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THE WHITE HOUSE
WASHINGTON

~~TOP SECRET/SENSITIVE/XGDS~~

MEMORANDUM OF CONVERSATION

SUBJECT: President's Meeting with President Anwar Sadat
of Egypt, April 5, 1977, Cabinet Room, 10:45 a.m.
to 11:45 a.m.

PARTICIPANTS: The President
The Vice President
Secretary of State Cyrus Vance
Dr. Zbigniew Brzezinski
Ambassador Hermann Eilts
Assistant Secretary Alfred L. Atherton
Mr. William B. Quandt, NSC Staff
Mr. Hamilton Jordan
Mr. Jody Powell

President Sadat
Foreign Minister Ismail Fahmi
Hassan Kamil, Chief, Office of the President
Minister of Economy Sayih
Ambassador Ashraf Ghorbal

President: I know that the Congressmen and Senators who came to dinner last night enjoyed their chance to talk with you. It helped them to see the special circumstances that Egypt finds itself in. We tend to think of Egypt only in relationship to Israel, but you helped to explain the problems that you also face in Africa and with countries like Ethiopia. I think it was helpful for the Congressmen to understand your position more completely.

One question that Congress has raised is the degree of use that you have made of the aid authorizations in the past. Thus far, only small amounts of aid have actually been used. We would like to help you with this problem.

Secretary Vance: We talked about this yesterday. President Sadat explained that he has established a special authority under the Prime Minister to deal with this, and we will follow it on our end as well through Roy Atherton.

~~XGDS of E. O. 11652 by authority
of Zbigniew Brzezinski; Exemption
Category Section 5(B)(3)~~

~~TOP SECRET/SENSITIVE/XGDS~~

President: I invited AID Director Gilligan to the dinner last night so that you might have a chance to meet with him. He is a good administrator and was Governor of Ohio and a Member of Congress. He is a good man and will be able to help you to work out any administrative problems that you are having with the aid program.

Minister Sayih: It is true that we have been lagging in our use of AID and World Bank funds. There are several reasons. Some have to do with bureaucratic procedures. I have seen Mr. Nooter of AID and he will help to identify bottlenecks. We will do this during the present month. We also have a scarcity of local currency. We have dealt with this in several ways, including commodity loans. We want to reduce inflationary pressures so we try to generate local currency from commodity sales. We are also in contact with Arab countries for balance of payments support. We have received about \$1.5 billion. I will try to stay on here for a few days to finish up my talks.

We also have a problem of inadequate construction capacity. This is a bottleneck for our economic development. We only have about 40 percent of what we need. I am including construction in the areas that are open for foreign investment. We are trying to attract construction industries to Egypt. We have had cases where hotels have remained unfinished for as long as seven years. But we are now trying to move in new directions. We will have an agency here in Washington to help work out the problems.

President: On another item, I would like to discuss ways of encouraging American business to invest in Egypt. Many of our corporation executives see Egypt as a good place to invest. If you could liberalize your boycott against Israel, it would help. Ford and Coca Cola have talked to me personally about investing in Egypt. I have no direct interest in the matter. But while I was Governor, I spent a great deal of time trying to get people to come to my State to invest. Maybe you could also make it easier for investors to come to Egypt. I know that Mr. Austin of Coca Cola would like to expand his operations in your country. Maybe there are some construction firms as well.

Minister Sayih: We are trying to encourage American firms to come to Egypt. We have established a business council here in New York. We are trying to direct investment to Egypt. Recently our investment authority approved several U. S. applications--Goodyear, Union Carbide and Xerox. We have also received some applications from companies

on the boycott list. And they have been approved, conditional upon getting them removed from the boycott list. Coca Cola is in this category, but they may be easier to deal with than some.

Foreign Minister Fahmi: Coca Cola is the most difficult. Ford is easier. Xerox is no problem, since it is not on the list. I cannot get Coca Cola off the boycott list, but they can work in Egypt nonetheless.

President: Why not simply get rid of the list entirely?

