

LBJ LIBRARY DOCUMENT WITHDRAWAL SHEET

Doc #	DocType	Doc Info	Classification	Pages	Date	Restriction
<del>01</del>	<del>memo</del>	<del>Foster to Rostow</del> open per NLJ 15-217 12/18/17	<del>TS</del>	<del>1</del>	<del>8/14/68</del>	<del>A</del>
01a	report	re: UAR sanitized 12/18/17 per NLJ 15-217	TS-	1	[8/68]	A
02	memo	Saunders to Rostow sanitized 1/15/16 per NLJ/RAC 15-228	S	1	4/18/66	A
<del>02a</del>	<del>report</del>	<del>re: UAR</del> open 1/15/16 per NLJ/RAC 15-228	<del>S</del>	<del>1</del>	<del>4/18/66</del>	<del>A</del>
03	memo	Saunders for the Record open 7/28/15	S	2	8/10/66	A
06	memo	Rostow to the President, 2:30pm [Duplicate of #77, NSF, Files of Saunders, "Presidential Decisions", Box 29; and, partial duplicate of #91, NSF, Memos to President, Vol. 3, Box 8] open 7/28/15	S	6	5/30/66	A

**Collection Title** National Security File, Files of Harold H. Saunders

**Folder Title** "UAR Military-Nuclear Energy-Biological Warfare/Missiles, 4/1/66 - 1/20/69"

**Box Number** 32

**Restriction Codes**

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2/23/2011

  
Initials

UAR  
Military

1

August 14, 1968

~~TOP SECRET FROTH~~

WWR:

Attached is DIA's analysis of the new military activity in Egypt you noted this morning. Admittedly, its crudeness leaves one inclined not to accept it as the last word. However, Hal understands from INR that NSA itself, the author of this morning's piece, is putting out a somewhat less alarmist version this afternoon.

In general, the intelligence community does not think the UAR is preparing for war, but it is well aware that the Egyptians can act stupidly, and so it will watch the situation closely.

John Foster

~~TOP SECRET FROTH~~

DECLASSIFIED  
E.O. 13526, Sec. 3.5

NLJ 15-217

By CTS NARA, Date 12/5/17



2000  
x 2000

2/

~~SECRET~~

April 18, 1968

WWR:

SUBJECT: Soviet Military Shipments to the Arabs

You have asked two separate questions about Soviet military resupply to the Arabs:

1. How much of Egypt's tank losses has the USSR replaced?  
The following table shows that, including 50 tanks on loan from Algeria, the answer is about 85%:

Heavy and Medium Tanks - UAR

Pre-war inventory	992
Combat and post-war losses	591
Current, estimated inventory	844

2. Have Soviet shipments levelled off? [redacted]  
comparison of January and April inventories suggests that, except for Iraqi tanks, the Russians seem to be supplying at or below the pre-war level. However, we are trying to get [redacted]  
[redacted] a formal answer to this important question and we will pass it along when we have it.

[redacted]

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SANITIZED

E.O. 13526, Sec. 3.5

NLJ/RAC 15-228

NARA, Date 11-19-2015

By UCI

SECRET - NO FOREIGN DISSEMINATION

April 18, 1968

ARMS RESUPPLY SINCE JANUARY  
(from comparing INR's January and April lists)

	<u>GAIN</u>	<u>LOSS</u>
UAR	6 medium bombers	
Syria	6 jet fighters	
Iraq	4 jet fighters 96 tanks (possibly this is a reevaluation of old figures)	
Jordan	4 jet fighters 4 artillery pieces	2 tanks
Lebanon		1 jet fighter
Saudi Arabia	16 helicopters 4 missile launchers 26 missiles 16 artillery pieces	
Israel	4 jet fighters 2 missile patrol craft	

Except for the Iraqi tanks, the Russians seem to be supplying at or below the prewar level.

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E.O. 13526, Sec. 3.5

NLJ/RAC 15-228

NAR, Date 11-19-2015

By LKB

SECRET - NO FOREIGN DISSEMINATION

DECLASSIFIED

Authority NS 034R.032.006/1

By jc NARA. Date 7-15-75

August 10, 1966

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*UAR Desalting  
x Israeli Desalting*

*3*

MEMORANDUM FOR THE RECORD

SUBJECT: Meeting with the President on Israeli and UAR Desalting Projects  
on June 22, 1966

Participants: The President  
Walt Rostow  
Donald Hornig  
Charles Schultze  
Harry Rowen  
Howard Wriggins  
Spurgeon Keeny  
Dean Peterson  
Charles Johnson  
Harold Saunders

Mr. Rostow began this twenty-minute meeting by explaining that the purpose of the meeting was to air before the President the whole spectrum of complex issues surrounding these projects. He outlined four key questions: (1) Can these projects be economic? (2) Will these projects undercut our efforts to stem proliferation of nuclear weapons in the Middle East? (3) If we decide to go ahead for the sake of desalting, should we link the Israeli and UAR projects? (4) Can adequate US Government financing be made available for the Israeli project?

