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THE SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

28 January 1980



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Authority: EO 13526
Chief, Records & Declass Div, WHS
Date: AUG 21 2013

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Expedited Deliveries of Equipment to Egypt (b)

As we discussed at breakfast on January 25, Defense has analyzed the options for expediting delivery of F-16 aircraft and M60 tanks to Egypt (see attached paper and tables). The options are illustrative and designed to show a range of possibilities from which the Egyptians would be invited to choose when a US team visits Egypt the latter half of February. The object then would be to reach agreement on the sales which would constitute the initial increment of an Egyptian long-term defense program. The precise components of the program should be left to the Egyptians. A preview of the options could be presented to Ambassador Ghorbal and Defense Attache Abou Ghazala at the end of January.

The options show that:

(1) At the approved FMS credit levels the Egyptians could expedite aircraft deliveries if they are willing to limit themselves to a small number of M60 tanks and forgo other new programs until FY 1982. The more they accelerate aircraft deliveries, the fewer tanks they can buy. If they insist on F-16 deliveries beginning in December 1980, they could buy only 40 M60 tanks, and they would not be able to order more later because the production line will have shut down.

(2) With an additional \$200 million in FY 1981 credits the Egyptians could expedite an 80 F-16 aircraft program somewhat (beginning in December 1982) and still buy 700 tanks and have some \$70 million a year in FY 1980 and 81 to begin other new programs. Greater acceleration or insistence on F-15 aircraft would severely limit the total number of aircraft, tanks in some instances, and other new programs even with an additional \$200 million in FY 1981.

(3) The approved \$1.5 billion limit on cash flow financing does not affect our ability to expedite aircraft deliveries, but it does prevent us from offering initially more than a

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2

small fraction of the 120 F-16 aircraft and 900 M60 tanks requested by Egypt. If this limit were raised to \$2.7 billion and the Egyptians opted for F-16 deliveries beginning in 1982, we could sign Letters of Offer and Acceptance in 1980 for 80 F-16's and 700 tanks.

In a working level meeting during Vice President Mubarak's visit we gave the Egyptians tables of aircraft and tank delivery options assuming the approved FMS financing and normal production leadtimes. As the meeting progressed, the Egyptians appeared to gain a better appreciation of the way in which financing constraints and production leadtimes limit our ability to expedite deliveries. We think this understanding could be further improved by the discussions which Dave McGiffert will lead in Cairo in February, though the political importance attached by Sadat and Mubarak to early F-16 deliveries and/or F-15 sales is unlikely to change as shown by Ambassador Atherton's cables of January 26.

The following changes from the constraints already given the Egyptians would be improvements resulting from the Mubarak visit which, along with our willingness to accelerate F-16 and M60 deliveries, would give the US team a good basis for achieving agreement on the initial sales package for the long-term program:

(1) \$550 million of FMS credits in FY 1981 instead of \$350 million. This adjustment could be made during the foreign assistance hearings or submitted in a later supplemental (\$20 million extra in obligational authority, \$0 in outlays, covers the extra \$200 million in FMS credits).

Approve _____

Disapprove _____

(2) \$2.7 billion limit on cash flow financing instead of \$1.5 billion.

Approve _____

Disapprove _____

(3) Willingness to discuss options for providing F-15 aircraft, subject to your final approval. Given the late delivery (second half of 1983), high cost (\$1450 million for 19 aircraft), and potential for disapproval by you or Congress, the Egyptians may decide against going ahead with F-15's at this time, though my guess would be that they'll then press for early (and many) F-16's and the F-15's later.

Approve _____

Disapprove _____

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(4) Diversion of equipment in production for US forces instead of normal production leadtime assumed in discussions to date with Egyptians. (Secretary of Defense will approve.)

/s/ Harold Brown

Attachments

a/s

cc: Sec State
Dir, OMB

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SUBJECT: Options for Expedited Delivery of Aircraft to Egypt (S)

(S) This paper examines four options for expedited delivery of aircraft to Egypt under two alternate sets of funding constraints: either \$550 million in financing available in FY 1980-81 or \$750 million in financing in these two years. The options are:

		<u>First Delivery</u>
Option 1	19 F-16 aircraft	December 1981
Option 2	80 F-16 aircraft	December 1982
Option 3	19 F-16 aircraft	December 1980
Option 4	19 F-15 aircraft	December 1983

Tables I and II (attached) display for the four options at the two FY 1980-81 financing levels the number of aircraft and tanks, the first and last delivery dates, and the payment profiles compared to available credits.

