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THE WHITE HOUSE  
WASHINGTON

November 30, 1976

MR PRESIDENT:

The attached package was reviewed  
and approved by Alan Greenspan  
and Jack Marsh.

Jim Connor

## MEMORANDUM

~~SECRET~~ (GDS)THE WHITE HOUSE  
WASHINGTON

6085

ACTION  
November 29, 1976

MEMORANDUM FOR: THE PRESIDENT

FROM: BRENT SCOWCROFT *BS*

SUBJECT: Letter from President Sadat on Egyptian Economy -- Proposed Reply

President Sadat has sent you the letter at Tab B asking our assistance in convincing the West Germans to join in an "economic partnership" with Egypt. Sadat's plan is to increase FRG loan assistance and to provide a West German economic advisor to counsel the Egyptians on ways to bolster their economy. Sadat asked Ambassador Eilts to personally hand-carry this letter to Washington when the Ambassador returned here for consultations three weeks ago.

As elaborated in his private meeting with Eilts just prior to the latter's return here (Tab C), Sadat continues to press for expanded Western aid as well as assistance from Arab oil producers in order to bolster his sagging economy. He has made clear his appreciation for U.S. economic aid and influence with other Western donors, while expressing dissatisfaction with Arab assistance. Based on recent talks with Chancellor Schmidt, Sadat believes that West Germany could afford to be of greater help to Egypt, beginning with an increase in FRG loan assistance and technical advice from a West German economic advisor. He urges our intercession with Schmidt to encourage the FRG to respond positively to Egypt's request. Secretary Kissinger has asked Ambassador Eilts to assure Sadat that we will speak to Schmidt after December 14, when the newly elected FRG government formally takes office. A West German economic advisor to Egypt has in fact already been named, but we plan to pursue with Schmidt some of the broader commitments Sadat has proposed.

Although Egypt has succeeded in getting substantial assistance over the past two years, its economy is still floundering because of bureaucratic ineptness, confusion about how to move from the tight

DECLASSIFIED

E.O. 12356, Sec. 3.4.

MR 92-66 #3 NSC Ltr. 9/19/95By Kelt NARA, Date 10/26/95  
~~SECRET~~ (GDS)

Subject to GDS of E.O. 11652  
Automatically downgraded at two-year  
Intervals and Declassified on  
December 31, 1984

*S 11/30/76 + original given to BS.*

socialist system established by Nasser to the more liberal system favored by Sadat, and the unwillingness of Sadat's government to take the basic steps recommended by the USG, IMF, Saudi Arabia and others to put the economy on a more solid basis.

After more than a year of careful study, the International Monetary Fund recently presented a series of specific proposals to Egypt to restore Egypt's credit-worthiness and thus form the basis for attractive Western donor aid. Sadat believes that some of the proposals would have serious political and social ramifications and is therefore reluctant to adopt them, although he is studying the IMF package. We have strongly encouraged Sadat to accept the IMF recommendations, as have other Egyptian creditors, including Saudi Arabia and Kuwait.

The proposed reply for your signature at Tab A would convey to Sadat our continuing determination to assist Egypt with its economic problems, including the encouragement of other potential donors. It again urges Sadat to accept the IMF recommendations as an essential step to longer-term improvement in Egypt's situation and an important factor in the decisions of other donors on whether and how much to assist Egypt.

Finally, the proposed reply informs Sadat that, in connection with the transition, we will make every effort to impress upon the new Administration the importance of making further progress in the Middle East negotiations. In messages through Ambassador Eilts and to the Secretary, Sadat has expressed serious concern that the peace-making process not be jeopardized or allowed to drift because of a change in Administration and has indicated his strong hope that you will indicate to President-Elect Carter the importance of further progress.

RECOMMENDATION:

That you sign the letter of reply to President Sadat at Tab A.  
(Text cleared by Mr. Smith (Hartmann).)

