.0								
BA Request	---	---	394.5	1065.0	---	---	---	---	---	---	---	---
+506 Drawdown			+323.9	---								
Appropriation	550.0	300.0	718.4	1065.0	390.0	1125.0	300.0	380.0	360.0	1125.0	205.0	385.0

*Includes $270.7 million for Indochina and $28.7 million for training.

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FOREIGN MILITA[illegible]INING
($ in mil[illegible])

	1975	1976 Budget, As Amended	1977 Request	1977 OMB rec.	1978 Request	1978 OMB rec.
EA						
China	.4	.5	.5	.5	.5	.5
Indonesia	2.8	2.0	3.0	3.0	3.0	3.0
Korea	1.4	2.5	2.7	2.7	2.0	2.0
Malaysia	.3	.3	.3	.3	.3	.3
Philippines	.5	.6	.6	.6	.6	.6
Thailand	1.8	1.7	1.5	1.5	1.6	1.6
Regional	.4	.4	---	---	---	---
EUR						
Austria	*	*	*	*	*	*
Finland	*	*	*	*	*	*
Greece	---	.8	1.0	1.0	.8	.8
Portugal	.3	1.0	1.0	1.0	.5	.5
Spain	1.6	.7	.7	.7	.7	.7
Turkey	.5	1.8	2.0	2.0	2.0	2.0
Regional	*	---	---	---	---	---
NEA						
Afghanistan	.2	.2	.2	.2	.2	.2
India	.1	.2	.2	.2	.2	.2
Jordan	1.0	.8	.8	.8	.8	.8
Lebanon	.1	.2	.3	.3	.3	.3
Morocco	.9	.8	.9	.9	.9	.9
Nepal	*	*	*	*	*	*
Pakistan	.3	.4	.3	.3	.3	.3
Sri Lanka	---	*	*	*	*	*
Tunisia	.4	.4	.4	.4	.4	.4
Yemen	---	.5	---	---	---	---
Regional	.1	---	---	---	---	---
AF						
Ethiopia	.8	.9	.9	.9	.8	.8
Ghana	.1	.1	.1	.1	.1	.1
Kenya	*	1.0	1.0	.2	.2	.2
Liberia	.1	.1	.1	.1	.1	.1
Senegal	*	*	*	*	*	*
Zaire	.3	.4	2.5	.4	2.5	.4
Regional	*	---	---	---	---	---
LA	9.5	11.4	10.3	10.3	10.8	10.8
General Costs	.2	.2	.2	.2	.2	.2
Total Program (BA)	28.7**	30.0	31.7	28.8	30.0	27.9

* Less than $50,000.
** Includes $3.2 million for Cambodia and $1.3 million for Laos.

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SECURITY SUPPORTING ASSISTANCE
AND
MIDDLE EAST SPECIAL REQUIREMENTS FUND
($ in millions)

	1975 Actual	1976 Request	1977 Agency req.	1977 OMB rec.	1978 Agency req.	1978 OMB rec.
Supporting Assistance						
Bahrain	---	.6	.4	.4	---	---
Cyprus	(25.0) 1/	25.0	10.0	10.0	10.0	10.0
Egypt	250.1	750.0	750.0	400.0	750.0	400.0
Greece	0	65.0	---	---	---	---
Israel	324.5	740.0	740.0	300.0	740.0	300.0
Jordan	77.5	77.5	78.0	50.0	78.0	50.0
Malta	9.5	9.5	9.5	9.5	9.5	9.5
Portugal	(15.0) 2/	55.0	55.0	40.0	50.0	40.0
Spain	3.0	9.0 3/	9.0	9.0	9.0	9.0
Syria	--- 4/	90.0	90.0	60.0	90.0	60.0
Zaire	---	22.8	---	---	---	---
UNFICYP	9.6	9.6	9.6	9.6	5.0	5.0
Other	.4	---	---	---	---	---
Operating Expenses	2.2	22.5	19.5	19.5	24.0	24.0
Total Program	676.8	1876.6	1771.0	908.0	1765.5	907.5
Less Bridge	16.8	9.3	5.1	5.1	5.1	5.1
Unobligated Carry-in	.7	4.2	---	---	---	---
Recoveries	16.1	5.1	5.1	5.1	5.1	5.1
Total BA	660.0	1867.3	1765.9	902.9	1760.4	902.4
Less Spain (not yet requested)	---	9.0	---	---	---	---
Net BA	660.0	1858.3	1765.9	902.9	1760.4	902.4
Special Requirements Fund						
Jordan	10.0	---				
Syria	83.0	---				
U.S. Sinai Support Mission	---	20.0				
Grants to West Bank	1.0	2.0				
Egyptian Early Warning System	---	13.0				
UNRWA and Other	6.0	15.0				
Total BA and Program	100.0	50.0	35.0	35.0	35.0	35.0

1/ Famine and Disaster Relief Funds (non-add).
2/ Portugal portion of Section 496 availabilities (non-add).
3/ Not included in C.P.
4/ $83 million included in Special Requirements Fund.

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TAB B

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1977 Budget
International Security Assistance
Summary of Recommended Program Reductions
($ in millions)

	1976	TQ	1977		1978
	O	O	BA	O	O
Current base	2807	136	7414	2571	2859
Recommended level	2807	136	5713	1543	1239
Reduction	0	0	1701	1028	1620
Program reductions:					
Military assistance					
1. Grant MAP, tighten country eligibility	0	0	90	25	85
2. FMS Credit, reduce direct financing	0	0	745	735	851
3. Training, tighten country eligibility	0	0	3	1	2
Economic Assistance					
1. Supporting Assistance, reduce program levels	0	0	863	267	682
Total reductions	0	0	1701	1028	1620

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TAB C

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OVERVIEW
Middle East

The question of aid to the Middle Eastern countries -- Israel, Egypt, Jordan and Syria -- is the most important foreign aid budget issue, both because of the overriding foreign policy importance of the area and because of the magnitude of the funds involved. Analysis of the issue is complicated by uncertainties about future developments in the area itself and by the unknowns of future U.S. policies. Nevertheless, 1977 budget decisions must be made and can have major implications for future U.S. involvement in the area.

For 1977 the State Department has merely requested Middle East assistance at the same level as 1976, nearly $3.6 billion. No detailed justification has been provided in support of the request and the request was presented as an area total rather than by country. It is not clear whether and to what extent the straight-lined 1977 request has been influenced by:

- an expressed or implied long-term aid commitment to one or more of the countries in the context of the recent Sinai interim agreement;

- the negotiating strategy for the next round of settlement negotiations, and,

- tactical considerations to obtain congressional support for this year's Middle East program.