Funding and Other Considerations

(S) The following set of financing constraints approved during the FY 1981 budget process is the main factor limiting our ability to expedite aircraft deliveries without serious side effects:

	<u>Financing Available</u>	<u>Reason</u>
FY 80	\$200 million	Unspent portion of \$1.5 billion peace package financing
FY 81	\$350 million	FY 81 budget decision
FY 82	\$650 million	\$800 million FY 82 planning figure less \$150 million payback of unspent portion of \$1.5 billion peace package financing
FY 83	\$650 million	\$1.5 billion limit on cashflow financing

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(S) As explained in subsequent paragraphs, Options 1, 3, and 4 would consume so much of the \$550 million available in FY 1980 and 1981 that they would preclude either an adequate M60 tank program or an early response to the many other requirements expressed by Egypt's Army, Navy, Air Force, and Air Defense Service. Therefore, we have examined the same four aircraft delivery options assuming an additional \$200 million in credits in FY 1981.

(S) Several other factors also limit our ability to accelerate deliveries:

a. The Arms Export Control Act requires that funds be provided promptly from FMS sources for all expenditures in support of FMS deliveries, including reimbursement for deliveries from US inventories.

b. Egypt is the only known consumer for M60A3 tanks delivered after March 1982. Unless progress payments from Egyptian FMS sources are adequate to sustain production thereafter at the minimum rate, M60 tank production will end, and there will be no source of new M60 tanks for Egypt.

c. The Egyptian Air Force has made clear by its attitude toward the F-4 program and has said specifically about the F-16 program that, once aircraft deliveries begin, it wants them to continue unabated and to build steadily toward full combat capability.

Latest DOD Discussions with Egypt

(S) In meetings on Thursday, 17 January, Vice President Mubarak and his delegation reaffirmed President Sadat's request for 40 F-15 aircraft, 120 F-16 aircraft, and 900 M60A3 tanks with deliveries beginning in 1980 and 1981. It should be noted that the total funding required for these three programs alone would be close to \$7 billion. All of it would have to be new money, and to meet Mubarak's schedule it would have to be made available at the rate of about \$2 billion per year. In a luncheon meeting on Saturday, 19 January, Secretary Brown told Vice President Mubarak that F-16 deliveries in 1980 were impossible and that 1981 would also be bad. At the same time Secretary Brown said M60A3 tank deliveries could begin in 1980. (This will require diversion from the US Army.)

(S) In a working level meeting Saturday, 19 January, the US representatives presented the following options based on deliveries from production without diversion from US forces.

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	<u>Sustained Deliveries Beginning</u>
a. 80 F-16 aircraft	FY 83
b. 60 F-16 aircraft 300 M60A3 tanks	FY 83 FY 82
c. 44 F-16 aircraft 532 M60A3 tanks	FY 84 FY 82
d. 16 F-16 aircraft 900 M60A3 tanks	FY 84 FY 82

As the meeting progressed, the Egyptian representatives appeared to gain a better appreciation of the way in which financing constraints and production leadtimes limit our ability to advance the beginning of sustained deliveries. At the conclusion of the meeting they undertook to analyze the options and to meet again in Cairo the middle of February.

(S) With respect to F-4 deliveries, the schedule is as follows: the Egyptians have received 19 and will receive three more in January, five in February, and the final eight in March, completing the total of 35. They have complained about spare parts delivery. The facts are that, following the October 6 "victory parade" fly-by, the Egyptian Air Force requested that no more parts or equipment be delivered until there had been a program definitization conference, their representatives delayed their visit to the United States for the conference until November, and they did not approve resumption of parts and equipment supply until December. At that time we implemented a program which advances the operational readiness date of the first squadron of F-4's by 18 months to August 1980 and the readiness date of the second squadron by 12 months to July 1981, compared to the schedule contemplated in the original Letter of Offer and Acceptance. The supply of parts and equipment is now proceeding expeditiously, drawing on US stocks as necessary.

