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Foreign and Commonwealth Office

London SW1A 2AH

24 October 1979

Dear Michael,

Call on the Prime Minister by the Egyptian Prime Minister

Mr Khalil is calling on the Prime Minister at 5.30 pm on 25 October. I enclose a brief for the Prime Minister's use, including a personality note on Mr Khalil. He is likely to concentrate on Arab/Israel issues, in particular the autonomy negotiations, but may raise the possibility of more aid for Egypt. It would also be helpful if the Prime Minister could raise with Mr Khalil the problems caused for British companies by the winding up earlier this year of the Arab Organisation for Industry (AOI). This is covered in the brief.

Michael Weir, our Ambassador in Cairo, will attend the meeting.

Yours ever

Paul

(P Lever)
Private Secretary

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CALL ON THE PRIME MINISTER BY THE EGYPTIAN PRIME MINISTER MR MUSTAFA KHALIL, 5.30 pm, 25 OCTOBER 1979

Points to make

Arab/Israel

1. We support the autonomy negotiations. A successful result could be a further useful step towards a comprehensive settlement. But, while we understand the difficulties we are concerned at slow progress. The issues cannot be ducked indefinitely. What is President Sadat's strategy? Is agreement really possible?

2. We have made clear that we do not agree with restrictive Israeli views of autonomy. The self-governing authority should have legislative as well as administrative powers and a measure of real authority over public land and water resources. How can pressure be most effectively brought on Israel? What effect will Mr Dayan's resignation have on Israeli attitudes?

3. Concerned at continuing bad relations between Egypt and the rest of the Arab world. Countries such as Jordan and Saudi Arabia might be more receptive now to Egyptian overtures.

4. How do the Egyptians view the possibility of a new Security Council resolution on Palestinian rights? Could it provide a way of attracting the Palestinians into the negotiations?

Arab Organisation for Industrialisation (AOI)

5. Regret the decision by Saudi Arabia, Qatar and UAE to liquidate the AOI. Hope to see agreement on continued bilateral cooperation on the manufacture of arms, particularly the Lynx helicopters and Swingfire missiles. Hope that a delegation from Egypt will be able to visit the UK for discussions very soon.

Aid for Egypt (defensive)

6. Over last 18 months we have committed nearly £50 million in aid to Egypt. Disbursements in 1979/80 may total £21 million. Current review of all commitments means we are unable to take on any new projects for the time being.

Power generation (if raised)

7. UK companies are interested in doing business in Egyptian power field. Pleased to hear that officials are to discuss the possibility of coal fired power generation in Egypt. We shall be prepared to look at specific proposals for further assistance when the present review of overseas commitments is complete.



ESSENTIAL FACTS

Mr. Khalil's visit (not for use)

1. Mr Khalil is in London to take part in the one-day US/Egypt/Israel meeting on 26 October in the context of the autonomy talks. The meeting was arranged in London partly because Mr Khalil was going to be in Europe and partly to avoid an atmosphere of exaggerated expectations. Mr Khalil is coming to London from Vienna, where his primary object was to discuss Austrian participation in housing and telecommunications schemes for Egypt. He has said he does not intend to raise bilateral questions while in London, but he may ask about the possibility of increased aid.

Autonomy talks (not for use)

2. Under the provision of the Camp David agreement, a self-governing (autonomous) Palestinian authority is to be set up on the West Bank and Gaza Strip. The Administrative Council of the authority is to be elected by the inhabitants. The election will mark the beginning of a five-year transitional period at the end of which the final status of the areas will be determined in negotiations. The initial negotiations on the establishment of the self-governing authority were to have been between Egypt, Israel and Jordan and Palestinian representatives. However Jordan and the Palestinians have refused to take part. It was therefore agreed in a side-letter to the Egypt-Israel peace treaty that the US, Egypt and Israel should negotiate with the aim of finishing negotiations by May 1980.



3. Despite a considerable number of meetings at both political and working level, little substantive progress has been made so far. In the absence of agreement on the principles under which a self-governing authority would be established, it has been agreed not to seek results before the end of the year, but to allow a period for detailed discussion in the two main working groups, on the modalities of holding elections and the powers and responsibilities of the authority. Neither Israel nor Egypt seems anxious for quick progress or unduly concerned at the lack of results to show the other Arabs.

4. The current Egyptian priority is the successful completion of the interim Israeli withdrawal from Sinai. In the longer term Egyptian strategy and tactics are difficult to pin down. President Sadat's confidence in his relationship with Mr Begin and belief that changing Israeli attitudes will allow a satisfactory agreement to be reached with the help of US pressure are not shared by many of his advisers, including Mr Khalil. The latter said before leaving Cairo for Vienna that the meeting in London was to discuss the basic political differences between the parties, as a prelude to an eventual tripartite summit. He explained the Egyptian view by saying that autonomy must mean abolition of the Israeli military government and transfer of its powers to the autonomous authority. It was for the authority itself to lay down in detail what its responsibilities should be after it had been elected. There should be no attempt to define them in negotiations. Mr Khalil also said he intended to raise the issue of Israeli settlements during the talks.