Mr. Schultze said he basically agreed with the memorandum Mr. Rostow had sent to the President prior to the meeting outlining the problems in the Israeli and UAR projects. He agreed that we should take a broad look at the alternatives. He also agreed with Mr. Rostow's point--at mild variance with Secretary Rusk's recommendation--that we should initially confine our exploration to the Israeli project, leaving the UAR project for later consideration after we see how far we can go with Israel. He felt it was necessary to do a good economic study first, but then he also felt someone--probably the "coordinator" we plan to appoint--negotiate within the US Government itself first to establish a US position. He also noted the importance of tying this position to our decision on the desalting plant for the Metropolitan Water District in California. If that project goes through, it will be difficult to find financing, and he would be very cautious about approaching the Israelis.

The President asked Mr. Rostow how fully committed to the Israelis we are on this project. Mr. Rostow said he felt there was a general commitment to help Israel find a solution to its water projects, but he did not feel we were committed to any specific line of approach. The President asked him to research the exact extent of our commitment.

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Mr. Hornig agreed that we should go ahead and appoint a coordinator to study this question. However, he was less enthusiastic about making an elaborate economic study. He felt we knew most of what we need to know about Israel's water problem now and recommended that we not pile study on study. He said the Israeli demand for water in the early 1970's is almost certain to exceed presently projected supply. He felt there was room for studying alternative methods of producing that water; he especially favored a hard look at an oil-fueled plant.

The President asked Mr. Rostow to check out the question of the commitment and then "tell me what I ought to do."

Harold H. Saunders

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~~SECRET/DRAFT~~

UAR Desalting  
x Israel Desalting

June 6, 1966

4

MEMORANDUM FOR THE PRESIDENT

The purpose of our meeting with you on the Israeli and UAR desalting projects is to surface for you the wide range of opinion and controversy over them. While this need not throw us of course, you should be aware of the divergent interests involved.

Basically, the argument is between the desalters and the disarmers, with varied views between.

--The AEC and Interior want to push ahead with nuclear desalting. They admit money is a problem because a big nuclear desalting plant, while technologically feasible, is still not economic.

--AID and Budget Bureau want to save us from building a white elephant which we would have to subsidize.

--The disarmament experts play up the need for safeguards on the nuclear materials involved. Some fear putting any new reactors in tense areas because they would increase ability to produce weapons. Others press the safeguards.

You might want to state your view of the problem and then follow up with the tough questions:

The problem is that we want to push ahead with nuclear desalting as rapidly as makes sense. We also want to keep Israel off the nuclear track. Can we do both?

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DECLASSIFIED  
E.O. 13292, Sec. 3.4  
By *clm/* NARA, Date 102810

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The questions.

1. If nuclear desalting still can't pay its own way without subsidy, what about other sources of water? We've talked so much about desalting, have we overlooked other angles?
2. Is there a chance that new technology combined with Israel's increased need for water will make desalted water economical in the 1970's?
3. Since we are worried about nuclear proliferation, how about non-nuclear desalting?
4. Should we go ahead with desalting if Israel won't accept safeguards on all its reactors?
5. How good are IAEA safeguards? Are they worth giving away a nuclear desalting plant for? How can we make them better?

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CROSS REFERENCE SHEET

TYPE OF DOCUMENT

Cable \_\_\_\_\_

Letter \_\_\_\_\_

Memo  \_\_\_\_\_

Other \_\_\_\_\_

DATE 6/6/66

FROM H. H. Saunders

TO B. K. Smith

NUMBER \_\_\_\_\_

SUBJECT UAR- Israeli Desalting Projects, att.  
Statement, Draft Memo to President, and  
Summary of Desalting Papers

SEE Israel Desalting

U.A.R. Nuclear  
+ P.S. Israel  
+ Secretary  
Hal Saunders

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Authority FRUS 64-68, vol. 34, 4148

By jc NARA. Date 7-22-15

~~SECRET~~

Monday, May 30, 1966 -- 2:30 p.m.

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Appointment of Coordinator on Desalting Projects in Israel and the United Arab Republic

In the attached memorandum Secretary Rusk recommends you name a high-level coordinator to explore conditions under which we might cooperate on nuclear desalting plants in Israel and the UAR. (The Israelis, understandably, want the coordinator attached to the White House rather than State.)

The coordinator would look into using these projects to negotiate IAEA controls on all existing and future nuclear installations in both countries.

Sec. Rusk also recommends we undertake economic feasibility studies of both plants.

Before acting on these recommendations, we wished you to have available a clear account of the issues the coordinator will face -- and our government -- as we move forward in this matter.