Foreign Minister Fahmi: I can't. When the Arabs discuss the list, they engage in auctioneering. It would be a waste of my time to try to get the list dropped. Our policy is that we will allow any serious investment to come into Egypt. I don't worry about the list. I have permanent instructions from President Sadat on this.

President: It is not significant to us whether Ford or Coca Cola invests in Egypt. But I thought it might be of help to you. Last night, Secretary of Commerce Kreps came to the dinner. It might be good for Minister Sayih to talk with her.

Foreign Minister Fahmi: She could also come to Cairo.

President: Having a relationship with the Department of Commerce is a good idea. What has your experience been with the World Bank?

Minister Sayih: President Sadat has been firm on economic reforms. This means achieving both internal and external balances. Internally, we have tried to reduce our deficit. This helps to end inflationary pressures.

President: We have the same problem.

Minister Sayih: The problems we faced in January were caused by trying to reduce our deficit and reduce inflation. We went along with this policy to the maximum extent. The Egyptian budget has four components. To achieve balance, we could cut investment, which in a country growing at 2.6 percent per year is not feasible. Or we could cut on defense, but that involves our security and we can't take risks there. Or we could cut our foreign debt service payments, but then our creditors will lose confidence in us. Finally, we could cut expenditures

and cut subsidies. Subsidies by their nature are inflationary. Egypt already has scarcity pricing in the country. We have nonetheless succeeded in reducing the deficit to 100 million pounds. That deals with our internal balance.

Our external balance is another problem. We need external balance of payments support. We have a large debt, \$2 to \$3 billion in obligations due. We either get cash or commodity credits to cover these payments. We are now working on this. We have received \$250 million from the Arabs already, and guarantees for \$250 million more. We will get \$2 billion in all. We also get commercial credits from you, from the Germans, from the French and others. We will need continued balance of payments support. The Arabs and the Israelis since 1948 have spent over \$150 billion on arms, all of us together. Egypt alone spent nearly \$40 billion on arms since 1967. This is our problem. Think of what could have been done for economic development in the area with this money.

We cannot have growth without a plan, so we have a \$20 billion economic development plan through 1980. \$7 billion will be required in foreign exchange costs. But since Egypt also has a low rate of savings and very high rate of consumption, we will need more than just the \$7 billion to cover the foreign exchange costs. World Bank and AID and other countries will have to help as well. The World Bank provides about \$250 million per year on the average.

I saw Secretary Blumenthal and he talked of the U.S. policy of shifting loans from the World Bank to IDA. We need that. We cannot pay high interest rates. Egypt also is in need of a "health certificate," and therefore we entered an agreement with the IMF. This will help us to get the \$1.5 billion that we need, especially from the Arabs. Your investment aid has been very useful. American aid falls into three categories: commodity aid, technical aid, and investment aid. This has been very helpful to us and we are very grateful. Next to security, development is the most important problem we face. In May, a consultative group, a club of friends of Egypt, will meet and we want them to work with us to push for economic growth. They will meet on May 10, 11 and 12. The U.S. is a participant. The idea there is two-fold. One point is to assure us that the economic plan will be implemented. We don't ask for a guarantee, but we want help to push the development plan. We are convinced that it is a good plan. The participants are the Gulf States, the U.S., Germany, France,

and others. We hope the U. S. can help by saying that the plan is good and that we will be able to assure Egypt of the same level of aid through 1980 that we have been providing. If we cannot be assured of the necessary financing, it will be hard to go through with the plan. We need assurances of balance of payments aid through the next few years.

President: Are there any points you wish to raise, President Sadat?