The State request is probably intended to be merely a "neutral signal" until the negotiating process clarifies. This was essentially the same approach adopted for the 1976 budget, because of the uncertainties at the time, but last year's figure was only one-third of the 1977 request. The magnitude of the 1977 request creates serious budget pressures. Outlays based on the requested levels would total $1377 million compared to $424 million based on the OMB recommendations. More important, however, are the longer-term budgetary and programmatic implications of continuing assistance at the level requested since it would signal a constant aid level in the $3-4 billion range for at least the next several years.

The magnitude of total aid to the Middle East from all donors, including the Arab oil exporters and Soviet Union, is staggering. It will total more than $7 billion to four relatively small economies whose combined GNP is about $22 billion. By any of the normal criteria for foreign aid, total Middle East assistance is excessive:

- assistance to the two smaller Arab countries, Syria and Jordan, will exceed their absorptive capacity for real resources, leading to a further buildup in foreign exchange reserves from levels already in excess of the most generous international standards;

- aid to Israel is financing a level of military preparedness well above that judged necessary by the U.S. based on a realistic assessment of its security requirements, and

- aid to Egypt will provide external resources equal to 40 percent of Egypt's GNP, building a dependence on longer-term foreign aid at perhaps an unsustainable level.

Under these circumstances, it is questionable whether a marginal change in assistance from any foreign power including the U.S. will have a significant economic or political impact on any recipient. In addition OMB believes that automatic continuation of the 1976 assistance program in 1977 may lock the United States into an unnecessarily high "base" level of Middle East aid with little real diplomatic benefit.

Fully recognizing the special circumstances requiring large scale aid to the Middle East in 1976, the issue papers recommend substantial reductions from the request levels. They begin with Israel's security needs and recommend a reduction of about two-thirds from this year's aid level of over $2.3 billion. The OMB recommendation represents a sharp cut from the 1976 levels, but there is no programmatic rationale for continuation at those levels. Reductions of smaller magnitudes are proposed for the Arab countries, again largely on programmatic grounds.

International Security Assistance
1977 Budget
Issue #1a: Israel

Statement of Issue

What should be the levels of FMS credit and supporting assistance in 1977 and 1978?

	1975 Actual	1976 Budget	1977 Alt. #1 State req.	1977 Alt. #2	1977 Alt. #3 OMB rec.	1978 Alt. #1 State req.	1978 Alt. #2	1978 Alt. #3 OMB rec.
	(Program in $ millions)							
FMS Credit	300	1500	1500	1000 ~~500~~	400	1500	500	400
(Grant Component)	(100)	(750)	(750)	(500) 0	0	(750)	0	0
Supporting Assistance	325	740	740	600 600	300	740	600	300
Subtotal	625	2240	2240	1100	700	2240	1100	700
P.L. 480	9	15	15	9 0	0	13	0	0
Housing Guarantees	25	25	25	20 0	0	25	0	0
Other Aid	60	20	--	--	--	--	--	--
Total	719	2300	2280	1629 1100	700	2278	1100	700

I. Background

U.S. assistance levels to Israel have increased substantially since the October 1973 war. In 1974 the total jumped from $708 million in 1974 to $2.55 billion because of a $2.2 billion emergency appropriation that not only replaced battle losses but also financed a substantial Israeli military buildup beyond pre-war levels. Following a decrease to $625 million in 1975, you recently requested $2.24 billion in FMS credits and supporting assistance in 1976. The NSSM 231 study of Israeli current and long-term military requests is under review. Alternatives and recommendations will be submitted to you for decision prior to Prime Minister Rabin's upcoming visit, although at least your initial budget decisions will be required prior to final

NSSM 231 review. Rabin is likely to press for a long-term commitment on both military supply and financial assistance. There is general interdepartmental agreement that the U.S. should not provide multi-year assurances given the fluidity of the situation in the Middle East, the importance of retaining our leverage, and political sensitivity to specific future commitments without public review.

II. Determinants of Overall Aid Levels

Israeli financing requirements are determined by both military and civilian import levels. Military supply decisions should be based on the U.S. perception of relative force balance in the Middle East and controlled directly by FMS sales and license decisions. The overall financing level is largely a separate decision and should be based primarily on the level of additional civilian consumption we wish to support over and above military imports. The form of financing--FMS credits or economic assistance--is not important since the effect of both is to provide foreign exchange relief to permit higher civilian imports (assuming that military imports are constrained by U.S. sales decisions).

III. Military Supply

A. Israeli Requests

MATMON B projects Israeli future military needs at very high levels to combat a worst threat situation. The Israeli plan is to continue to rely on overwhelming military strength for its security, totally discounting the prospects of peace or an overall settlement. The plan itself, however, may contribute to bringing about the very dangers it was designed to forestall by forcing the Arabs into a large offsetting arms buildup. The MATMON B plan would require an incremental average annual expenditure of $3 billion for 10 years and $1.5 billion thereafter over the pre-October 1973 war baseline defense budget.

B. NSSM 231 Analysis of Israeli Request

- Israel retains the near-term capability of defeating any combination of Arab states.

- Israeli military capabilities, the regional arms balance, and the projected threat do not support Israel's need for the force levels and increased capabilities projected in MATMON B.

- Completion of U.S. deliveries already approved and scheduled, plus production in Israel, will satisfy requirements for major weapons systems considered fully adequate to satisfy Israeli needs in 1980. Since October 1973, Israel has ordered $3.4 billion in materiel, of which $2.2 billion will be delivered during the next two years or so; the FY 1976 request is in addition to these previous orders.

- The U.S. should not agree to a multi-year program of either military supply or financial aid. The U.S. should agree to an annual joint review to assess Israeli equipment needs based on an analysis of the political, military, and economic situation at that time. Implicitly we would indicate that a commitment to fulfilling MATMON B per se on a multi-year basis is out of the question.

IV. Israeli Economic Situation

Prior to the October war, U.S. and other foreign assistance made it possible for Israel to pay for the military imports it deemed necessary and at the same time to achieve high growth, 6-9 percent, in civilian consumption. This is evident in the doubling of civilian imports between 1972 and 1974.

The impact of the October 1973 war on the already overheated Israeli civilian economy created a runaway situation in which uncontrolled civilian imports began to exceed levels that even generous foreign aid could finance. In 1973, for the first time in many years, Israel had to dip into reserves in addition to borrowing commercially and seeking more foreign aid. Dependence on foreign sources of financing also doubled between 1972 and 1974. External debts increased rapidly until they reached $5.6 billion in 1975, with an annual servicing requirement of $750-800 million.