Dr. Hornig's staff, Charles Schultze's and mine all collaborated in this staffing exercise.

Here are the four key questions.

1. Can these projects be economic? The recently completed joint U.S. - Israeli engineering study of the proposed Israeli desalting/electric power plant shows it is technologically feasible. While establishing the cost of producing water, it did not address the economics of future water use. We know a lot less about the UAR project. Since it is primarily a nuclear electric power plant with a small desalting capability, the water economics will be secondary; but we need to know whether the nuclear power plant would be more economic than an oil-fueled one.

The economic analysis we have makes clear that the Israeli plant will not produce water at currently competitive costs unless financed by grant or at heavily concessional rates. Eshkol himself has said that only if the project could be financed at "zero interest rate" could it be done without putting an unacceptable strain on the Israeli economy.

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To illustrate, Israelis estimate the current maximum value of agricultural water in their remote southern Negev desert area at about 16¢ per 1000 gallons -- which happens to be the actual cost of supplying water there from the Jordan River diversion works. By comparison:

- At 8.4% interest (about equal to commercial rates), water from the proposed plant would cost 67¢ per 1000 gallons.
- At 4.6% interest (half way between AID terms for Israel and Ex-Im Bank terms) it would cost 43.4¢ per 1000 gallons.
- At no interest, repayable in 30 years, cost of water would be 25¢ per 1000 gallons.
- And each of these costs should be increased by about 7¢ per 1000 gallons to cover the costs of delivery.

An outright gift of any part of the capital would, of course, lower the cost of water. For example, if 4.6% money were replaced by grant, the cost would be lowered by 2¢ per 1000 gallons for each \$10 million. But with no concessional capital financing and at present water prices, an annual subsidy of about \$16 million would be required.

But these projections, based on present economic conditions in Israel, are not a proper basis for decision. We need an authoritative evaluation of the water economics of Israel in the 1970's. After all, the plant is being considered because of future water shortage in the country. Therefore, it will be necessary to:

- Analyze supply and demand factors (population growth, industrial investment, agricultural expansion, decreasing natural water supply) which will determine the price of water.
- Project into that context the relative advantages of desalting with nuclear as opposed to non-nuclear fuels.
- Study alternative sources of water (such as filtered sea water for limited uses) and ways to do without water.

The study would, in addition, have to get into basic questions on water supply and use in the 1970's. Israel is one of the best case studies we have, and we would like to put the best minds in the country on it.

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2. Will these projects undercut our efforts to stem proliferation of nuclear weapons in the Middle East?

a. Israel appears unlikely to give up its nuclear option by accepting controls on Dimona and all future reactors. Eshkol still has not answered your persuasive May 1965 letter urging him to accept IAEA safeguards. So we may not get much more than we already have -- Eshkol's assurance that Israel will not be the first to introduce nuclear weapons into the Middle East. If we cannot strike the cross-the-board bargain Rusk recommends, should we go ahead with nuclear desalting anyway, thereby sacrificing the one bargaining counter possibly big enough to get Israel off the nuclear weapons track? State's paper leaves this up in the air.

b. Even if Israel accepted IAEA safeguards on all its reactors, would they be adequate assurance against weapons proliferation? You have strongly urged Eshkol to accept safeguards as the best means of controlling existing reactors. This has been our policy throughout the Atoms for Peace program. However, despite our official endorsement of IAEA controls, some disarmament experts are skeptical about the effectiveness of IAEA safeguards in a crisis. With countries as mutually hostile as Israel and the UAR, it is not hard to imagine a situation in which they might cheat or try to abrogate the safeguards. If they could get away with it, we would have enhanced the potential of each to build nuclear weapons without establishing compensating controls. From the viewpoint of preventing nuclear proliferation, it might be better to have no new nuclear reactors in the Middle East and to look more closely at desalting with non-nuclear fuels, especially if nuclear desalting shows no clearcut economic advantage.

3. If we decide to go ahead for the sake of desalting, should we link the Israeli and UAR projects? Secretary Rusk suggests we make a stab at nuclear safeguards by doing a project in both countries, to give us bargain leverage. (Jerry Wiesner wrote you along the same lines.) He argues that one country would hardly forswear nuclear weapons unless the other did, and the politics of the Middle East make it risky to help one side on any nuclear project without balancing on the other.

On the other hand, there are persuasive arguments against linking the two:

- Helping the UAR would forfeit most of the political kudos we could expect from helping only Israel.

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-- It may not be politically feasible for some time to go ahead with any capital project in the UAR, much less a nuclear one. So it may be unwise to tie the Israeli project to a balancing project in the UAR. In any case, the UAR project is primarily an electric power plant and is, therefore, not symmetrical with the Israeli project.

-- Nasser has little immediate hope of developing nuclear weapons. If we could strike a deal with Israel on safeguards, we might be able to persuade him to accept them without giving him a plant. After all, getting Israel off the nuclear track would be a big gain for him at little cost since he would be sacrificing no potential weapons of his own.

