

OSD REVIEWED 30 MAY 2011 NO OBJECTION TO DECLASSIFICATION

ACTION
1230

Egypt

~~SECRET (GDS)~~

March 28, 1974

MEMORANDUM FOR: SECRETARY KISSINGER
FROM: HAROLD H. SAUNDERS
SUBJECT: Financing the Suez Canal Mine Clearance Project

The purpose of this memo is to give you our tentative views on the question of who should pay for the Suez Canal mine clearance project and to suggest that you issue an instruction before you leave to bring this to the point of decision urgently. An instruction is attached for your signature.

The Projects

As you know, we are involved in two projects to help begin clearing the Canal:

1. We have committed ourselves to pay for an operation by US forces to clear the Suez Canal of mines and to help the Egyptians remove unexploded ordnance from the water and banks of the Canal. These operations are now estimated to cost \$14 million, a substantial portion of which is for Defense Department salaries, overhead and administrative costs.
2. A separate project for removing sunken ships will be carried out by a civilian contractor. A US company has submitted the low bid.

AID is the main source of funds to cover the costs of the ship-clearing operation, \$7-10 million. Thus, the present issue is how to pay for the part of the Canal clearing to be performed by the US Navy.

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AID REVIEWED 05-May-2011: NO OBJECTION TO DECLASSIFICATION.

REFER TO DOS

DOS REVIEWED 19-May-2011: NO OBJECTION TO DECLASSIFICATION.

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Alternatives for Funding

In considering funding alternatives, it should be noted that current thinking is to split the financing between FY 1974 and FY 1975. This means funding about \$7 million in the current fiscal year. There are two basic decisions that need to be made:

1. As a matter of principle, should the cost be paid from the Defense Department's operating budget or from assistance program funds? If the latter, these are the possibilities:

--Pay from AID funds under Development Assistance authority.

--Use MAP funds under authority provided by the Military Assistance Program.

--Transfer funds from MAP to AID and authorize their use under the Development Assistance Program or the Supporting Assistance Program.

2. In terms of the availability of funds, which is the appropriate source of funding? Related to this is the tactical question of whether it would be advantageous or not to seek a supplemental or to squeeze the cost from already appropriated funds.

The Considerations

1. On the issue of funding from the Defense Department operating budget in contrast to one of the assistance programs:

a. Defense takes the position that the project is a form of assistance to Egypt and should therefore be covered by one of the assistance programs. Defense lawyers argue that Defense's legal authority is questionable. On the other hand, it is worth looking into whether this could be justified on grounds that it would be useful training experience for US forces.

b. AID strongly opposes use of its funds for this purpose because it feels the Congress did not intend to provide development assistance funds to pay for operations by military personnel, even if these operations have an economic utility. Use of AID money for this purpose would be regarded as a questionable

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diversion of funds which opponents would seize as support for their argument that the Administration has no coherent approach to development. (You recall that Senator Humphrey opposed use of Development Loan Funds for Vietnam.) If AID financing were to be used for providing military services, several waivers of normal restrictions would be required and Congress would have to be notified formally before the funds are used.

c. One other factor to be noted is that there is also a provision in the Foreign Assistance Act (Section 220a) that stipulates that the President is authorized to furnish assistance in reopening the Suez Canal provided Israel is allowed to use the Canal on a nondiscriminatory basis. Although we must bear this in mind, we probably have enough of a commitment from Sadat to manage this. Israel wants the Canal opened and Israel's friends wrote this section of the law. Thus, it should not be a problem.

2. Assuming that the legal questions are resolved, the issue is from which tight budget it would be least damaging to take these funds. All budgets are tight, but it is clear that the Defense Department budget has greater capacity to absorb the cost than the comparatively miniscule assistance programs. Among the assistance programs, the following are the possible sources:

a. The AID Supporting Assistance account is virtually empty, and no one is proposing that we try to use it. We are already looking for more money for Jordan than is available there.

b. The Contingency Fund does not contain enough money to cover this project. In any case, the law requires that not more than 20% of the amount originally appropriated for this fund can be transferred into it. The limit would be about \$3 million-- not enough for this project.

c. Development Assistance funds could be used, but grant aid money is in short supply and some reprogramming would be required to free the \$7 million. In addition, AID funds will be needed for the subsequent stage of removing ships from the Canal, and adding the mine and ordnance clearing costs would seriously strain the AID account.

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d. The MAP account theoretically allows a bit of flexibility, since money could legally either be spent directly from that account or be transferred to AID. But money for Egypt would have to be found at someone else's expense. The projected MAP shortfall is now up to \$130 million, and all obligations against the MAP have been halted until the Security Assistance Program Review Committee reviews the situation on April 9, 1974.

On Balance

1. Given the shortage of assistance funds, it probably would be best to rely initially at least on the Defense Department operating budget. This approach seems likely to arouse the least Congressional opposition, although there will be opponents somewhere to any approach. (Defense paid for US Navy clearing of the mines from North Vietnamese waters. The situation is not completely analogous because we had put them there in the first place and the Vietnam Peace agreement called for our removing them.)

2. Because Defense funds are also tight, a special supplemental or budget amendment should be considered to reimburse Defense for the expenses incurred in the mine clearing and removal of unexploded ordnance. This could be done in either of two ways: (a) There is a Defense Department supplemental now before the Congress. Although the House Committee has virtually completed action, a quick submission would permit inclusion of an extra \$14 million for this project in the Senate. (b) It could be included in a general Middle East supplemental or budget amendment.

This is our tentative judgment based on our analysis. However, it is important now that State, Defense, and AID complete their own analysis so we can be sure that all the significant implications have been considered.

RECOMMENDATIONS:

1. That you sign the attached asking that the State Department urgently prepare a memorandum in consultation with Defense assessing the alternative sources of funding and recommending a course for the President's consideration.

Approve _____

Other _____

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2. That you ask Mr. Sisco to call Mr. Clements to seek Secretary Schlesinger's agreement to get this project started now on the understanding that proposals for funding will be put before the President promptly with Schlesinger's views.

Coordinated in draft with: Mr. Kennedy
Mr. Cooper

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WBQ:HHSaunders:tmt 3/28/74

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MEMORANDUM FOR:

THE DEPUTY SECRETARY OF STATE

SUBJECT: Funding the Suez Mine Clearance Project

The President has asked that the Department of State in consultation with the Department of Defense urgently prepare a memorandum assessing the alternative sources of funding for the project which the President has approved for clearing the Suez Canal of mines and unexploded ordnance. After assessing the alternatives, the memorandum should propose a course of action for the President's consideration. This memorandum should be submitted to the Assistant to the President for National Security Affairs by April 5, 1974.

Henry A. Kissinger

cc: Secretary of Defense
Chairman, Joint Chiefs of Staff

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HHSaunders:trmt 3/28/74