To bring its economy under control, slow the growth of external debt, and demonstrate its willingness to make post war civilian sacrifices, the Israeli government has instituted a series of austerity measures. Estimates for 1975 indicate that GNP will grow at 2 percent, private consumption will decline 1 percent, and inflation will drop from 36 percent to 15-20 percent. The Israeli government has announced that it plans to continue austerity and export promotion measures into 1976. For now they have estimated civilian import requirements of $6.1 billion for 1976, which would provide only a small real increase over the 1975 level. The aid levels under consideration would permit further increases in civilian imports to $6.4-6.9 billion.

If U.S. economic assistance in 1977 does not finance a level of imports that the Government of Israel regards as politically acceptable, foreign exchange reserves can be drawn down further. Official reserves now stand at $1.3 billion, and the Government of Israel could tap a number of other sources of short and long-term borrowing.

V. Alternatives

#1. Provide $2.24 billion -- $1.5 billion in FMS credit (forgiving repayment on $750 million) and $740 million in supporting assistance (State request).

#2. Provide $1.1 billion -- $500 million in FMS credit (no forgiveness) and $600 million in supporting assistance.

#3. Provide $700 million -- $400 million in FMS credit (no forgiveness) and $300 million in supporting assistance (OMB recommendation).

Analysis

Alternative #1 (State request) would continue the 1976 aid levels in 1977 and 1978 presumably on the grounds that these are politically necessary levels. There is no analytical justification for this request. The 1977 FMS request of $1.5 billion is far in excess of the amount needed in 1977 to fund the entire first two increments of MATMON B and payments due on all past military purchases ($950 million). $550 million would be carried over into 1978, in effect, a hidden increase in Israeli foreign exchange reserves. The $740 million in supporting assistance would finance an estimated $6.9 billion in civilian imports, thereby permitting a 5 percent increase in per capita civilian consumption. It is doubtful that the Arab states would view these levels, including provision of the entire Israeli military request, as politically neutral.

Alternative #2 -- $500 million in FMS credit and $600 million in supporting assistance would be sufficient to finance (1) the 1977 costs of one-half of the first two increments of MATMON B plus all payments coming due on past orders, and (2) a 3 percent increase in per capita civilian consumption.

Alternative #3 (OMB recommendation) -- $400 million in FMS credit and $300 million in supporting assistance would finance one-third of the first two MATMON B increments and all payments due on past orders. The NSSM 231 options to be presented to you are not likely to permit immediate translation into a precise 1977 funding requirement. The OMB recommendation, to cover one-third of the 1976 and 1977 MATMON request, however, is more generous than the NSSM 231 analysis indicates is required. Alternative #3 would also provide for civilian imports of $6.4 billion, necessitating only a slight decline in real per capita consumption.

OMB recognizes that a request of $700 million in military and supporting assistance will not meet Israeli expectations. Nonetheless, the $700 million level appears more than adequate to meet minimum programmatic needs. OMB believes that the $2.3 billion 1976 request should not become a new "plateau" but rather should be viewed as more analogous to the special one-time 1974 emergency package of $2.2 billion. To the extent that higher levels of aid are considered, they should be viewed primarily as additional quid pro quo for progress toward a negotiated settlement. OMB is not in a good position to judge the appropriate amount of such quid, if any, necessary to meet negotiating objectives beyond the existing Sinai agreement.

Furthermore, the OMB alternative would provide the full Israeli military program through credit guarantees at close to market interest rates, rather than providing a portion on a grant basis as in 1974 and 1976 at Administration request and at congressional initiative in 1975. An alternative to providing higher levels of FMS credits would, therefore, be to soften the terms by waiving repayment on some portion of the program. This approach would avoid the appearance of endorsing an unwarranted Israeli military buildup that is likely to be associated with higher military aid levels. Providing aid on a grant basis through this means would increase outlays over the OMB options, but could be justified on economic and political grounds.

FMS Credit Funding of Commercial Military Sales

Continue

Heretofore, the U.S. has financed purely commercial as well as U.S. government FMS sales to Israel. Commercial sales, consisting primarily of spare parts for the existing Israeli inventory, are estimated to be $200-250 million annually in 1977 and 1978. OMB recommends that the U.S. terminate such financing beginning in 1977 so that FMS credits can be more closely related to decisions on major item sales by the government. OMB believes that spare parts should not be financed with long-term credits. Currently Israel is the only country for which FMS financing for spare parts is generally available.

DOD agrees with OMB on the general desirability of not financing spare parts with FMS credits, but would emphasize that Israel is a unique case since we have been financing spares for a number of years. Reversal of past policy at this time would raise other issues and be another complicating factor in negotiations with the Israelis.

If you decide to continue credit financing of these sales, approximately $200 million should be added to the proposed FMS credit levels in options #2 and #3. However, because OMB included the $200 million in calculating the supporting assistance levels in these options, the $200 million FMS credit increase should be offset by a similar reduction in the supporting assistance levels. Reduction of supporting assistance much below $300 million, however, may be unacceptable in view of our promise to take into account Israel's additional oil import needs.

Israeli Balance of Payments
Attachment #1

		1975	1976	1977 Alt. #1	1977 Alt. #2	1977 Alt. #3
a.	Financing Requirement Imports:	7.6	8.6	8.8	8.3	7.9
	civilian	(5.6)	(6.1)	(6.9)	(6.7)	(6.4)
	direct military	(1.4)	(1.8)	(1.2)	(.9)	(.8)
	indirect military	(.6)	(.7)	(.7)	(.7)	(.7)
	Exports:	(-)4.0	(-)4.7	(-)5.0	(-)5.0	(-)5.0
	Trade Deficit:	3.6	3.9	3.8	3.3	2.9
	External Debt Maturities:	.6	.7	.9	.9	.9
	Total	4.2	4.6	4.7	4.2	3.8
b.	Other Sources of Finance:					
	Unilateral transfers	1.1	1.1	1.1	1.1	1.1
	Foreign investment	.1	.1	.2	.2	.2
	Bond borrowing	.3	.4	.4	.4	.4
	Long and medium term loans	.6	.7	.7	.7	.7
	Total	2.1	2.3	2.4	2.4	2.4
c.	Financing Gap	2.1	2.3	2.3	1.8	1.4
d.	U.S. Financing					
	Emergency Aid (carry over)	.9	.6	--	--	--
	Military Aid (new)	.3	1.5	1.5	.5	.4
	(carry over)	.1	--	.3	.4	.4
	Economic aid (new)	.4	.8	.8	.6	.3
	(carry over)	--	--	.3	.3	.3
	Total program	.7	2.3	2.3	1.1	.7
	Total available	1.7	2.9	2.9	1.8	1.4
	Differential (d-c)	-.5	+.6-.7	+.6	0	0

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INTERNATIONAL SECURITY ASSISTANCE
1977 Budget
Issue #1b: Jordan

Statement of Issue

What should be the levels of grant MAP, FMS credit, and supporting assistance in 1977 and 1978?