-- It is probably unrealistic to expect Israel to accept safeguards on all its reactors. So a private deal with Israel on nuclear self-restraint may be the best we can hope for. Realistically, quiet bilateral U.S. approaches to both parties might be as good a bet as urging public commitment to safeguards. Bilateral understandings might be worked out with quite different bargaining counters in each country provided we could give each essential assurance that the other would not go nuclear.

4. Can adequate USG financing be made available for the Israeli project? State's paper includes \$20-45 million in grants from Interior and AEC, but if our own proposed plant in Los Angeles goes ahead using the same technology, both Interior and AEC agree that there would be little or no technological justification for going to the Congress for a large grant to develop the same technology in Israel. Moreover, Congressman Aspinall and other members of the House Interior Committee oppose aiding any such project abroad. Current thinking calls for \$48 million in local currency from PL 480 sales, but AID and Agriculture policy toward Israel calls for a shift to Title IV dollar sales. So no new large holdings of local currency will be accumulating, and current holdings are programmed to the hilt. Dave Bell believes AID should not finance any such project unless it can pay its own way without continuing subsidy. As nearly as we can tell from Executive Branch discussions so far, it is unlikely that our coming recommendations on the Water for Peace program will propose a new source of U.S. capital aid for large-scale desalting plants. So for the \$200 million project, the only likely source of U.S. funds under current policies would be, say, \$50 million from Ex-Im. The rest would have to be raised in world money markets at interest rates which would make the project uneconomic. Based on likely sources of financing, the water cost appears closer to 47¢ per 1000 gallons than to the 35¢ cited in State's paper.

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To sort these questions out, we support Secretary Rusk's recommendations that:

1. You appoint a high-level coordinator. We feel that Douglas Dillon (one of Secretary Rusk's suggestions) may be the best choice. He combines full understanding of the complex economics involved with diplomatic experience. But Secretary Rusk also mentions Averell Harriman, Gene Black, or Mac Bundy.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

Coordinator \_\_\_\_\_

2. You instruct the coordinator to organize a U. S. -financed independent broad-gauge economic study of the Israeli project (as Secretary Rusk recommends).

Approve \_\_\_\_\_ ✓ \_\_\_\_\_ Disapprove \_\_\_\_\_

3. You instruct the coordinator to explore the conditions under which Israel might accept safeguards on all its nuclear reactors (especially Dimona) in connection with this project (as Secretary Rusk recommends).

Approve \_\_\_\_\_ ✓ \_\_\_\_\_ Disapprove \_\_\_\_\_

4. You instruct the coordinator to keep the UAR angle under review but not to move without your approval. We would suggest that any approach to the UAR be deferred until we know better where we stand with Israel. Sec. Rusk recommends we offer a feasibility study of the UAR project when the political climate allows, because he feels we must balance our books with the Arabs. While we agree we must do what we can to contain Arab reaction, we feel that our present relation with Cairo makes even a semi-commitment to the UAR impractical in the immediate future. We also view Israel as the key to the safeguards question, since the UAR may eventually be far easier to persuade. (Nasser has more to gain by getting Israel off the nuclear track, since he has no nuclear capability.) We do not wish to commit ourselves to anything in the UAR until we think we have a deal with Israel that would make it worth while.

Approve this approach \_\_\_\_\_ ✓ \_\_\_\_\_ Prefer Sec. Rusk's \_\_\_\_\_

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THE SECRETARY OF STATE  
WASHINGTON

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May 21, 1966

*UAR Desalting  
x Israeli Desalting*

MEMORANDUM FOR THE PRESIDENT

Subject: Appointment of Coordinator on  
Desalting Projects in Israel  
and the United Arab Republic

*See 4/25 memo to  
BKS - 6/6/66 with  
Draft memo to Pres.*

The attached memorandum speaks for itself, but I wish to comment on three points:

(1) I believe Governor Harriman would be an excellent choice as the United States coordinator on the proposed desalting projects.

Other possibilities as coordinator, any of whom could perform with distinction, include Gene Black, Doug Dillon, and Mac Bundy.

All of these people not only have the sensitivity and the broad grasp required for the job, but are thoroughly acquainted with what it takes to guide a project through the Washington structure.

(2) I consider it important to link the Israeli project to a possible United Arab Republic project with a view to making significant progress on controlling the spread of nuclear weapons development. We see a promising opportunity to work toward that goal through acceptance by both Israel and the United Arab Republic of IAEA safeguards, which provide a verifiable control system. I would stress also that in moving ahead we not lose sight of the importance of using our cooperation on this matter to obtain effective safeguards over the existing Dimona Reactor in Israel.