Description of Options

(S) Both Option 1 and Option 2 involve loaning Egypt three F-16 aircraft for training and familiarization flying in country for eight months preceding the beginning of sustained delivery of aircraft at the rate of one per month. The Secretary of the Air Force has authority under 10 USC 2667 to approve such a no-cost "lease" if it "will promote the national defense or be in the public interest" and the property to be leased is "not for the time needed for public use."

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 Date: AUG 21 2013

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4

(1) Option 1 would deliver the initial three aircraft to Egypt in December 1981 and begin sustained delivery of a 16-aircraft buy in August 1982. All aircraft would be diverted from new production programmed for the activation of a USAF F-16 squadron at either Shaw AFB, South Carolina, or Nellis AFB, Nevada.

(2) Option 2 would deliver the initial three aircraft in December 1982 and begin sustained delivery of an 80-aircraft buy in August 1983. The first six aircraft would be diverted from new production programmed for the conversion of a USAF unit in Korea from F-4D's to F-16's.

(3) Option 3 would involve diverting aircraft from new production programmed for the conversion of a USAF squadron at Nellis AFB, Nevada, from F-4D's to F-16's. These aircraft will be coming off the production line at the same time as the aircraft ordered for Iran which have been sold to Israel and are now being produced in the configuration requested by Israel.

(4) Option 4 would place the Egyptian order for F-15 fighters on contract by December 1980, permitting the F-15 aircraft to be delivered from new production in December 1983 without the necessity for diversion from any other customer. It is possible to reduce the leadtime from the normal 42 months to 36 months because the production line will be operating at less than capacity after June 1982.

Appraisal of Options

(1) Under Option 1, with FY 1980-81 financing at the approved level of \$550 million we would have to limit the M60A3 tank program to a total of 280 tanks compared to 900 requested by the Egyptians. This comes about because the \$550 million is insufficient to pay both for the leadtime procurement for sustained deliveries of F-16's beginning in 1982 and for the leadtime procurement to sustain production after the initial buy of 280 tanks for Egypt. An additional \$200 million in FY 1981 financing would overcome this problem and permit Egypt to buy 700 M60A3 tanks. However, it would provide only \$20 million for other new programs in FY 1980-81.

(2) Under Option 2, even at the \$550-million level we would alleviate the most serious problem presented by Option 1 by allowing the sale of 550 M60A3 tanks. With an additional \$200 million Egypt could not only buy 700 tanks, but also have an average of \$70 million a year in credits for other new programs and the industrial cooperation program, which is starting on a cash basis.

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Date: AUG 2 1 2013

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5

(S) Option 2 also has the advantage of permitting an order for 80 aircraft in 1980 rather than limiting the 1980 order to only the first 19 aircraft. This comes about because beginning sustained deliveries in August 1983 shifts the funding profile to the right sufficiently that the leadtime procurement for 80 F-16 aircraft can be financed within the present budget guidance, except the limit on cash flow financing. This limit would have to be raised from \$1.5 to \$2.7 billion to permit orders for both 80 F-16 aircraft and 700 M60A3 tanks in 1980. Options 1, 3, and 4 all require much higher payments for aircraft in FY 1980-82, making it impractical to order more than the first 19 aircraft in 1980.

(S) Option 3 at the \$550-million level would leave only enough financing for 40 M60A3 tanks diverted from the US Army in FY 1981, no other new production of M60 tanks for Egypt, and no other new programs until FY 1982. Another \$200 million would raise the tank buy to 185. At such a small number compared to the Egyptian request for 900 tanks it might be preferable to devote the financing to other Army requirements.

(S) Option 4 at the \$550-million level would provide only enough financing for 370 M60A3 tanks. At the \$750-million level we could reach 610 tanks by forgoing all other new programs until FY 1984. Of course, the Egyptians could elect to buy fewer tanks in order to make financing available for other new programs in FY 1980-83. To permit orders for both 19 F-15 aircraft and 610 M60A3 tanks in 1980 would require raising the limit on cash flow financing from \$1.5 to \$1.9 billion.