	1975 Actual	1976 Budget	1977 Alt. #1 State req.		1977 Alt. #2 OMB rec.	1978 Alt. #1 State req.	1978 Alt. #2 OMB rec.
			($ millions)				
Grant MAP	68.8	100.0	100.0	70	50.0	100.0	50.0
FMS Credit	30.0	75.0	75.0	75	80.0	75.0	80.0
Supporting Assistance	77.5	77.5	77.5	65	50.0	77.5	50.0
Total	176.3	252.5	252.5	210	180.0	252.5	180.0

Background

Assistance to Jordan is intended to keep Hussein in power so that Israel does not face a radical Arab regime across its longest border. The U.S. became the primary source of external assistance in 1970 when most of the Arab subsidies terminated following the King's expulsion of the Fedayeen from the country. The Arab subsidies, however, were renewed and substantially increased in 1974. Jordan now receives $250 million annually in economic and military aid from its fellow Arabs. Jordan also received $61 million in one shot military aid from Iran and Arab states in 1975. In addition, Saudi Arabia has agreed to repay the $30 million in FMS credit extended in 1975 and to finance the sale to Jordan of 14 Hawk batteries and Vulcan and Redeye surface-to-air missiles worth $350 million.

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Alternatives

#1. Straight-line the 1976 levels--$100 million in MAP, $75 million in FMS credit and $77.5 million in supporting assistance--in 1977 and 1978 (State request).

#2. Reduce MAP to $50 million in 1977 and 1978; increase FMS credit to $80 million in both years; reduce supporting assistance to $50 million (OMB recommendation).

Analysis

Alternative #1 (State) would continue the extraordinarily high 1976 levels on grounds that reduced levels might be misinterpreted as reflecting a decline in our support for Jordan and its present regime. State argues that continued U.S. support for Jordan, particularly military assistance, is the only way to ensure the loyalty of the armed forces to Hussein and preserve stability in the area.

Alternative #2 (OMB) would cut total U.S. aid back to the 1975 level by substantially reducing the grant MAP and supporting assistance levels and slightly increasing the FMS credit level. OMB agrees that maintaining Hussein in power is vital to the ongoing search for peace in the area, but questions the importance of U.S. resources to that end. The U.S. cannot compete financially with the Arab states for Hussein's loyalty. The key to the loyalty of the armed forces is the availability of modern weapons systems, whether U.S., Jordanian, or Saudi financed. U.S. arms sales to date, when delivered, will strain Jordanian absorptive capacities.

With regard to supporting assistance, the Jordanian economy is expanding, with a 7% growth rate. Reserve holdings are near $500 million or about one year's import requirements, and Jordan's balance of payments surplus for 1975 is projected at $80 million. Thus the Jordanian's are simply adding our economic assistance to their already adequate foreign reserves.

Agency Request: Alternative #1.

OMB Recommendation: Alternative #2.

International Security Assistance
1977 Budget
Issue #1c: Egypt

Statement of Issue

What should be the Egyptian aid level for 1977?

	1975 Actual	1976 Budget	1977 Alt. #1 State/AID req. ($ millions)	1977 Alt. #2 ✓	1977 Alt. #3 OMB rec.
Supporting Assistance	250	750	750	550	400
(Commodity Support)	(150)	(250)	(250)	(250)	(250)
(Projects)	(100)	(500)	(500)	(300)	(150)
P.L. 480	73	150	150	150	100
TOTAL	323	900	900	700	500

Background

Recent Egyptian cooperation in signing the second stage Sinai disengagement agreement marked an important step toward an overall Middle East peace settlement. By signing the agreement, however, Egyptian President Sadat became vulnerable to charges that he is fragmenting Arab unity. Sadat is thus moving on several fronts to consolidate his domestic support in order to preserve the progress already made. A key element in Sadat's effort will be improving the Egyptian standard of living, which has declined due to years of zero growth in Egypt's $9-billion GNP economy. Sadat has begun to revitalize the economy by:

- trippling imported consumer goods and industrial inputs between 1973 and 1975 on a buy now, pay later basis raising imports to nearly 50% of GNP in 1975; and

- calling for economic reform, reductions in bureaucratic red tape and encouragement of foreign investment.

Even generous Arab aid of about $2.1 billion this year has been insufficient to pay the import bills. Thus Sadat is looking to the United States as a major new source of foreign exchange support. The recently announced U.S. aid package for Egypt, $900 million in supporting assistance and P.L. 480, would appear to ease most of Sadat' immediate difficulties. However, he is likely to attempt further large increases in imports in the future which are probably not feasible. Continued high U.S. aid levels in 1977 would encourage this and further increase Egypt's dependence on foreign aid for the foreseeable future.

Alternatives

#1. Continue 1976 supporting assistance and P.L. 480 levels totaling $900 million in 1977 (Agency req.).

#2. Provide $700 million in 1977, cutting back supporting assistance.

#3. Provide $500 million by cutting both supporting assistance and P.L. 480 to indicate continued but not open-ended economic support for Egypt (OMB rec.).

Analysis

By providing a 1976 aid package equal to 10% of Egypt's GNP, the United States is becoming deeply involved in the Egyptian economy. Yet, little is known about the present state of that economy because statistics are unreliable and contradictory. Based on the data available, OMB has attempted to make some rough estimates about Egypt's future balance of payments situation and investment requirements.

Import Financing Requirements. OMB believes that an estimated 5 percent GNP growth resulting from 9 percent annual growth in imports in 1976 and 1977 may strain Egypt's capacity to absorb new investment, but uses this assumption in projecting imports of $6.3 billion in 1977. Such a level would permit additional increases in Egyptian consumption levels already vastly improved since the October war and would provide the necessary physical inputs for economic growth.

An illustrative OMB analysis (see attached table) indicates that a $500-million total U.S. program in 1977, with a commodity import component of $250 million, may be all that is needed to meet Egypt's financing gap in 1977, assuming continued Arab aid and increased Egyptian earnings from tourism, oil production, foreign investment, and the Suez Canal. The new U.S. aid, when added to disbursements from the U.S. pipeline, should provide about $700 million in import financing in 1977, leaving Egypt with a manageable $100 million in short-term borrowing.

Capacity to Absorb Investment. Egypt's unwieldy bureaucracy, crowded port facilities, and lack of an economic development plan place real limits on its capacity to absorb new investments. This is evidenced by the fact that 1975 AID funds are dispersing at an extremely slow rate. Many of the proposed 1976 projects have not been carefully prepared. Most of the $500 million worth of 1976 projects will be slowed in implementation by Egyptian red tape despite Sadat's promise to expedite matters. A second $500-million development program in 1977 will compound problems leading to a large pipeline of unspent aid or inefficient use of funds. Reducing project aid to $150 million for 1977 should reduce the growth of the backlog of projects and should allow AID to more carefully formulate a long-range development plan for Egypt.