(3) In view of the current state of our relations with Nasser, I believe any public announcement on the appointment of a coordinator should be related only to the possible Israeli project. (We would, however, privately

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DECLASSIFIED  
Authority NLS 98-235 (# 9/a)  
By *cb/ly*, NARA, Date 10-28-10

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-2-

inform Cairo at an appropriate time of our willingness to undertake an economic feasibility study in the United Arab Republic in the context of a possible understanding on safeguards with both Israel and the United Arab Republic.) Such an announcement should not be made before we have reached an understanding privately with the Israelis on what we have in mind to announce. Some delay in making the announcement would also help to mitigate a foreseeable tendency on the Arabs' part to associate the nuclear desalting issue with the announcement just made on our sale of military aircraft to Israel.

*Dean Rusk*

Dean Rusk

Attachment:

Memorandum for the President.

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THE SECRETARY OF STATE  
WASHINGTON

7a

May 21, 1966

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MEMORANDUM FOR THE PRESIDENT

Subject: United States Support for Desalting Projects  
in Israel and the United Arab Republic

Recommendation:

That you name a high-level United States coordinator to explore the conditions under which United States cooperation on proposed nuclear desalting projects in Israel and the U.A.R., including possibly United States Government financial assistance, might be feasible and desirable. The coordinator would specifically explore the possibility of linking any United States Government assistance to the acceptance by Israel and the U.A.R. of IAEA safeguards over all their existing and future nuclear installations.

Inasmuch as various questions concerning the economics of the Israel and U.A.R. proposals need to be answered prior to any final recommendations on financing, I propose that the United States Government pay for independent economic feasibility studies of the two projects.

Approve \_\_\_\_\_

Disapprove \_\_\_\_\_

The above recommendation stems from a consideration of the problem by the Interdepartmental Regional Group for Near East and South Asia, in which representatives of the Department of the Interior, the Atomic Energy Commission and the Arms Control and Disarmament Agency participated.

Discussion:

I. Foreign Policy Implications

I believe the desire of Israel and the U.A.R. to construct nuclear desalting plants offers us a major opportunity to advance our broad

GROUP 3

Downgraded at 12 year intervals;  
not automatically declassified

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DECLASSIFIED  
Authority NLS 89-101 (4916)  
By SP/2 NARA, Date 10-28-70

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- 2 -

objectives in the Near East and could make a contribution to peace and development in the area that would justify considerable United States support. We recognize, of course, that nuclear reactors of the size contemplated would yield fissile material that, unless controlled, could conceivably be diverted to weapons manufacture. However, we would require IAEA safeguards over these reactors and would also seek acceptance by both Israel and the U.A.R. of similar safeguards over all of their nuclear installations in exchange for our support. We consider the IAEA safeguards system to be an effective deterrent against diversion of nuclear material for military purposes.

Israel will undoubtedly be reluctant to accept overall IAEA safeguards. Nevertheless, the desalting plant may be important enough to serve as a powerful inducement. There would seem to be little likelihood of getting Israeli agreement to comprehensive nuclear safeguards unless we get a similar commitment from the U.A.R. We believe we could probably obtain such a commitment from the U.A.R., in conjunction with our support for a desalting plant and an Israeli commitment on safeguards. Of course we cannot be fully confident that either country will accept the safeguards requirement until we approach them to sound out their willingness to enter into a "package deal." National sensitivities on this issue are so touchy that we will need to use a senior negotiator to approach both countries at the top-most levels (not over-looking the possibility of withholding official U.S. support if satisfactory safeguards provisions are not acceptable).

An approach along the above lines to both Israel and the U.A.R. would be consistent with our efforts to maintain a reasonably even-handed position in pursuit of our interests in the Near East area. The assurance of this important new source of water, particularly through the Israeli project, would in the long-run tend to lessen somewhat the tensions arising out of competitive efforts by the Israelis and Arabs to harness limited natural water resources in the area. (It is important to note, however, that economic assistance, via desalting or other projects, is not a promising avenue for resolving the bitter and deep-seated Arab-Israel dispute.)

Since the British and German Governments have shown an interest in selling desalting projects abroad, Israel and the U.A.R. may look to them, and possibly to France, for financing if our terms are unacceptable. We will approach those governments to seek their concurrence in requiring safeguards over the entire Israeli and U.A.R. nuclear programs as a condition precedent to any financing of the desalting plants.

## II. Economic Factors

The Kaiser-Catalytic engineering feasibility report provides detailed estimates of the cost of the Israeli project, intended to yield 100 million

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gallons of desalted water daily and 200 megawatts of electric power. However, as a project engineering report, it did not address itself in detail to possible alternative solutions to the Israeli water problem or to questions like the value of water (as well as further electric power) to the Israeli economy under varying cost, price and use assumptions.