President Sadat: I had a good talk with the Secretary of Defense about arms. I gave him a list. As I said yesterday, this matter has political implications. The Soviet Union feels that it has put me in a tight position. I can get nothing from anywhere. The Soviets are trying to make an example of me to others. Those who do not go with the Soviet Union cannot get anything. I have just lately discovered that my policy of diversifying my sources of arms supply has very greatly angered the Soviets, more than the termination of the treaty and the expulsion of the Soviet advisors in 1972. This made them very furious. Arms supply is their lever over me. It was the same with President Asad last year. But it began with me since Henry Kissinger came in November 1973 to start the peace process. I am in a peculiar situation. Israel has replaced all the arms it lost in the war, and this was done even before the ceasefire of October 22nd. For three or four years after that, Israel has got more arms. The same is true for Syria through the Soviet Union. Even before the ceasefire they replaced their arms, and they are getting more, except for the pause during the crisis with the Soviets over Lebanon. But the Soviets have returned again, and Asad is going to Moscow. Asad got more than I did. Egypt is thus in a peculiar position. Peace and war are decided in Egypt, not in Syria or Jordan. I have not gotten anything at all. Brezhnev promised to come in January 1975, but then he cancelled, and after that they sent part of what was due in 1973 and 1974. This was to make up for Brezhnev's not coming. But there has been a complete ban on spare parts. I sent 175 MIG-21 engines to the Soviet Union, and recently they returned 50. But they were not the type that we need. This is the position I find myself in. I have tried my best to get Mirage aircraft from France. But even until now, I have not been able to replace all of my losses.

The other branches of my armed forces are better off than the air force. We didn't lose much in the October War. Syria lost 1,200 tanks in one day; but all of my losses were only 500 tanks in the October War. 3,000 tanks were lost on all fronts, so Israel and Syria together lost 2,500 tanks.

I have asked for the F-5E. It is time that my air force should turn completely western. By degrees, the other parts of my armed forces will also turn to the West. This has political significance, added to the fact that I need to have a ready defensive force for whatever happens. As I told the Secretary of Defense today, when talking about the F-5E, if it is compared to what Israel has--the F-4, the F-15, and others--it is just a tenth-rate plane. I need it only for its purely defensive capability. It is not only for Egypt, but also for Sudan. The Soviets are pouring arms into Ethiopia. I will not hesitate to face the problem on my borders. But I need the F-5E. Militarily speaking--and you are a military man--the bulk of my air force is the MIG-17. But they are almost all out of action. I sent their engines to the Soviet Union for overhaul. Foreign Minister Fahmi told them that they had confiscated our property, and we had a big quarrel. My difference with Brezhnev in 1972 was partly over his promises on military aid and on overhaul of our equipment. I told him that it cannot be done 5,000 miles away in the Soviet Union. The Soviets promised to help, but they have not fulfilled their promise. As I said last night, I do not want to raise side issues here. The main issue is peace; to try to concentrate on peace this year. That will solve my problems, because then it will be easier to get what I need. I told Secretary Brown that I will be disappointed if the peace talks and the F-5E are linked. But I know your Congress here, and maybe they are not ready. The Zionist lobby is very angry at me. They have ascribed more efficiency to the F-5E than it really has. It is used in Jordan, Saudi Arabia, Iran, and Morocco. As I told you, I do not want side issues and I do not want to leave the main issue of peace, but I do need this for my air force. If it could be arranged for the time being from Saudi Arabia or Iran, or both, that would be satisfactory. If they get the green light from you, they will give me the plane. Until we reach a phase where we can go to Congress, this may be the best way. I leave it to you.

President: I understand.

President Sadat: I shall always be preferring not to raise battles that we might lose in Congress while we are trying to concentrate on the main issue. All these efforts with Congress will try your patience. It is not easy for the Israelis to adhere to reason without imposing conditions.

President: You have analyzed our political situation well. I am very hopeful that we could go to Congress on military aid directly to Egypt to help you defend yourself, and to help in Zaire and in Sudan. The C-130s were controversial last year, but they would not be such a problem now. I understand that some of your MIGs are being overhauled by the British. GE also has a capability to do this.

President Sadat: We need it.

President: That would not be difficult either. I am glad to see your relationship with France. I don't know whether the Mirage is the equivalent of the F-5E.

President Sadat: It is more advanced. It equals the F-4. But the F-5 is not an important plane. It won't change the balance of power. Israel has the F-4 and the F-15.

President: I assume the Secretary of Defense had a good talk with you. I don't know what the total amount of your needs is; but the Secretary of Defense and the Secretary of State can work on this.

President Sadat: He promised some items, subject to your approval.

