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THE WHITE HOUSE
WASHINGTON

October 14, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

BRENT SCOWCROFT

FROM:

JIM CONNOR *JEC*

The attached letter was returned in the President's outbox with the following notation:

"This was given to me in Texas.
What is story?"

Please follow-up with appropriate action.

cc: Dick Cheney

THE WHITE HOUSE
WASHINGTON

Brent Sewerth

This was given to me
in Texas.

What is the story?

28 September 1976

The Honorable Robert Ellsworth
Deputy Secretary of Defense
The Pentagon
Washington, D. C. 20301

Dear Bob:

I greatly appreciated the discussions that Jack Parker and I had with you and Secretary McAuliffe. I feel that they served to clarify many points. I am gratified that positive progress is being made with respect to handling the Iranian request to purchase 250 of the land-based derivative of the F-18. I thought it might be useful to the Department of Defense if I would set forth in simple terms the key elements of this program and the steps needed to secure the substantial benefits that can accrue to the United States Government; and to state clearly the responsibilities that Northrop is in a position to undertake to ensure the success of this important program.

Purchase of 250 of these aircraft by Iran provides a unique opportunity to launch a program meeting Mutual Security objectives at no cost to the United States Government. Furthermore, substantial savings to the United States Government can accrue to the Navy's F-18A program if timely action is taken to ensure successful meshing of the two development/production programs.

As you are aware, Northrop and General Electric have been working on the P-530 Cobra program for some eight years as a follow-on and complement to our successful F-5 program. Indeed, three years ago we were prepared, with the Government of Iran as the first customer, to embark on the development and production program. This program was intended to serve other countries as well as Iran, and we were proceeding at that time on the basis of official encouragement of what was widely recognized as a soundly conceived, privately financed venture. Subsequent to that, the decision was made by the Defense Department to secure an Air Combat Fighter for the Air Force and a carrier-based fighter

attack aircraft for the Navy. As a result of this activity, the aircraft engine configuration of the Cobra has flown as the YF-17, which has proven its technical soundness in a highly successful flight test program. The most recent demonstration of this aircraft/engine combination occurred in the past weeks when the aircraft, after being stored for over a year, flew from California to England for twelve demonstration flights there, returning home, meeting all schedule events. Every flight came off on time, with no malfunctions, no delays, demonstrating the inherent operability and soundness of the airplane/engine combination.

The Navy, when it decided to base its F-18 on the YF-17, further reduced the cost and technical risk of a Cobra development by providing the program foundation for what is now called the land-based derivative. The concurrent development of the land-based derivative and the Navy airplane results in incremental non-recurring costs for the land-based F-18 that are one-third that of the Cobra if it had been developed by itself. On this basis, Northrop has the financial capability to assume the contractual commitments to the Iranian Government on its order for 250 aircraft. Initiation of this program in the first quarter of 1977 will permit significant savings to the concurrent Navy development and production program.

Northrop and General Electric have over twenty years experience in developing aircraft programs together to meet the Mutual Security objectives of the United States. Over 1700 F-5 aircraft have been deployed in over twenty countries, all on or ahead of schedule and all within contract prices. Furthermore, the recipient countries have been able to maintain combat readiness, with improved military capability, with less manpower than required for the aircraft they replaced. The F-5A and B were funded for development and production under the Military Assistance Program with approximately one-half of the 1,200 aircraft being Grant Aid. The F-5E development program was initiated by the U. S. Government. About 190 were procured for Grant Aid countries and for the use of our own services. An additional 730, delivered or on order, have been purchased by foreign customers. In the case of the land based derivative of the F-18, however, the program will be initiated on placement of orders by foreign governments; hence, the Iranian request provides the mechanism needed to initiate development now.

Iran was the first country to deploy F-5A's and B's in 1964. They were also the first country to purchase and deploy the F-5E's in 1974, and the first to order the two-place F-5F whose deployment began in 1976. When the present planned program is approved, they will be the first to purchase and deploy the land-based F-18, with deployment beginning in 1982 as replacement of the F-4's within their current force structure. Just as the F-5 required less manpower than the aircraft they replaced, the land-based derivatives will require approximately fifty percent of the manpower supporting the F-4 aircraft they replace.

I can assure you that this program has received the most thorough consideration of Northrop Corporation, McDonnell Douglas, General Electric and their suppliers working with the United States Navy to assure that it will be even more successful than the Northrop/General Electric programs that preceded it. The Master Plan developed under the supervision of the United States Navy provides a proper meshing of the land-based program with the Navy program to ensure minimum risk and maximum benefits to both programs, with no adverse impact on the Navy's F-18. It is for this reason that it is necessary to begin work now on a definitive Letter of Offer, ~~taking full advantage of the Iranian Government's offer to spend up to \$8 million to develop a sound and well-thought out offering that protects the critical time phasing with the F-18 program.~~

~~I understand that the Government of Iran fully appreciates the necessity for proceeding in this manner to permit an orderly process within the United States Government in developing a sound Letter of Offer with the appropriate Executive and Congressional approvals.~~

I appreciate your assurance that all necessary implementing actions are being taken to provide a Letter of Offer and Acceptance in response to the Iranian request. These actions, taken promptly are essential to orderly progress on this program, which I believe is fully responsive both to U. S. Mutual Security objectives and the clearly stated needs of an important ally.