THE WHITE HOUSE  
WASHINGTON

Dear Mr. President:

Ambassador Eilts delivered your letter of October 14, 1976, to me. I am pleased that you are giving your personal attention to strengthening the Egyptian economy. As you know from our talks in Salzburg, I share your conviction that this is a matter of the highest priority. The economic health of Egypt is important for the welfare of your people and for the peacemaking process in which Egypt, under your leadership, must continue to play a vital and indispensable role. For our part we intend to continue to provide substantial economic assistance to Egypt and to encourage others to do the same.

I understand that you are considering further economic policy measures in consultation with the International Monetary Fund. I recognize the political problems that sometimes accompany even the best economic policy decisions. I also recognize that only you can make the decisions as to what will best serve the interests of your country. My own judgment is that the immediate problems arising from sound albeit difficult economic decisions will be more than compensated by a greater willingness on the part of potential donors to increase assistance to Egypt in its economic recovery.

Ambassador Eilts also reported your thoughts of developing an economic partnership with the Federal Republic of Germany. My Government has already been in touch with Foreign Minister Genscher on your idea of a German financial advisor. Ambassador Eilts will report to you in detail about our discussions with our German friends.

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E.O. 12356, Sec. 3.4.

MR 92-66 # 5 NSC Ltr. 9/19/95

By KBH NARA, Date 10/26/95

He will also inform you about our continuing contacts with other friendly governments to assure priority attention to Egypt's needs. We shall continue these efforts and at the same time look with you for ways to make our own help to Egypt more timely and more effective.

Concerning overall United States policy toward the Middle East, you can be certain that I will emphasize to President-Elect Carter our firm conviction that the pursuit of a just and durable peace in the Middle East should have the highest priority. I fully understand the need for further movement toward this objective in the months ahead, and I will certainly work to impress upon the new Administration the importance of seizing upon the currently favorable climate.

Mrs. Ford joins me in extending to you and Mrs. Sadat our warmest personal wishes, recalling with utmost pleasure our memorable meetings with you and your family.

Sincerely,

His Excellency  
Anwar El-Sadat  
President of the Arab Republic of Egypt  
Cairo

ITEM WITHDRAWAL SHEET  
WITHDRAWAL ID 00969

Collection/Series/Folder ID No. .... : 004700418  
Reason for Withdrawal ..... : NS,National security restriction  
Type of Material ..... : LET,Letter(s)  
Creator's Name ..... : Anwar Sadat  
Creator's Title ..... : President of Egypt  
Receiver's Name ..... : President  
Description ..... : re Egyptian economy  
Creation Date ..... : 10/14/1976  
Volume (pages) ..... : 4  
Date Withdrawn ..... : 05/24/1988

ITEM WITHDRAWAL SHEET  
WITHDRAWAL ID 00970

Collection/Series/Folder ID No. .... : 004700418  
Reason for Withdrawal ..... : NS, National security restriction  
Type of Material ..... : MEC, Memorandum of Conversation  
Description ..... : re meeting between Anwar Sadat and  
d American Ambassador Herman Eilts  
Creation Date ..... : 10/14/1976  
Volume (pages) ..... : 4  
Date Withdrawn ..... : 05/24/1988



## Memorandum of Conversation

DATE: Thursday,  
October 14, 1976  
Place: Barrages

**PARTICIPANTS:** Anwar al-Sadat, President of the Arab Republic of Egypt  
Hermann Frederick Eilts, Ambassador to the Arab Republic  
of Egypt

The President said he had long pondered what the alternatives might be. He could not ask us for more, since we have already been most generous. He had then thought of the FRG. Both the FRG and Saudi Arabia, he observed, are wealthy. When he had met with Chancellor Schmidt in Bonn, they had talked for three hours. It was the first time he had met the Chancellor, who had been well prepared for the meeting by Secretary Kissinger. In a nice gesture, Schmidt had the night before Sadat's arrival raised the level of FRG assistance to Egypt from 300 million DM to 500 million. Sadat gave Secretary Kissinger credit for this FRG action. Additionally, according to Sadat, Schmidt had "promised" that after the German elections, he would "think of putting some

(Drafting Office and Officer)

**GDS**

By KBH, NARA, Date 3/19/93

of his dollars in a bank in Egypt". Such an action would help Egypt's acute liquidity problem. The President repeatedly emphasized that he was not asking the FRG for grants, but for loan assistance.