Our involvement in the U.A.R. proposal has been limited to a preliminary survey by a United States technical team which indicated the project might be attractive in meeting its limited objectives. We need to achieve a fuller understanding of many aspects of this project. Unlike the Israeli project, which is designed to help meet a substantial portion of Israel's growing needs for water, as well as electric power, the U.A.R. project would produce a substantial increment of power (125 megawatts) but only a modest quantity (5 million gallons daily) of desalted water for use in agricultural pilot projects.

Economic feasibility studies are needed to clarify questions relating to water and power needs and costs in both projects before we can make a final assessment of the economic attractiveness of these projects. We estimate that these studies would take up to eight months to complete. Within that time period we should also have more definite information on plans for U.S. Federal contributions to a comparably large desalting and power project being considered by the Metropolitan Water District (MWD) in Southern California.

### III. Financing

The Kaiser-Catalytic report estimates the cost of the Israeli project at between \$187 million and \$210 million, based on 1965 prices. U.S. firms have tendered bids on the U.A.R. project, quoting costs of approximately \$80 million.

The proposed economic feasibility studies will demonstrate whether the projects meet the tests of economic feasibility, i.e., whether they would be viable if financed solely on non-concessional terms. Such non-concessional financing could include (1) perhaps as much as \$20 million in grants from the Department of the Interior and the Atomic Energy Commission, representing research and development benefits to the United States (this amount could conceivably go as high as \$41 million if the MWD project does not go through and if the decision is made to construct the first plant of this scale in a foreign country); and (2) perhaps up to \$50 million of Export-Import Bank lending. Concessional financing could involve (1) dollar loans from AID or other sources on terms substantially softer than those offered by the Export-Import Bank; (2) an Atomic Energy Commission waiver of interest charges of about \$3.5 million on provision of fuel inventory; (3) a loan of up to \$48 million to cover local currency costs on very soft terms if

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- 4 -

PL 480 Title I continues to be available. However, no proposal for AID concessional dollar lending for Israel for FY 1967 or subsequent years has been included in the current economic aid request now before the Congress.

AID believes that United States Government financing should be considered only if the projects would be viable if financed solely on non-concessional terms. The Department of the Interior and the Atomic Energy Commission believe that the proposed projects would make a major contribution to large-scale desalting, which would benefit both the United States and other nations, and which cannot be measured solely in economic terms.

I agree that we should not go forward if the projects would require continuing annual operating subsidies, but I do not believe we should foreclose the possibility of providing concessional dollar lending for initial capital costs, should the projects prove economically desirable within the political context outlined in I. above. In that event we might wish to seek special Congressional appropriations, perhaps under the Water for Peace program.

Economic feasibility studies could be financed by the AEC, the Department of the Interior, or AID. Because grant assistance to Israel was ended in 1962, it would be a departure from present policy for AID to finance these studies.

We should clearly reserve our final position on financial participation in the projects until we know (1) the results of our efforts to obtain safeguards, and (2) the findings of the economic feasibility studies.

A Staff Study is attached with more detailed discussion of these considerations.

*Dean Rusk*

Dean Rusk

Enclosure:

Staff Study

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STAFF STUDY ON  
ISRAELI AND UNITED ARAB REPUBLIC DESALTING PROJECTS

I. Current Status of the Israeli and UAR Projects:

1. Israel: The Kaiser-Catalytic engineering feasibility report has been submitted to the Governments of Israel and the United States. A copy was sent to the President under covering memorandum on March 29, 1966. The report indicates that the proposed nuclear fueled 100 MGD desalting -- 200 Megawatt electric power plant is technically feasible for operation in 1972 assuming successful completion of a development program, and estimates its cost at between \$187 and \$210 million, based on 1965 prices and excluding electrical and water distribution systems. During Israeli Foreign Minister Eban's visit to Washington in February 1966 he mentioned the impending completion of the Kaiser-Catalytic report and suggested to Secretary Rusk that the United States and Israeli Governments now proceed to name high-level negotiators to examine financing possibilities.

2. UAR: The Egyptians have financed - from their own resources - the feasibility study done by a British firm of an \$80 million nuclear power-desalting plant for location at Borg al-Arab (5 million MGD-125 Megawatt electrical). Bids have been received and a conditional letter of intent has been sent to International General Electric (IGE) by the UAR. The letter expires June 6, 1966. The UAR has stipulated that IGE must obtain concessionary financing terms acceptable to the UAR. In addition, Deputy Prime Minister Kaissouni has written Ambassador Battle requesting USG cooperation and support for the project.

II. Foreign Policy Implications:

1. These projects may well offer a major opportunity to advance U.S. non-proliferation objectives in the Near East. In essence, if it proves to be in an acceptable range of economic feasibility, the desalting plant would be offered to Israel on concessional financing terms in exchange for an Israeli commitment to place the plant and all other nuclear installations in Israel under IAEA safeguards. Attainment of this objective would justify considerable amounts of concessionary financing. (It should be noted that such an approach could lead other potential recipients of desalting assistance to think that acceptance of complete IAEA coverage could suffice to obtain U.S. assistance for their desalting projects; while this is a possibility, it is not likely to create serious problems.)

