

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

ACTION

April 16, 1970

DECLASSIFIED in Part
PA/HO, Department of State
E.O. 12958, as amended
Date: 4/6/2006

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MEMORANDUM FOR THE PRESIDENT

FROM: Henry A. Kissinger *K*

SUBJECT: Military Sales Credit for Iran

The Shah of Iran, as you know, has been pressing to increase his financial resources on two fronts: (1) additional sales of Iranian oil to the U.S. and (2) additional U.S. credit for purchase of U.S. military equipment. Ambassador MacArthur believes we are headed for some sort of crisis with him if we cannot give him a little more financial flexibility.

The present U.S. military sales credit program for Iran is based on a U.S. -Iranian Memorandum of Understanding signed in June 1968. The U.S. Executive Branch undertook to provide Iran through FY 1973 with \$100 million credit yearly, contingent on annual Congressional authority and appropriations and on yearly reviews of Iran's military programs and financial position. \$200 million have already been provided, and this year's \$100 million is ready to go once Congress has passed the FY 1970 sales legislation.

The present problem stems from the fact that Iran has a five-year program, FY 1970 through FY 1974, to procure military equipment from the U.S., which if carried out completely would cost \$896 million at current prices, or a level of about \$180 million yearly. Ambassador MacArthur believes that some items will drop from this list as the Iranians sort out their priorities, bringing the total down to perhaps \$760 million, or about \$150 million yearly.

The Ambassador's proposal, endorsed by Secretary Rogers and the Defense Department, is to try to lengthen the period in which this equipment is to be purchased by 3 or 4 years. This would require our extending the 1968 Memorandum of Understanding, which now will run out in FY 1973, to run at least through FY 1976. This is not technically a commitment; it is an Executive Branch promise to seek \$100 million yearly from the Congress. Lengthening the period would

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permit us to stay around the \$100 million level which has been the basis of our presentations to Congress.

The alternative, of course, would be to try to increase our military credit closer to \$150 million through FY 1973 than to the present level of \$100 million.

The arguments for staying near the present \$100 million level but extending the period if we can are:

--The present level of \$100 million for Iran is about 30% of the total \$350 million Foreign Military Sales Program proposed to the Congress. Iran is the largest recipient. For the sake of comparison, Israel is next with \$75 million from FY 1970 appropriations (the remainder of the recent package will be funded early in FY 1971); Taiwan has received \$40 million; Greece is scheduled for \$40 million; Latin America is slated for \$48 million; and the rest is a collection of smaller programs.

--Increasing Iran's share would mean subtracting from what other countries receive or seeking a supplemental appropriation. Recently approved increases in the FY 1970 Israeli program at the expense of other programs rule out additional funds for Iran in 1970 in the absence of a supplemental appropriation. Conceivably an additional \$25 million could be allocated to Iran in FY 1971 under the current budget request if private credit were utilized, but this would remove the cushion for a potential response to additional Israeli credit requests. Budget Bureau staff advises me that the Bureau would not consider a supplemental appropriation desirable or feasible in view of congressional attitudes and budgetary pressures. A supplemental would require both authorization and appropriation action. Congress has not yet passed the FY 1970 Foreign Military Sales Act; the House-passed bill is pending in the Senate. Although we expect Congress to provide the amount requested, a request for additional funds for arms sales would probably be poorly received.

--The limitation on the Iranian side is keeping Iran's debt burden within safe limits. In addition to cash purchases from the U.S. of another \$150 million, Iran in the past four years has bought \$300

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million for hard currency from other countries. These credits have to be repaid. While both the World Bank and the IMF judge Iran as creditworthy now, its debt service costs are already high. It is difficult, of course, to say what is too high; what can be said is that the level now is high enough to be cause for concern in Iran as well as here about raising it much higher.

-- Finally, there is room to question whether the direct military threat to Iran from the Persian Gulf is as great as the Shah fears. This is not to say that there will not be political instability or that he should not build a strong military force. It does raise question as to whether the threat is growing so rapidly and effectively as to require rates of expenditure even higher than those with which we are now cooperating.

The arguments for increasing the level somewhat are:

-- The Shah's Iran is an island of stability in an otherwise unstable area which includes not only the broader Middle East but also the Persian Gulf from which the British will withdraw next year.

-- The Shah's foreign policy, while increasingly flexible, is openly based on a special relationship with the U.S. From our viewpoint, he is a good friend.

-- We have important intelligence facilities in Iran which Mr. Helms writes

[REDACTED]

-- Given the above factors and Iran's rapid economic growth, there seems little reason not to give the Shah whatever he wants.

The question, then, is mainly one of helping a friend as much as possible within restraints imposed by resources on both sides. No one argues against helping the Shah to the extent we are now. The problem arises as he pushes the limits of his resources and ours. He is understandably a man in a hurry who will press all resources available to their limits. The diplomatic problem here is to explain what our limits are and to see whether we can be helpful by making adjustments in the program that will not exceed our budgetary limits.

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The Secretary's and the Ambassador's recommendation is to see initially whether we can help by extending our present Memorandum of Understanding. Elliot Richardson, if you approve, would tell the Shah next Monday that we are prepared to discuss this. If the Shah seems satisfied, we would proceed. If not, then we would need to have a more systematic look at whether a little higher level can be drawn out of the presently planned program. Bill Timmons concurs in this memo.

Recommendation: That Under Secretary Richardson be authorized to indicate to the Shah willingness to extend the 1968 Memorandum of Understanding by three or four years.

Approve _____

Disapprove _____

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