Diplomatic Considerations. Sadat, of course, wants the highest possible aid level for 1977, but economic growth should not suffer much at the lower aid levels, because the difference is likely to be in the form of slow-spending project aid. The low option should maintain the economic conditions necessary to fulfill Sadat's basic political requirement. Finally, the lower aid level would be more consistent with the sharply reduced levels for Israel under the OMB option.

Agency Request: Alternative #1. A $900-million program in 1977.

OMB Recommendation: Alternative #3. A $500-million program.

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Egyptian Balance of Payments Projections
($ Billions)

	1973 Actual	1974 Actual	1975 Est.	1976 Proj.	1977 Proj.
Requirements:					
Imports:	1.6	3.1	4.9	5.6	6.3
Hard Currency	(1.0)	(2.5)	(3.9)	(4.6)	(5.3)
Barter	(.6)	(.6)	(1.0)	(1.0)	(1.0)
Service Payments:	.4	.5	.6	.4	.5
Soviet Debt:	-	.1	.1	.4	.4
Capital Repayments:	.4	.6	.6	.6	.6
Total:	2.4	4.3	6.2	7.0	7.8
Financing:					
Exports:	1.3	1.5	1.3	1.4	1.6
Hard Currency	(.3)	(.6)	(.5)	(.5)	(.6)
Barter	(1.0)	(.9)	(.8)	(.9)	(1.0)
Service receipts (tourism):	.4	.7	.7	.7	.9
Suez Earnings:	-	-	.1	.3	.4
Oil Earnings:	-	-	-	.5	.8
Other Donors:					
Arab	.6	1.2	2.1	2.1	2.1
EEC/Japan	-	-	.3	.3	.3
International Organizations	-	-	.3	.3	.3
Soviet/China/E. Europe	-	-	.1	.1	.1
Foreign private investment	-	.2	.2	.3	.4
Short term borrowing	.1	.5	.6	.4	.1
Private import funding	-	.1	.1	.1	.1
U.S. assistance: Outlays	-	.1	.2	.5	.7
(Program level)	-	(.1)	(.3)	(.9)	(.5)
Total:	2.4	4.3	6.0	7.0	7.8

Attachment I

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Issue Paper
International Security Assistance
1977 Budget
Issue #1d: Syria

Statement of Issue

What should be the U.S. aid level for Syria?

	1975 Actual	1976 Budget	1977 Alt. #1 State/AID req.		1977 Alt. #2 OMB rec.
Special Requirements Fund	83	-	-		-
Supporting Assistance	-	90	90	70	60
P.L. 480	7	20	21	10	-
	90	110	111		60

Background

State believes that continued high levels of U.S. grant economic assistance are required to improve U.S./Syrian relations and facilitate cooperation toward an overall Middle East settlement.

Alternatives

#1. Continue the 1976 aid level in 1977 (State/AID request).
#2. Reduce the 1977 State/AID request for supporting assistance by $30 million and provide no P.L. 480, a cut comparable to recommended reductions for Egypt (OMB recommendation).

Analysis

Syria's 1975 balance of payments surplus is projected at $600 million due to oil exports of $575 million, Arab economic aid of $730 million and substantial Soviet military aid. Foreign exchange reserves have swelled to a projected $1.4 billion and available funds greatly exceed Syria's capacity to absorb new investment.

Under these conditions, OMB believes that Syria will judge U.S. intentions by our positions on critical issues such as PLO representation in future peace negotiations rather than on an aid level which has minimal impact on the Syrian economy.

Agency Request: Alternative #1. $90 million for supporting assistance and $21 million for P.L. 480.

OMB Recommendation: Alternative #2. $60 million for supporting assistance and no P.L. 480.

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Issue Paper
International Security Assistance
1977 Budget
Issue #2a: Military Assistance to Turkey and Greece

Statement of Issue

What should be the levels of grant MAP and FMS credit to Greece and Turkey in 1977 and 1978?

	1975	1976 Budget	1977 Alt. #1 State req.	1977 Alt. #2 OMB rec.	1978 Alt. #1 State req.	1978 Alt. #2 OMB rec.
			($ in millions)			
Turkey						
Grant MAP	16.3	75.0	60.0	50.0	53.0	25.0
FMS Credit	75.0	130.0	140.0	150.0	145.0	173.0
Total	91.3	205.0	200.0	200.0	198.0	198.0
Greece						
Grant MAP	---	50.0	40.0	33.0	40.0	17.0
FMS Credit	86.0	110.0	120.0	127.0	90.0	113.0
Supporting Assistance	---	65.0	---	---	---	---
Total	86.0	225.0	160.0	160.0	130.0	130.0

Background

Prior to the Cyprus conflict in 1974, the Greeks received no grant MAP and the Turks were aware that a shift from grants to credits would take place over an unspecified number of years. In October, Congress modified the ban on aid to Turkey to permit the delivery of items in the commercial and FMS pipelines and allow new commercial sales. FMS cash and credit sales, but no grants, may be resumed following enactment of the 1976 foreign assistance authorization and appropriations legislation. Congress is unlikely to permit a resumption of grant aid until there is demonstrable progress toward a Cyprus settlement. You recently decided to renew grant MAP for Greece, conditional on removal of the congressional ban on MAP to Turkey. The Turks have indicated in the negotiations on a new Defense Cooperation Agreement that one of their negotiating objectives is an assured level of military support from the U.S. Both Greece and Turkey, but particularly the Greeks, who are militarily inferior, now view the other as the primary threat.

Alternatives

#1. Turkey: Approve a reduction in MAP to $60.0 million in 1977 and $53.0 million in 1978 with roughly offsetting increasing in FMS credits.

Greece: Reduce MAP to $40.0 million in 1977 and increase FMS $20.0 million to $120.0 million; in 1978 hold MAP at $40.0 million and reduce FMS to $90.0 million.

#2. Phase down MAP for both countries approximately one-third from the 1976 request level in each year with offsetting credit increases to keep total MAP and FMS at the levels requested by State.

Analysis

Alternative #1 (State request) would reduce the 1976 MAP level for Greece by $10 million in 1977 and for Turkey by $15 million. State believes that MAP is important to (1) reassure both countries that the U.S. places a high value on our security relationship with them, and (2) to increase our leverage in attaining a Cyprus settlement. State also argues that we "owe" the Turks some MAP because of the shortfall resulting from the embargo, and that a rapid decline in MAP may hasten Turkish attempts to seek quid pro quo arrangements for our facilities.