2. The

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Group 3

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2. The proposed full safeguards coverage would advance U.S. objectives in several major ways:

a. The nuclear weapon option for Israel would become much less feasible, both technically and politically. Safeguards on Dimona would not only defuse the Israeli weapons potential now, but would constitute a long-term commitment which would continue to have a stabilizing effect in that region for many years.

b. In contrast to private commitments to the U.S., an Israeli commitment for IAEA safeguards would be an immediate tangible action which would publicly demonstrate good faith to its neighbors as well as to the United States.

c. Israeli acceptance of complete safeguards coverage would help build a worldwide climate of opposition to nuclear weapon proliferation, strengthening the hand of those in India, Japan, Sweden, and elsewhere who are resisting pressures to build a bomb. Because of our special relationship with Israel, moreover, it would demonstrate the strength of U.S. determination to stop the spread of nuclear weapons.

d. A successful program to retard nuclear proliferation must include safeguards on indigenous nuclear facilities -- coverage which we have not yet been able to attain anywhere. Israeli acceptance of such coverage would establish a precedent which would greatly assist us in pressing for similar coverage in other countries. In particular, it would provide a major boost to our efforts in Geneva to incorporate a strong safeguards provision in the non-proliferation treaty.

3. The Israelis may be extremely reluctant to accept such conditions. In this connection, Prime Minister Eshkol has yet to reply to the President's request of May 1965 with respect to IAEA safeguards, and articles have appeared recently in the Israeli press urging the Israeli Government to look elsewhere for desalting assistance if we attempt to attach conditions to our aid. On the other hand, there is reason to believe that the desalting plant is important enough to Israel to provide the Prime Minister with a strong inducement to accept safeguards. Early in April, Prime Minister Eshkol told reporters: "I do not say that we can carry out the desalting project only if we obtain special terms; I say that we must carry out the desalting project, and therefore we must obtain special terms. The world must help us in this matter."

4. Arab officials have repeatedly expressed deep concern over the possibility of Israel's building nuclear weapons. There is little likelihood of getting Israeli agreement to accept safeguards unless we get a

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similar commitment from the UAR. The UAR is eager to construct a smaller (\$80 million) nuclear power-desalting plant at Borg al-Arab. We can probably obtain an agreement on safeguards for all UAR facilities if we can assure the UAR that Israel will accept similar safeguards and if we offer concessionary financing for the proposed UAR plant, provided, of course, as in the Israel case that this plant proves to be in an acceptable range of economic feasibility.

5. An approach along the above lines to both Israel and the UAR would reinforce our announced stand of "evenhandedness" vis-a-vis the Arab-Israel dispute. Failure to maintain an evenhanded position with respect to desalting assistance could result in political repercussions among the Arab states that would be harmful to our area interests. The assurance of this important new source of water, particularly through the Israeli project, would in the long run tend to lessen somewhat the tensions arising out of competitive efforts by the Israelis and Arabs to harness limited natural water resources in the area. (It is important to note, however, that economic assistance via desalting or other projects is not a promising avenue for settling the bitter and deep-seated Arab-Israel dispute.)

6. The United Kingdom, West Germany, and possibly France, are interested in the Israeli project and Israel may look to them for part of the financing or all of it if Israel does not wish to accept nuclear safeguards or disagrees with the results of the economic feasibility study or to terms of any financing we might offer. We should make approaches to these governments to seek their support in insisting on nuclear safeguards over the entire Israeli program (not just the desalting plant) as a condition precedent to any financing. Prime Minister Wilson and Chancellor Erhard would in all likelihood be sympathetic to our non-proliferation effort in the Near East. The attitude of France is problematical; however, the French might not be able to provide the desalting portion of the equipment and it is unlikely that they would be prepared to offer substantial concessionary financing. The multilateral approach outlined above would probably necessitate dividing up the commercial benefits among these countries.

### III. Economic Policy Implications:

1. The Kaiser-Catalytic engineering study provided estimates of the construction and operating costs of the Israeli project, but did not address itself to the economic feasibility of the project. It was based on forecasts made by Israeli authorities about Israel's future water and power needs, water and power costs, etc., which have not been independently tested. The study did not address itself to such alternative means of meeting the Israeli water problem as cutting back on some present agricultural uses of water, reclamation of waste water, etc. The cost of construction could escalate considerably over the five-to-six year con-

struction period.

struction period. An economic feasibility study would examine these questions and would also evaluate the economic benefits to be derived from the proposed plant, the value which additional water may have in the Israeli economy, and the amount that farmers and other users could be expected to pay for water. The alternative of a smaller plant not necessarily using nuclear fuel has not been studied; it should be. The effect on water costs and the economic value of mixing high-quality water with more saline water needs to be examined. In addition, alternative ways of increasing or conserving the supply of water in Israel need to be looked into. AEC and Interior are convinced that the project falls within an acceptable range of economic feasibility. Other U.S. Agencies believe that a thorough economic feasibility study is the next logical step. We should in any event find out whether large operating subsidies will be required for indefinite periods of time. The scope of the economic feasibility study and the means of financing it would be worked out in consultation between appropriate USG agencies. (The same procedure would be followed in handling the economic feasibility for the UAR project.)