Egypt needs an active partner, Sadat continued, to give satisfaction to his Arab colleagues who can thereafter better understand GOE needs. The FRG, as he conceptualized his idea, would be GOE's "partner". It can afford to help Egypt, since it has the skills and technology to assist in rebuilding Egypt. Whatever technology he might need, the FRG could provide. This would be beneficial to both parties. Again, the President emphasized, he was not asking for grants, but for long-term loans and for help in converting short-term loans to long-term loans.

In rebuilding Egypt, he wished to concentrate on food production and industrialization. The five-year plan about to be finalized emphasizes food production, fertilization, cement and sponge iron plants. The FRG can help provide much of this.

By 1980, the President opined, GOE's financial situation should be much improved. When he had visited the Suez Canal a few weeks ago, he had been told that income from tolls stood at \$1.2 million per day and was still rising. David Rockefeller was coming in a few days to arrange a \$250 million GODE guarantee loan. Another direct \$250 million GODE loan would shortly be arranged. With these loans, and some additional small income, he could get through the current calendar year. But there remain the problems of 1977 and of the intervening years between now and 1980.

For Egypt's future economic salvation, petroleum production is a must. There is oil under the Gulf of Suez. Alluding to his talk of the previous day with Standard of Indiana Chairman Swearingen, he expressed concern about the Israeli actions in stopping Amoco from drilling on the eastern side of the Gulf. Egypt needs a one million BPD production by 1980. "Your people say it is quite easy, especially on the eastern side." Swearingen had told him of sixteen sites in the eastern area. The oil would be "easy to drill if the Israelis would permit." Time should not be lost. Otherwise his target would not be achieved. It takes two to three years to develop a field. He was asking President Ford and Secretary Kissinger to do their utmost to enable Amoco to drill in the eastern Gulf. He did not want to use force since he had committed

himself in Sinai II not to do so for three years. I told him you were aware of the problem, had already spoken twice about it to Allon and that some progress had been made. He was pleased.

Noting that the UNEF mandate is to be renewed on October 24, Sadat asked if I thought it might help pressure the Israelis if he renewed it only for three months. I gave him my personal view that this was hardly likely to be helpful and would be viewed by many as a violation of Sinai II. Sadat accepted my comment and said he would drop this idea. He would renew the UNEF mandate for a year.

Reverting to his earlier theme that by 1980 Egypt's economic situation should be improved, he thought this was very feasible. The two phases of Suez Canal expansion which are contemplated should help greatly. The first, which involves dredging now being done by the Japanese, should be completed by 1978. The second, involving widening, should be completed by 1980. In his judgement, Canal tolls would at that time be tripled and go up to about \$1 billion per year. It is the next two or three years that will be difficult.

He had chosen the FRG as a "partner". Since Saudi Arabia is currently earning between \$27 and \$28 billion which it cannot spend, the Germans could obtain some funds from Saudi Arabia. He understood that Schmidt had agreed to send two economic advisors to Saudi Arabia. He had, therefore, asked Schmidt also to send a financial advisor to Egypt to assist in vetting the five-year plan and implementing it. Such an individual could help determine priorities between now and 1980. Schmidt, Sadat said, has now agreed. (The German Ambassador knew of no such agreement.) Sadat wished to go beyond this, however, and urge the Germans to be his "partner". What he needs, they can provide from "their pockets or those of Saudi Arabia"—not in grants, but in loans. Iran is also "more than willing to help". Thus, Germany, working with Saudi Arabia and Iran, should be able to assist Egypt in meeting its needs and determining its priorities. Sadat was sure that "we will never differ because we will not hide anything" from the German financial advisor.

I took the opportunity to remind Sadat that one of the major problems we have encountered in our "hat passing" exercise is the unhappiness of donors—Western, Arab, Japan and Iran—that GOE has not yet accepted the IMF recommendations.