Alternative #2 (OMB recommendation) would rapidly phasedown MAP to both countries with corresponding increases in FMS credit. OMB believes that U.S. leverage in facilitating a Cyprus agreement, an issue of vital national interest to both Greece and Turkey, is unlikely to be affected by a shift from grants to credits. The Turks have already stated that they will seek an assured level of support, i.e., a quid arrangement, in the current negotiations. Even if the U.S. must eventually agree to a quid, it should be primarily in the form of FMS credit.

Agency Request: Alternative #1.

OMB Recommendation: Alternative #2.

International Security Assistance
1977 Budget
Issue #2b: Portugal

Statement of Issue

What should be the 1977 U.S. aid level for Portugal?

	1975 Actual	1976 Budget	1977 Alt. #1 State/AID req.	1977 Alt. #2 OMB rec.
Supporting Assistance:	15	55	55	40
(Project Loans)	(15)	(20)		
(Grant Refugee Assistance)		(35)		
P.L. 480 Title I	--	15	30	--
Housing Guarantees	(20)	(20)	(20)	--
Disaster Relief	--	8	--	--
TOTAL	15	78	85	40

Background

Since the overthrow of the Salazar-Caetano regime on April 25, 1974, Portugal has had six governments. The current moderate Azevedo/Antunes government, which replaced a communist oriented regime, has both U.S. and EEC support. Its political future is in grave doubt, in part because of Portugal's recent economic slump:

- an estimated 350,000 Angolan refugees have added to Portugal's 10 percent unemployment and political turbulence;

- communist inspired workers have demanded and received major wage increases despite a projected 6 to 10 percent decline in GNP; and

- the balance of payments deficit for 1975 is projected at a record $900 million.

The Portuguese government is meeting the economic crisis by: 1) providing an estimated $200 million in emergency care for the refugees; 2) declaring an austerity program; and, 3) drawing down foreign exchange reserves while negotiating medium and long term loans.

The EEC responded as soon as the moderates took over by pledging $187 million in emergency investment projects and promising further aid ($400 to $850 million has been mentioned). Bilateral European aid is also expected. The U.S. has responded to date with a $78 million aid program intended to show U.S. support for the Azevedo/Antunes government and provide quick disbursing funds to help ease the economic and political impact of returning refugees.

Alternatives

#1. Continue the 1976 level for supporting assistance and provide $30 million in P.L. 480 in 1977 (State request).

#2. Provide a lower supporting assistance level in 1977 and terminate the P.L. 480 and Housing Guarantee programs (OMB recommendation).

Analysis

Because of all the uncertainties surrounding the political and economic situation in Portugal, there is no very satisfactory basis for estimating the appropriate U.S. aid level.

Agency request: Alternative #1. State seeks on $85 million program on the grounds that a higher level cannot now be justified but a lower level will send negative political signals to the Portugese.

OMB recommendation: Alternative #2. OMB recommends a $40 million program because:

- the State request could lock the USG into a "traditional" aid level based on 1976 levels, despite changing economic needs;
- the EEC, which has closer ties to Portugal, should take the lead in future economic aid;
- it is not clear that a political signal sent this January will greatly affect the immediate political struggle in Portugal since the lines appear to be drawn; and,
- Portugal is a developed country and continued food aid would be inconsistent with recent congressional initiatives to limit P.L. 480 uses in "political" countries.

Issue Paper
International Security Assistance
1977 Budget
Issue #3a: Military Assistance to Indonesia and the Philippines

Statement of Issue

Can the MAP level for Indonesia and the Philippines be phased down?

	1975 Actual	1976 Budget	1977 Alt. #1 State req.	1977 Alt. #2 OMB rec.	1978 Alt. #1 State req.	1978 Alt. #2 OMB rec.
			($ in millions)			
Indonesia						
Grant MAP	13.1	19.4	20.0	10.0	30.0	5.0
FMS Credit Guarantees	5.0	23.1	25.0	15.0	12.5	20.0
	18.1	42.5	45.0	25.0	42.5	25.0
Philippines						
Grant MAP	20.5	19.6	20.0	15.0	23.9	10.0
FMS Credit Guarantees	14.0	17.4	20.0	25.0	19.8	30.0
	34.5	37.0	40.0	40.0	43.7	40.0

Background

With the fall of South Vietnam, the assumptions underlying security assistance to these two major recipients in Southeast Asia have changed dramatically. The need to provide security assistance, particularly grants, as a means of insuring the cooperation and/or assistance of these countries in the pursuit of our own military and political goals is diminishing rapidly.

Indonesia is the most important and poorest country in Southeast Asia today. However, her membership in OPEC and the complete lack of any military threat make any level of assistance difficult to justify to the Congress.

We plan to retain a substantial military establishment in the Philippines and there is the perennial threat that these base rights may be lost if assistance levels, especially grants, are reduced. The likelihood that this threat will ever become a reality is tempered by some $160 million in troop spending annually, significant quantities of equipment (value about $20 million) which have been provided from assets recovered from Indochina, a substantial economic assistance program ($44 million in 1977), and a long historical relationship with the United States.

Alternatives

Indonesia:

#1. A total program in 1977 of $45 million of which $20 million is grant; $43 million total in 1978 with grants increased to $30 million.

#2. $25 million total each year with grant components of $10 million in 1977 and $5 million in 1978.

Philippines:

#1. A total of $40 million in 1977 of which $20 million is grant. $44 million total in 1978 with grants increased to $24 million.

#2. $40 million total each year with grant components of $15 million in 1977 and $10 million in 1978.

Analysis

Alternative #1 for both countries proposes small increases in 1977 above the 1976 budget level. The 1978 portion of this option is out of date as it reflects grant increases that you rejected when considering the 1976 budget.

From the 1976 request, alternative #2 reduces both the MAP and FMS levels for Indonesia in 1977 on grounds that Indonesia has adequate foreign exchange for military purchases. In 1978, MAP is further reduced but FMS increased to hold the total at the $25 million 1977 level. For the Philippines, alternative #2 maintains the overall request at slightly above the 1976 budget level in both 1977 and 1978 because of our continuing base rights interest but progressively reduces the grant component each year. The additional repayments resulting from the credits proposed in alternative #2 can be absorbed easily by these nations.

Agency Request: Alternative #1.

OMB Recommendation: Alternative #2.

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INTERNATIONAL SECURITY ASSISTANCE
1977 Budget
Issue #3b: FMS Credit Guarantees for Malaysia

Statement of Issue

What level of U.S. support of the recently stepped up Malaysian counterinsurgency effort should be provided?