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TABLE I

OPTIONS WITHIN APPROVED FY 1980-81 FINANCING (\$550 MILLION TOTAL)
(\$ in Millions)

Item	Total Price	First Delivery	Last Delivery	PAYMENTS								
				FY 80	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87	
<u>Option 1</u>												
19 F-16 Aircraft	532	Dec 81	Nov 83	43	128	192	160	9				
280 M60A3 Tanks	443	Dec 80	Aug 82	114	263	66						
Other New Programs				2	0	392	590	791	800	800	800	800
Available Credits ^{1/}				159 ^{1/}	391 ^{1/}	650 ^{2/}	750 ^{3/}	800	800	800	800	800
<u>Option 2</u>												
80 F-16 Aircraft	1,923 ^{4/}	Dec 82	Jun 87		49	162	385	532	407	277	111	
550 M60A3 Tanks	864 ^{4/}	Dec 80	Feb 83	123	378	271	92					
Other New Programs				0	0	217	273	268	393	523	689	
<u>Option 3</u>												
19 F-16 Aircraft	498	Dec 80	May 81	121	377							
40 M60A3 Tanks	61	Dec 80	Jun 81	16	36	9						
Other New Programs				0	0	641	750	800	800	800	800	800
<u>Option 4</u>												
19 F-15 Aircraft	1,450 ^{5/}	Dec 83	Sep 84		116	421	653	260				
370 M60A3 Tanks	586 ^{5/}	Dec 80	Oct 82	123	307	126	30					
Other New Programs				4	0	103	67	540	800	800	800	800

- NOTES: ^{1/} Sum of FY 80 and 81 financing limited to \$550M (\$200M unspent from \$1.5B Peace Package credits and \$350M new credits in FY 81 Budget). Except for distribution of \$550M between FY 80 and 81, available credits are the same for all four options.
- ^{2/} Net of \$800M new credits in FY 82 minus \$150M payback of borrowed Peace Package credits.
- ^{3/} Net of \$800M new credits in FY 83 minus \$50M payback of borrowed Peace Package credits.
- ^{4/} Ordering both aircraft and tanks in 1980 requires raising limit on cash flow financing from \$1.5B to \$2.5B.
- ^{5/} Ordering both aircraft and tanks in 1980 requires raising limit on cash flow financing from \$1.5B to \$1.7B.

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Chief, Records & Declass Div, WHS
Date: AUG 21 2013

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TABLE II

OPTIONS WITH ADDITIONAL \$200 MILLION IN FY 1981 (\$750M TOTAL IN FY 1980-81)
(\$ in Millions)

Item	Total Price	First Delivery	Last Delivery	PAYMENTS								
				FY 80	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87	
Option 1												
19 F-16 Aircraft	532	Dec 81	Nov 83	43	128	192	160	9				
700 M60A3 Tanks	1,097	Dec 80	Jul 83	123	436	390	148					
Other New Programs				20	0	68	442	791	800	800	800	800
Available Credits <u>1/</u>				186 <u>1/</u>	564 <u>1/</u>	650 <u>2/</u>	750 <u>3/</u>	800	800	800	800	800
Option 2												
80 F-16 Aircraft	1,923 <u>4/</u>	Dec 82	Jun 87		49	162	385	532	407	277	111	
700 M60A3 Tanks	1,097 <u>4/</u>	Dec 80	Jul 83	123	436	390	148					
Other New Programs				77	65	98	217	268	393	523	689	
Option 3												
19 F-16 Aircraft	498	Dec 80	May 81	121	377							
185 M60A3 Tanks	259	Dec 80	May 82	79	173	42						
Other New Programs						608	750	800	800	800	800	
Option 4												
19 F-15 Aircraft	1,450 <u>5/</u>	Dec 83	Sep 84		116	421	653	260				
610 M60A3 Tanks	960 <u>5/</u>	Dec 80	Apr 83	123	412	320	115					
Other New Programs				0	0	0	0	540				

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- NOTES: 1/ Sum of FY 80 and FY 81 financing limited to \$750M (\$200M unspent from \$1.5B Peace Package credits and \$550M new credits in FY 81 budget). Except for distribution of \$750M between FY 80 and FY 81, available credits are the same for all four options.
- 2/ Net of \$800M new credits in FY 82 minus \$150M payback of borrowed Peace Package credits.
- 3/ Net of \$800M new credits in FY 83 minus \$50M payback of borrowed Peace Package credits.
- 4/ Ordering both aircraft and tanks in 1980 requires raising limit on cash flow financing from \$1.5B to \$2.7B.
- 5/ Ordering both aircraft and tanks in 1980 requires raising limit on cash flow financing from \$1.5B to \$1.9B.

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