2. The Israel economy is strong, with very substantial foreign exchange reserves and large annual capital inflows from both the United States and West Germany which promise to continue for some years to come. A preliminary analysis of the economics of the project within the Israeli economy raises some doubt as to whether Israel will find the project of sufficient priority to undertake it if foreign concessionary financing is not made available.

3. Some of the possible sources of financing for the Israeli project within the U.S. Government at the present time include 1) \$20-\$45 million in grants from Interior and AEC (for which Congressional approval would be requested), depending on the extent to which other projects go forward, principally a proposed nuclear desalting plant in California\* and 2) up to approximately \$50 million from the Export-Import Bank. The Atomic Energy Commission could, with appropriate authorization, provide the fuel inventory on a lease or deferred payment basis, with waiver of interest charges - valued at about \$3.5 million - for a limited period of time; this would reduce the working capital required during the period of the waiver. The local currency cost (\$48 million) could be made available by AID if PL 480 Title I continues to be made available for the next several years and if funds are specifically reserved for the desalting project. (It should be noted, however, that we have already begun moving Israel away from Title I to dollar repayable Title IV. Our 1966 offer puts 25 per cent of the PL 480 commodities under Title IV.) Assuming Israel raised the balance on world money markets, project water would cost in the neighborhood of

\$ .35 per 1000 gallons

\* If the California project (MWD) goes forward, the AEC-Interior grant to the Israeli project could be on the order of \$20 million.

\$ .35 per 1000 gallons at the plant boundary. It is not known whether this package would be sufficiently concessionary to be attractive to Israel. In the event that we receive acceptable assurances with respect to nuclear safeguards, we may decide to offer additional low-interest dollar loans; if so, it might be preferable to provide these under specific congressional authorization, since AID's program of development loans to Israel is being phased out.

4. Aside from the question of nuclear safeguards, the manner in which the United States proceeds with the Israeli and UAR projects may create a precedent for future cooperation with other countries. Can concessionary terms be justified for Israel? What precedent would thus be set for providing concessionary finance for other projects located in countries also normally considered ineligible for concessionary financing? It would be helpful to know the real cost of the U.S. concessionary assistance, and to have an independent estimate of whether the project requires U.S. concessionary assistance.

5. The Atomic Energy Commission and the Department of the Interior support the recommendation of the U.S.-Israeli Joint Board that the United States and Israeli Governments enter promptly into discussions relating to the terms of financing. These two agencies have a considerable technical interest in the project and they are prepared to provide financial assistance commensurate with the technical benefits the U.S. desalting program would expect to gain from it. The project is large and in a promising new field. These two agencies believe that sustained American involvement in the desalting field could advance desalting technology to the benefit of both the U.S. and other nations. It could also help the U.S. capture large segments of the ultimate overseas market for U.S. industry. It is not certain, however, that large-scale U.S. Government financial participation will be needed to bring about this result.

#### IV. Conclusions:

a. The United States should make a determined effort to use financial assistance to the proposed desalting plants in Israel and the U.A.R. as a lever to obtain IAEA safeguards over all present and future nuclear installations in those countries. Attainment of the non-proliferation objective may well prove to be feasible and if so it would be worth a substantial amount of concessionary lending. The next step would be the naming of a high-level U.S. official to undertake approaches to the Israeli and U.A.R. Governments on the one hand, and to the British, German and French Governments on the other.

b. Since there are various gaps in our knowledge about the economic soundness of the projects, thorough economic feasibility studies of both projects should be made by U.S. firms. Such studies would be useful in

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determining to what extent the projects fall short of normal investment criteria, and would therefore give us some idea of the "cost" of obtaining nuclear safeguards. They would also give us an independent estimate of the amount and nature of the concessionary financing each project might require. These studies might take up to eight months to complete, and could be presented as tangible evidence of on-going activity. The delay involved in conducting economic feasibility studies will not be harmful to the Israeli or U.A.R. economies.

c. During the period that discussions are under way, and while economic feasibility studies are being conducted, we should not rule out the possibility of withdrawing. It should be made clear to Israel and the U.A.R. that we are reserving final judgment on financial participation pending completion of the economic feasibility studies and satisfactory responses on the safeguards question.

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