	1975 Actual	1976 Budget	1977 Alt. #1 State req.	1977 Alt. #2 OMB rec.	1978 Alt. #1 State req.	1978 Alt. #2 OMB rec.
			($ millions)			
FMS Credit Guarantees	4.7	15.0	36.0	15.0	10.0	15.0

Background

On October 21, State instructed our embassy in Kuala Lumpur to inform the Malaysian government we would support their counterinsurgency plan and seek a total of $54.7 million in FMS credit guarantees; specifically $17 million in 1976, $35.7 million in 1977, and $2.0 million in 1978. When you considered the 1976 portion of this program, the $17 million request was reduced to $15 million.

Alternatives

#1. Approve an FMS credit guarantee level of $35.7 million for 1977 and $10.0 million in 1978 (State request).

#2. Approve an FMS credit guarantee program at the 1976 level of $15 million in each year (OMB recommendation).

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Analysis

Alternative #1 is based on the assumption that the "commitment" communicated to the Malaysians is firm and should be fully funded. It includes an extra $6.3 million above the plan in 1978 which has not been justified although there has been talk that the Malaysians might buy another F-5 squadron on credit as they did in 1973-74.

Alternative #2 provides $30 million over the next two years (over 80% of the funds needed to complete the plan) and defers the question of U.S. support of future Malaysian modernization programs.

Agency Request: Alternative #1.

OMB Recommendation: Alternative #2.

Issue Paper
International Security Assistance
1977 Budget
Issue #4a: Military Assistance to Ethiopia

Statement of Issue

What level of military assistance should be proposed for Ethiopia?

	1975 Actual	1976 Budget	1977 Alt. #1 State req.	1977 Alt. #2 OMB rec.	1978 Alt. #1 State req.	1978 Alt. #2 OMB rec.
			($ in millions)			
Materiel	11.7	11.7	10.0	10.0	9.7	8.0
Training	.8	.9	.9	.9	.8	.8
FMS Credit	25.0	10.0	15.0	10.0	10.0	10.0
Total Military Assistance	37.5	22.6	25.9	20.9	20.5	18.8
Development Assistance	17.2	18.0	17.0	17.0	17.0	17.0
P.L. 480	2.0	1.0	7.0	1.0	1.0	1.0
Total	56.7	41.6	50.9	38.9	38.5	36.8

Background

In 1975, following a Presidential Determination, Ethiopia was offered $25 million in FMS credit at a concessional interest rate. In addition, sizable cash purchases were authorized and Ethiopia will probably purchase $60-90 million in military equipment for cash in 1976.

Alternatives

#1. Provide $10.0 million and $9.7 million in grant MAP and $15.0 million and $10.0 million in FMS credit in 1977 and 1978 (State request).

#2. Begin a gradual phasedown of grant MAP to Ethiopia, providing $10 million in 1977 and $8 million in 1978 while maintaining FMS credit at the present level of $10 million (OMB recommendation).

Analysis

State and OMB are both proposing $10 million in grant MAP in 1977, but State recommends no further reduction in 1978. In addition, State recommends an increase of $5 million in FMS credits above the 1976 level you recently approved. According to State, military assistance is the most effective way to influence the Ethiopian Provisional Military Government (EPMG) whose socialist philosophy does not naturally incline them to support the U.S. State argues that Ethiopia's strategic position in the Red Sea oil route, next to Soviet-influenced Somalia, makes good bilateral relations important.

OMB feels that a conscious decision to phase down grant MAP should be made and the 1978 request reduced to $8 million for that reason. In addition to general budget pressures, OMB is concerned that arms purchased for cash will be used for internal suppression and thus be identified with human rights violations committed by the EPMG. Phasing down the grant program in conjunction with a general worldwide reduction lessens the apparent degree of U.S. involvement at a time of increasing congressional concern over human rights. For these same reasons, and the willingness of the EPMG to make large cash purchases, FMS credit should not be increased.

Agency Request: Alternative #1.

OMB Recommendation: Alternative #2.

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Issue Paper
International Security Assistance
1977 Budget
Issue #4b: FMS Credit for Zaire

Statement of Issue

What level of FMS credit should be offered to Zaire?

	1975 Actual	1976 Budget	1977 Alt. #1 State req.	1977 Alt. #2 OMB rec.	1978 Alt. #1 State req.	1978 Alt. #2 OMB rec.
	($ in millions)					
FMS Credit	3.5	19.0	28.0	19.0	36.0	19.0
Training	.3	.4	2.5	.4	2.5	.4
Total Military Assistance	3.8	19.4	30.5	19.4	38.5	19.4
P.L. 480	---	8.0	---	---	---	---
EX-IM Loans	---	20.0	---	---	---	---
Development Assistance	---	---	15.0	15.0	13.4	13.4
Supporting Assistance	---	22.8	---	---	---	---
Commodity Credit Corporation	---	20.0	---	---	---	---
Total	3.8	90.2	45.5	34.4	51.9	32.8

Background

Earlier this year, President Mobutu accused the CIA of plotting his assassination and ordered the U.S. ambassador out of the country. Because Mobutu sees the outcome of the Angola struggle as important to his country's security, Zaire supplies one faction with arms. In this context, the U.S. presented Mobutu just recently with a report on Zaire's overall military needs compiled by a U.S. military survey team. North Korea and Communist China have also begun significant military advisory programs in Zaire.

Economically, Zaire is in trouble to the point of being in default on major loans and can expect no improvement pending recovery of world copper prices. Because of short term debt problems, the Administration is requesting a large financial assistance package in 1976.

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Alternatives

#1. Provide $28 and $36 million in FMS credit in 1977 and 1978 and $2.5 million in grant training. (State request)

#2. Maintain the 1976 level of military aid, $19 million in FMS credit and $.4 million in grant training, in 1977 and 1978. (OMB recommendation)

Analysis

State argues that greatly increased FMS credit and grant training are necessary to improve Zaire's defense against a potential Angolan threat should the Soviet-backed faction gain supremacy. Higher aid is also necessary, State feels, to enhance U.S. influence and to counter North Korean and Communist Chinese influence. Economically, Zaire is in no position to acquire modern military equipment without substantial assistance.

OMB believes that the increase in FMS credits from $3.5 million in 1975 to $19.0 million in 1976 coupled with substantial economic aid should be sufficient to preserve U.S. interests and influence. U.S. assistance at the 1976 level, coupled with Mirages being purchased from France and units equipped and trained by North Korea and China, should enable Zaire to meet any threat Angola could pose in the near future, even assuming a rapid end to factional strife in that country. Secretary Simon believes the current economic conditions and policies raises doubts that Zaire can service the additional credits proposed by State.

State's proposed $2.5 million training program would make Zaire the third largest recipient of grant training in the world. Grant training worldwide is not used to support FMS credit purchases but functions more as a goodwill exchange program. OMB believes the current training of $.4 million for Zaire is sufficient for these purposes.

Agency Request: Alternative #1.

OMB Recommendation: Alternative #2.