5. We have heard in confidence from the Americans that Mr Strauss's main object at the meeting is in fact to persuade Mr Khalil to accept his proposal that a list should now be drawn up of the subjects to fall within the competence of the self-governing authority. This suits the Israelis, who see it as an opportunity to restrict the authority's powers, but Khalil may prove difficult to persuade. Egypt has made most of the concessions since the signing of the peace treaty and abandonment of their position of principle on this issue would further erode their credibility in Arab eyes.

6. The chances of agreement from the autonomy talks are poor, unless one side or the other makes major concessions. The negotiating objectives of the two sides are fundamentally different. The Egyptians want a form of full autonomy which will attract the Palestinians into the process and show the other Arabs that their professed attachment to the Palestinian cause is sincere. They see such autonomy as leading inevitably to Palestinian self-determination. The Israelis want to maintain ultimate control over the West Bank and above all to prevent any form of self-government which might be the first step down the road to an independent Palestinian state. They are therefore anxious to restrict the powers of the authority as far as possible and stick to the line that autonomy is for people not land. They have no intention of stopping the settlement of what they call Judea and Samaria.

7. The following are some of the questions which need to be resolved:-

(i) Which Palestinians should be able to take part in elections?



The Egyptians insist on the inclusion of East Jerusalem and some Palestinians living elsewhere. The Israelis reject any suggestion that East Jerusalem should be part of the autonomous area.

(ii) Should the elections be internationally supervised?
Egyptians for, Israelis against.

(iii) Should the self-governing authority have legislative powers, or only certain administrative (ie municipal) responsibilities, as the Israelis want?

(iv) Will the Israeli military government be withdrawn altogether?

(v) Will the authority have powers over public land (a key issue, related to the settlements question) and water resources (the West Bankers believe Israel is exploiting these to her advantage)?

8. The US view of the form of autonomy needed is much closer to the Egyptians than to the Israelis, as is our own. But the US have been handicapped by President Sadat's reluctance to upset Mr Begin by pressing too hard at this stage. They are nevertheless conscious that President Sadat will be looking to them to save both Egypt and the Camp David process by putting the squeeze on the Israelis. They are also aware of how limited their freedom of manoeuvre vis a vis Israel will be in an election year. Recently Mr Strauss has indicated his doubts over whether results are possible by May. Mr Dayan said on his resignation that he believed the autonomy talks could only be a show unless Israeli views changed.



9. Arab rejection of the autonomy talks remains firm. There is no possibility of either Jordanians or Palestinians joining in, although both are watching with interest. President Sadat has continued to abuse other Arab leaders, to the embarrassment of his colleagues and the Americans. The Arab opposition have no alternative strategy to offer. An Arab Summit is to be held in Tunis from 17 - 20 November. King Hussein is anxious to secure support at the Summit for a new Security Council resolution endorsing Palestinian rights. The Egyptians opposed the last attempt to produce a new resolution in August.

Arab Organisation for Industrialisation (AOI)

(may be drawn on)

10. The Arab Organisation for Industrialisation (AOI) was set up in 1975 as a partnership between Egypt, Qatar, Saudi Arabia and the UAE to create an indigenous Arab Defence industry. The two Gulf States and Saudi Arabia provided the greater part of the finance while Egypt supplied most of the technical expertise and manpower. The AOI's headquarters and many of its facilities were located in Egypt.

11. Joint venture companies were established with a number of Western firms. The British firms involved are:-

British Aerospace to manufacture 12,460 ^w Stingfire anti-tank missiles at a cost of £75 million and

Westland Helicopters and Rolls Royce to manufacture 250 Lynx helicopters at a cost of some £330 million.



12. Following the decision of Saudi Arabia, Qatar and UAE, in the context of sanctions against Egypt, to wind up the AOI, these three British companies stand to lose considerable business, and work for 2000 men. They hope for a satisfactory financial settlement and continuing arrangements to enable them to manufacture equipment for sale to Saudi Arabia and the Gulf States as well as through joint venture companies in Egypt. The Gulf States have made it clear that they expect to pay any compensation due from existing AOI funds held in Egypt or frozen in Western banks and that they will not consider direct purchases until the AOI has been finally wound up.