President: I know. I discussed it before you met with him. What is the status of your air force now? What is its readiness? Are your MIG-17s and 21s in good shape?

President Sadat: I have tried with Rolls Royce. They have worked for one year, but they are very slow. My people saw that GE has complete readiness to do anything. They were astounded. They reported to me before I left for Washington.

President: There is no problem.

President Sadat: Secretary Brown mentioned this. I said that I need it. My situation with my air force is critical. It is the only branch of my armed forces that needs so much help. The Soviets will not return the 120 engines that they have. But China has been helpful. They have sent 30 MIG-17 engines at no cost. That is their way. They have also sent spares.

Dr. Brzezinski: Are these Chinese-produced?

President Sadat: Yes. They make a MIG-17, but they give it a Chinese name. They also make a MIG-21 with a Chinese name, and tanks as well.

Dr. Brzezinski: Are they the same quality?

President Sadat: Yes, except for the MIG-19, which they have improved. It has a longer range than the Soviet version.

President: What do you need to help your African neighbors? C-130s?

President Sadat: C-130s are very urgent.

President: How many do you have now?

President Sadat: Six, or maybe seven. We need C-130s and C-141s, and military vehicles and armored cars. We also need TOWs, ground-to-ground missiles like the Katyusha, with a range of 10 kilometers, and helicopters. Sudan is a subcontinent, with the western part much like Egypt, but the rest of the country is very different. They need a great deal of communications equipment. They need wireless sets and other communication items.

President: I don't believe we will have problems with C-130s like we did last year. That, plus communications equipment and helicopters could be sold on grounds that it will help you in Africa, and that it will not be a threat to Israel. Congress, of course, fears your using weapons to attack Israel. If there were a friendly regime in Libya, your situation would be easier.

President Sadat: Yes.

President: We have been very concerned with Libya. If it were not for Cuba and Libya, we would have a more peaceful world. We didn't have a chance to finish our discussion on Africa. Do you have something to add?

President Sadat: The Soviets now feel that they have a free hand in Africa. They are using Angola as a jumping off point.

President: Now what do we do?

President Sadat: I need arms, and I need advanced arms. When I hear that tanks are being used by the Katangese, T-54s and T-55s, I know the Soviets are involved.

President: We have no information on the use of tanks in Katanga.

President Sadat: But the French have their representatives in Zaire and they have told me this is a fact.

President: We had that report also, but we could not confirm it.

President Sadat: My military mission left yesterday. They will arrive in Zaire today and they can check.

President: Will you let us know? Will you share your information with us? We are trying to get more information now. If Zaire had some strong leadership, even just a few leaders, maybe that would help.

President Sadat: That is true. If they could inflict some heavy casualties on the other side, it would create a new spirit.

President: I hope you will stay in close contact with us and with France and with Morocco.

President Sadat: Yes, I will. Especially after I get the information from my mission, then we will know what we need to do. But I need C-130s.

President: Let us know what you have to send, and we will try to help you.

Minister Fahmi: You may have some Soviet equipment that you could give us. You could give it to us and we could give it to Zaire.

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Secretary Vance: We'll see.

Dr. Brzezinski: Do you mean small arms?

Minister Fahmi: Yes, and MIG-21s too.

Secretary Vance: Someone should talk to Mobutu and tell him to take some of his good troops out of Kinshasha.

President Sadat: We will talk to him on this. We now have a joint committee with France. My officers will arrive there today and they will also meet with officers from Zaire.

President: Would Morocco join?

President Sadat: President Giscard did not mention this. He mentioned only cooperation with us.

President: The Secretary of State stopped in Belgium on his way to Moscow and talked about Zaire.

Dr. Brzezinski: Excuse me. Is the joint committee with France public knowledge?

President Sadat: No. It is secret.

Secretary Vance: I stopped in Belgium on the way to Moscow and saw their foreign minister in Paris on my return. No one knows about the second meeting. The Belgians agree that they will supply ammunition, but they will not send any men. They are very concerned about sending mercenaries. They fear that it would threaten the 20,000 Belgian civilians now in Shaba. If the mercenaries are white, this would give an excuse for Cubans to fight on the other side. The Belgians are in touch with King Hassan. He has agreed to send volunteers, in addition to a three-man mission. The Belgians want to keep in touch with the rest of us who are concerned with the problem and we will try to concert our thinking.