INTERNATIONAL SECURITY ASSISTANCE
1977 Budget
Issue #5: Military Assistance to Latin America

Statement of Issues

A) When should grant materiel programs in Latin America be phased out?

B) What should be the total amount of FMS credit in 1977 and 1978?

	1975 Actual	1976 Amended Budget	1977 Alt. #1 State req.	1977 Alt. #2 OMB rec.	1978 Alt. #1 State req.	1978 Alt. #2 OMB rec.
			($ millions)			
Grant MAP	6.7	4.6	4.5	3 -	3.5	-
Training	9.5	11.4	10.3	10.3	10.8	10.8
FMS Credit	134.3	180.0	238.0	185 180.0	273.0	180.0
Total	150.5	196.0	252.8	194.3 190.3	287.3	190.8

Issue A - Phase-out of Latin American grant MAP

Background

The largest grant MAP program in 1977 is $2.1 million for Bolivia with eight others averaging $.3 million each. The Latin American Bureau in State has for two years recommended early termination of grant MAP but was overruled within State both times.

Alternatives

#1. Continue grant MAP for Latin America of $4.5 and $3.5 million in 1977 and 1978 (State and Defense request).

#2. Provide no grant materiel program for Latin America in 1977 or thereafter (OMB recommendation).

Analysis

State and Defense argue that, despite the small size of these grant programs, MAP eases the pressure on internal defense budgets, provides needed items, and contributes to good relations with the countries involved.

The Latin American Bureau argues that legislative restrictions, congressional reductions, deductions for shipping and handling costs, long lead-time, non-availability of desired equipment, and other petty irritants so detract from the potential gains that these programs are often counter-productive. Furthermore, the grant materiel program perpetuates a dependent, paternalistic relationship that is resented in Latin America. Since none of these programs is of significant size and since their termination might relieve some of the congressional pressure on the entire MAP program, OMB recommends termination at the end of 1976.

Agency Request: Alternative #1. Request $4.5 and $3.5 million in 1977 and 1978 for grant MAP for Latin America.

OMB Recommendation: Alternative #2. Terminate all Latin American grant MAP programs at the end of 1976.

Issue B - Level of FMS Credit

Background

The 1975 budget included $200 million for Latin American FMS credit. Only $134.3 million was used because of a congressional prohibition on aid to Chile, a dispute with Venezuela, a suspension of credits for Ecuador because of seizure of U.S. fishing vessels, and Colombian vacillation beyond the end of the fiscal year. FMS credit for Chile is again expected to be prohibited by Congress and has been taken out of the 1976 budget.

Alternatives

#1. Provide $238.0 million in 1977 and $273.0 million in 1978 (State request).

#2. Provide $180 million annually in 1977 and 1978, specifically excluding Venezuela (OMB recommendation).

Analysis

State is requesting a $58 million increase in 1977 over the 1976 budget including $20 million for Chile. State argues that current economic conditions combined with desires to purchase expensive modern military equipment justify this increase.

OMB believes that Latin America does not need and is unlikely to use the amount of FMS credit requested by State, and that extension of the 1976 level approved by the President should cover their requirements adequately. OMB agrees with Secretary Simon's opposition to proposed increases for Argentina in 1977 and 1978 as a poor credit risk. In addition, Congress is expected to continue to delete funds for Chile until questionable human rights practices there are changed. Alternative #2 provides $46.7 million more than the actual 1975 level which should be sufficient to cover any necessary increases for other countries.

Agency Request: Alternative #1.

OMB Recommendation: Alternative #2.

Issue Paper
International Security Assistance
1977 Budget
Issue #6: MAP General Costs

Statement of Issue

Should military assistance advisory groups, missions and milgroups be reduced consistent with reductions in the grant materiel program?

MAP General Costs
($ in millions)

	1975 Actual	1976	1977 Alt. #1 State req.	1977 Alt. #2 OMB rec.	1978 Alt. #1 State req.	1978 Alt. #2 OMB rec.
MAAGs	72.0	65.1	59.3	48.1	59.3	37.4
Headquarters	9.0	9.7	10.0	9.5	10.0	9.5
Total Administrative Cost	81.0	74.8	69.3	57.6	69.3	46.9
Other General Costs	14.5	12.1	10.2	10.2	10.2	10.2
Total General Costs	95.5	86.9	79.5	70 67.8	79.5	57.1

Background

MAP general costs consist mostly of administrative costs of military advisory groups and headquarters but include logistics management, inspector general, and other costs not discussed in this paper. Military assistance advisory groups, missions, or other similar security assistance units now exist in 52 countries. The U.S. continues to maintain such missions in 33 countries for which no grant military assistance is proposed in 1977. Of the 33 countries, 19 receive no FMS credit assistance either. On the other hand, Israel, for whom a $1.5 billion FMS credit program is proposed by State in 1977, and Kenya and Lebanon have aid programs but no MAAG. There are still MAAGs in nine western European nations.

Until now, the longevity of MAAG's beyond the original purpose has been partly hidden by the practice of funding a large portion of their cost from military department appropriations and the smaller share from the MAP appropriation. Beginning July 1, 1976, the Foreign Assistance Act of 1974 requires that the entire cost of MAAG's must be paid by MAP.

The House International Relations Committee's 1976 bill and the Humphrey bill in the Senate both propose terminating MAAGs, missions, and milgroups by September 30, 1977.

Alternatives

#1. Staffing levels of 1420 U.S. personnel and an administrative cost estimate of $69.3 million in 1977 and 1978. (State request)

#2. Staffing levels of 1070 and 719 U.S. personnel and administrative cost estimates of $57.6 and $46.9 million in 1977 and 1978 respectively. (OMB recommendation)

Analysis

State/Defense estimates of administrative costs assume no significant changes in staffing levels or funding arrangements from 1976 to 1977 and further assume that the U.S. will continue to absorb the costs of the mission in Saudi Arabia, although the Saudis are expected to reimburse the U.S. for these costs beginning in 1976. The OMB recommendation assumes the latter, reducing the number of administrative personnel attributed to MAP by 150 spaces.

A further reduction of 200 U.S. personnel in 1977 and 351 in 1978 in missions worldwide is justified. Failure to make significant reductions risks congressionally mandated cuts. Included in OMB's proposed level would be reductions in the European missions which serve mostly high ranking liaison functions, reductions in the missions in Southeast Asia consistent with general reductions in U.S. presence in the area, and reductions in the Latin American countries where the grant program is phasing out.

The reduction of 350 U.S. personnel in 1977 and 351 more in 1978, combined with transfer of Unified Command functions to the Defense Security Assistance Agency, generates a savings in 1977 of $11.7 million and $10.7 million in 1978.

Agency Request: Alternative #1.

OMB Recommendation: Alternative #2.