Sincerely,

/s/ Tom

MEMORANDUM

THE PRESIDENT HAS SEEN. *RC*

THE WHITE HOUSE

5772

WASHINGTON

CONFIDENTIAL (GDS)

INFORMATION
October 27, 1976

MEMORANDUM FOR: THE PRESIDENT
FROM: BRENT SCOWCROFT *BS*
SUBJECT: Northrop Letter on the F-18L

You asked for clarification of the letter from Tom Jones, Chairman of the Board of Northrop, to Bob Ellsworth in Defense which was given to you in Texas (Tab A).

Since early 1975, when the fly-off between the single engine General Dynamics F-16 and the two-engine Northrop F-17 was in progress, the Shah of Iran has expressed interest in both aircraft. The F-16 won the fly-off for acceptance by the U. S. Government and was accepted by four NATO countries. At that time, Iran made a firm decision to purchase the F-16. Iran was made part of the General Dynamics program for manufacture, covering the U. S., NATO and Iran. A Letter of Offer for F-16s has been through the Congressional review process and a firm letter of intent to purchase has been signed by the Shah.

When the Navy subsequently expressed interest in purchasing a two-engine carrier version of the F-17 (now the F-18A), the Shah indicated his continued interest in acquiring the aircraft in a land-based version (now designated as the F-18L). Following a visit by Tom Jones to Tehran in September, the Government of Iran forwarded to Defense a formal request to purchase 250 F-18L aircraft, including authorization to expend \$8 million for R&D development.

The present situation is as follows:

-- The master Plan for the Navy purchase of the F-18A is still under review in the Department of Defense, although Navy purchase is virtually certain. (None of the U. S. Services intend to purchase the land-based F-18L, but the Navy would act as program manager for any Iranian FMS arrangement because of the substantial commonality of parts).

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-- The Master Plan for the F-18L for Iran was initially presented to the Department of Defense for review in September. As of this time, DOD is still working with Northrop to develop necessary pricing information and other data.

-- An estimated \$300 million of research and development is required to develop the F-18L. Although it is the outgrowth of the original F-17 prototype, there are significant differences in the wing, avionics and other aspects of the aircraft to transform it from a flight prototype to a weapons system. (The F-16 is much further along in the development process due to the firm orders by the USG, NATO and Iran.)

-- Future Iranian funding is very uncertain. The Shah has indicated from the beginning of his interest in the F-18 that he intended to finance it through an oil-for-arms barter arrangement. No arrangement of this type has yet been made and, based on other attempts at such financing arrangements, prospects do not appear promising at this point.

-- Delivery of this system to Iran in the early 1980s, as the Shah has requested, would mean that Iran would be faced with the problem of absorbing three of the most advanced aircraft systems in the world (F-14, F-16, F-18L) all simultaneously.

Tom Jones and other Northrop representatives have been very active over the past two months urging early approval of the F-18L program. However, until the Iran Master Plan is completed, the basic data necessary to prepare a Letter of Offer will not be available. Also, in view of the uncertainties of the F-18L development, Iranian financing and follow-on considerations such as training and support which must be included in any FMS package, our initial response to Northrop has been to counsel restraint.

The F-16 package, which was presented to the Government of Iran in September, was the result of more than 15 months study and preparation by the U.S. Air Force and the Department of Defense. That preparation paid off with a well-balanced, comprehensive briefing to the Government of Iran identifying the potential problems of training and financing which could be anticipated. The best DOD cost estimate for

the F-16 package, for example, turned out to be \$3.8 billion for 160 aircraft rather than the \$2 billion for 300 aircraft which General Dynamics had quoted to the Shah.

In addition to considerations of our relationship with Iran in the purchase of another expensive, sophisticated aircraft, there are Congressional aspects. These cut both ways, in that some Congressmen would be unhappy to see another major sale for Iran coming on the heels of the F-16 and others, such as Senators McClellan and Taft, are keen to see the deal consummated because of the advantages it would bring American industry and the probability of reducing the cost of parts for the Navy F-18A which are common with the F-18L.

The Departments of Defense and State have been following the F-18L matter closely for several months. They have been in communication with Mr. Jones and other Northrop officials as well as the Government of Iran. In view of the uncertain situation outlined above, they have given neither approval nor disapproval of the F-18L deal for Iran but have told both the Iranians and Northrop that the matter requires further review. As soon as DOD completes the Iran, F-18L Master Plan, a policy decision will have to be made on whether or not to approve negotiations between the USG, Northrop and Iran on a final F-18L package which could be presented to Congress.