President: We've already sent some aid. What is the fuel situation?

Secretary Vance: None has yet been sent, but it is not very urgent. It will get there next week.

President: We're concerned and we appreciate your help.

Secretary Vance: They need more rations, and we can do this.

Dr. Brzezinski: Will your men be in Kinshasha only?

President Sadat: Yes. But they will also see the situation on the spot.

President: We will try to share our CIA information with you, and we hope you will also keep us informed. It is discouraging that Mobutu's men won't fight. They flee whenever they have the chance.

Minister Fahmi: He has changed his military commander.

President: I hope that it will help. I appreciate very much the talks that we have had, especially the very enlightening discussion I had with you last night. I would like to share it with the Secretary of State. We will devote our Government's full efforts to the Middle East problem. You know our special relationship to Israel, and there is a limit to what we can get them to accept. They look very far ahead and they fear that an agreement on peace now which would depend on others would not be adequate as a permanent basis for peace. What concerns them most, normalization, is also your greatest concern. A defense pact between Israel and the United States would give them security now, but in 20, or 30, or 50 years, they could not be sure. Your expressions to me on this have been encouraging. I will keep your comments to me confidential, especially when I meet with other Arab leaders. I will be very cautious.

After May, we would like to put together our analysis of options, and then discuss them frankly with you. Any moderation of statements, from Arafat and others, would be helpful. Concerning direct contact with Arafat, we will have to face this at some point. We have not yet. I made one comment on the Palestinians and I shook hands with a PLO representative at the United Nations. But a meeting with Arafat would be difficult. But eventually we will have to decide yes or no. It is crucial to the whole issue. We will try to do our part. You've been very forthcoming in your eagerness to help.

President Sadat: There is a problem in South Lebanon that also needs your support. You should not let Israel exploit the situation there. A ceasefire has been agreed upon. If there is a need for a UN force, then there is an armistice agreement which would allow UN forces to go there. I would like you to give importance to this. We don't want a new issue to explode in the area. There was a big battle yesterday.

President: We've spent a lot of time with Israel and with Lebanon on this, especially concerning the placement of troops. We thought we had it worked out. Now there is a new eruption which I do not fully understand.

Secretary Vance: I have met with Presidents Sarkis and Asad and we are following the situation very carefully. We are in touch with the parties and earlier we helped to work out a Syrian withdrawal. But the situation is still very tense. The recent assassination complicated the situation. We will keep working with the parties to make arrangements to keep them apart. The key is to get some of the Lebanese army to keep peace. I talked to President Sarkis and to his Foreign Minister about this, and they thought that it would take three or four months to create such a force. It is important to move rapidly, and we will give them help if they want it. It is my view that until their own forces are there, they cannot keep peace. The gendarmes are not up to the job. They need real soldiers.

President: Will Israel welcome this?

Secretary Vance: Yes and no, frankly. They don't want the Syrians there, but they would welcome a Lebanese force, yes.

President: On the borders, I understand there is a band under Christian control, and that recently the Syrians and the PLO attacked this. Israel would like this as a buffer area, as an alternative to Syria and the PLO. I think Israel would welcome a Lebanese force. Why does it take so long?

Secretary Vance: The Lebanese only have a limited number of troops, and there are political and military problems. I talked to Asad about this and he shares the view that it will take four to five months to get a force in place.

President: I want to thank you, President Sadat, for coming. You have caused me a problem, however. Now all of my family want to go to Egypt.

President Sadat: They are most welcome. I would be very happy to welcome you and to express our feelings to you.

President: Those feelings are mutual. If we can get your advice and support at the crucial moments, I think we might be able to go to Geneva only for the signing ceremony. This would be the best possible outcome. If we go to Geneva with lots of loose ends and with the Soviets present, there is little chance of reaching harmony there.

President Sadat: We could talk with procedures for years.

President: We will work together. Thank you.