I had to tell him in all frankness that, while we recognize the political problems that acceptance might entail, I thought he would have difficulty getting any responsible Western state to assist if these recommendations are not soon accepted. Sadat responded that total acceptance would create political, social and security problems. Nevertheless, the IMF recommendations can be accepted "step by step". I then mentioned the vast amounts that are required for the Egyptian subsidy program. Sadat agreed, but said basic consumables must be subsidized. He then observed that perhaps he could "compensate" the necessary subsidy payments from defense expenditures. Defense now costs GOE LE 1,200,000,000 per year. He could perhaps take LE 400 million from this "in two years". Asked what Gamasy's reaction to this might be, Sadat acknowledged it would be bad. But Gamasy, he argued, would not have to spend one cent for the military. GOE will be asking the Emirates to pay all equipment costs for the military.

When I asked Sadat for specific details of what he had in mind for the German "partnership" concept, he was vague. He had obviously not thought out these aspects. Nor had he yet discussed it with the West German Ambassador in Cairo. The idea had come to him only a few days ago. He did not want to do so until he knew our reaction and whether we would be willing to commend it to the West Germans. He felt that the subject was sufficiently important to him that I should go back and present it.

Throughout his presentation, Sadat kept asking "do you get the picture". He was concerned that he might not be presenting it as well as he might and attributed this to the fact that he was fasting.



## DEPARTMENT OF STATE

Washington, D.C. 20520

7622517

November 9, 1976

SECRETEXDISMEMORANDUM FOR MR. BRENT SCOWCROFT  
THE WHITE HOUSESubject: Letter to President Ford from  
President Sadat of Egypt

President Sadat asked Ambassador Eilts October 14 to hand carry to Washington the enclosed letter to President Ford. In his letter Sadat proposes obtaining on loan an economic expert from the Federal Republic of Germany and accepting Chancellor Schmidt's offer of a sizeable deposit until 1980, apparently of U.S. dollars, in the Egyptian National Bank. Sadat asks President Ford to send the Chancellor a special message recommending the FRG assist Egypt in this manner.

There is also enclosed a memorandum of conversation drafted by Eilts after his October 14 meeting with Sadat at which he received Sadat's letter for the President.

A suggested reply from President Ford to Sadat is attached.

C. Arthur Borg  
Executive Secretary

## Attachments:

1. Suggested Reply to Sadat
2. Sadat-Ford letter, October 14, 1976
3. Eilts' Memorandum of Conversation  
with Sadat October 14, 1976

SECRET  
GDSDECLASSIFIED  
EO 12812-2, 3, 4MR 92-68, #8, State Str. 2/5/93  
By KBH NARA, Date 3/19/93

## THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: November 29, 1976

Time:

FOR ACTION:

cc (for information):

✓ Jack Marsh  
✓ Alan Greenspan

up 11/30

FROM THE STAFF SECRETARY

DUE: Date: Tuesday, November 30, 1976 Time: 10:00 A.M.

SUBJECT: Brent Scowcroft memo, 11/29/76 re  
Letter from President Sadat on Egyptian  
Economy -- Proposed Reply.

## ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☒ For Your Comments☐ Draft Remarks

## REMARKS:

Greenspan - OK

SECRET ATTACHMENT

Marsh - OK

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jim Connor  
For the President

## THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO. 

Date: November 29, 1976

Time:

FOR ACTION:

cc (for information):

Jack Marsh  
Alan Greenspan

FROM THE STAFF SECRETARY

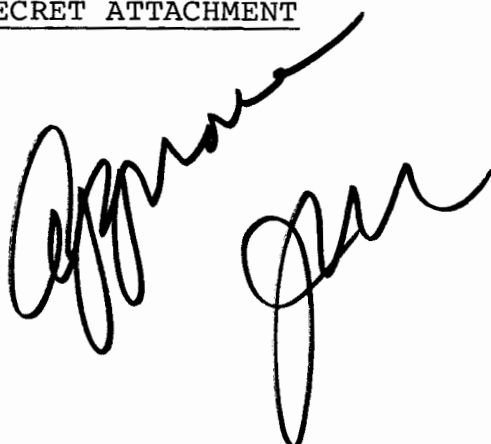
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REMARKS:

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Jim Connor  
For the President