13. (Not for use) The Egyptians intend to continue with the AOI as a purely Egyptian venture. There is, however, no question of the rump Egyptian Organisation being able to maintain the joint venture agreements in their existing form, although they have been reluctant to accept this. British Aerospace are in the process of signing contracts for a more realistic revised production programme for 8000 Swingfire missiles, but the Egyptians despite agreeing in principle to send a delegation to London for talks, have declined to consider a revised programme of Lynx manufacture and have accused the two British companies of bad faith when they refused to continue work on the basis of the original AOI contracts. We have continued to press for discussions on joint venture production of Lynx. Prime Minister Khalil is a member of the AOI High Council. His visit to London provides a further opportunity to express our concern at a high level, and to press for an early visit by an AOI delegation to London.

Aid For Egypt

(May be drawn on generally)

14. President Sadat has talked of a Marshall Plan for Egypt and Secretary Vance has urged EEC governments to provide additional support for Egypt in the face of the Baghdad sanctions. But our own aid programme is already under pressure and it is clear that Britain will not be able to make any additional contribution in the near future.

15. The main thrust of our aid has been in the field of technical cooperation. The only British ongoing capital aid project is the Abu Zaabal fertilizer factory scheme. An adjunct to the factory is the West Sabaeya phosphate mining project which we had indicated our intention of supporting at a cost of £11.4 million. Following cuts in the aid budget, however, we have had to tell the Egyptians that we are unable to proceed with it.

16. Egypt has been a prime target under the Aid Trade Contingency Provision (ATCP). Since the Provision was set up £14.6 million of ATCP funds, in a total contract value of £38.5 million, have gone to Egypt. In addition a fourth contract with British Shipbuilders for 4 cargo ships worth £20 million of which the aid element will be £4 million has been accepted by the Egyptians but not yet signed. Further assistance under the ATCP, for Egypt as for other countries, will have to await the outcome of the current interdepartmental review of the workings of the provision, which is already heavily oversubscribed.

17. Total aid commitments to Egypt over the last eighteen months



have been £49.28m. (This excludes a pledged £50 million grant for Cairo sewerage). Disbursements in 1978-9 were £4.22 m and in 1979/80 will be about £21.5 m.

18. John Brown Engineering Ltd have heard that Prime Minister Khalil wishes to raise with Ministers the question of British aid to the power generation sector in Egypt during his visit. It is apparently a sector on which they would particularly like Western countries to concentrate. Our record in this field is already good. £12 million in UK aid under the ATCP is helping to finance the Egyptian purchase of four GEC 66 KV substations for Egypt's rural electrification scheme and the provision of Rolls Royce Gas Turbines. In addition the UK delegation to the UK/Egypt Joint Trade Commission meetings in June expressed a continuing interest in Egyptian power generation. It has been agreed that two officials from the Department of Industry should visit Egypt early in December to discuss coal fired power generation. Constraints on the aid programme rule out any more substantial assistance in the near future.

19. The Egyptian Prime Minister may suggest that, as a further contribution to the development of Egypt's electricity generating programme, HMG should finance the provision of a number of 25MW gas turbine generators (he may mention John Brown Engineering as the preferred supplier). We shall need to look closely at the project and to seek information from the British supplier and the Egyptian authorities concerned before we can consider any specific proposals of this kind.

KHALIL DR MUSTAFA

Prime Minister since 4 October 1978.

Appointed Foreign Minister 17 February 1979

Born 1920. Graduated from the Cairo Faculty of Engineering in 1941 and joined the Egyptian State Railways. From 1947 to 1951 he worked for the Chicago - St Louis Railway in the USA, studying at the University of Illinois, from which he obtained his doctorate in 1951. Returning to Egypt he became Professor of Railways and Engineering at Ain Shams University. From 1956 to 1964 he was Minister of Communications, from 1964 to 1965 Deputy Prime Minister for Communications and Transport, and from 1965 to 1966 Deputy Prime Minister for Industry, Electricity and Mineral Resources.

In 1970-71 he was Chairman of the Radio and Television system with the rank of Minister (appointed by Heikal then Minister of Information). In 1972 he was a signatory of the Baghdadi memorandum which called for a new Egyptian relationship with the USSR. Then a member of "Al Ahram" Strategic Studies Centre, he completed his book "The Energy Crisis in the USA" just before the October 1973 war. After the outbreak of the war he toured the oil producing states with Sayed Marei advocating the use of the "oil weapon", which Heikal in his "Road to Ramadan" virtually credits him with inventing.

In February 1974 he was appointed to the National Council for Production and Economic Affairs. In July 1975 he was "Industrial Adviser to the Chairman of the Arab International Bank". In June 1976 he was made Acting First Secretary to the ASU (though he retained his appointment at the Arab International Bank). He was appointed Prime Minister in a major Cabinet reshuffle in October 1978. Neat and dapper in appearance he is pleasant and interesting to talk to. He made no secret of the fact that his ASU appointment was temporary and of his wish to return to ministerial office. He visited the UK as an official visitor in June 1978 to study the workings of Parliament and the Press, and in December as Prime Minister to brief Mr Callaghan about the peace negotiations.