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NLRR M098/7 #56238

THE WHITE HOUSE

WASHINGTON

SYSTEM II
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BY KML NARA DATE 10/8/10

October 17, 1983

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NATIONAL SECURITY PLANNING GROUP MEETING

DATE: Tuesday, October 18, 1983
LOCATION: White House Situation Room
TIME: 11:00 a.m. - 12:00 noon

FROM: Robert C. McFarlane *RCM*

I. PURPOSE

To review our strategy for Lebanon including what steps we might take next within Lebanon and in the context of our broader strategy for the Middle East. To review our options and obtain your approval for specific actions we might take in furtherance of our strategy.

II. BACKGROUND

A strategy paper has been prepared by State and circulated to the principals. We do not have the concurrence of either DOD or CIA. From the arguments presented at last Friday's NSPG on the subject, I think we can anticipate several objections from Cap and the JCS.

The most contentious issue is the recommendation that we should deepen and enhance our strategic cooperation with Israel. As you know, Cap and Jack Vessey are concerned that close cooperation with Israel damages our interests in the Arab world and that we seldom get anything in return for our help from Israel. Strategic cooperation with Israel is clearly in our interest; after all if the balloon ever went up in the Middle East, who else can really fight! But it is also reasonable that Israel recognize and support our interests which include stable relations with moderate Arab states and our goals in Lebanon (i.e. withdrawal). As we discussed with you last Friday, flexibility on withdrawals from Lebanon need not and indeed must not imply weakness on Israel's part. Even as we encourage Israeli withdrawals on the ground, we should accept that firmness (and even occasional violence) on their part toward Syria, and Syrian surrogates (e.g. PLO) represent the strongest incentive for Syria to withdraw.

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cc Vice President
Ed Meese
Jim Baker
Mike Deaver

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Our approach to Israel on Lebanon must include both points: further withdrawal but also understanding on our part that if they are threatened they must act. If couched in these terms, Cap and the Chiefs may find enhanced cooperation with Israel more palatable and, if we get results on the ground, (i.e. withdrawal), we should be able to rally more European and Arab support for our efforts in Lebanon. It is most important that in our approach to Israel we do not make an explicit linkage between further withdrawals from Lebanon and enhanced strategic cooperation. Strategic cooperation can pay important long-term dividends, but only if the Israelis see it as something that is durable and directed at the growing Soviet threat rather than a quid with which we from time to time are prone to bargain. We should couch our arguments for more flexibility in Lebanon in terms of our need to rally more Arab and European support for pressure on Syrian withdrawal, which is a core objective for both of us.

Our position on the Iran-Iraq war is also extremely sensitive. My sense is that we should reassure the Saudis and Gulf states by being prepared to discuss contingency planning with them and exploit what may become an opportunity to further isolate Syria from the Gulf Arabs by stressing the Syrian (and Libyan) connection to Iran. I do not think we should undertake actions which could be seen as a clear "tilt" toward Iraq, unless Iraq is on the losing end of the fight. As hostile as the current government of Iran is, that country remains a strategically decisive one; we do not therefore want to burn all of our bridges, particularly to those elements which will be of interest to us in any post-Khomeini succession struggle.

Prepared by:
Philip A. Dur

Attachments

Tab A - Agenda

Tab B - State Strategy Paper on Lebanon

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NATIONAL SECURITY PLANNING GROUP MEETING

Tuesday, October 18, 1983

White House Situation Room

11:00 a.m. - 12:00 noon

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NLS F97-047/2 + 164

AGENDA

By Jmf, NARA, Date 2/9/06

I. Introduction. Bud McFarlane

II. Decisions regarding Next Steps
in Lebanon. George P. Shultz

A. Within Lebanon

1. Maintaining the balance of forces in Lebanon: The level and character of U.S. presence/activities
2. Approach to Lebanese factions currently outside the Lebanese Government
3. Approach to the Israelis concerning their role in Lebanon
4. Accelerating the pace of foreign withdrawals

B. The Broader Dimensions

1. Exploiting turmoil in the PLO and approaches to King Hussein
2. Approach to the GOI on Israeli policies for the West Bank
3. Containing risks and [REDACTED] in the Iran-Iraq War
4. Near-term measures to strengthen Egypt, Jordan, and Saudi Arabia
5. Enhancing U.S.-Israeli strategic cooperation

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III. Discussion All

IV. Summary. Bud McFarlane

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OUR STRATEGY IN LEBANON AND THE MIDDLE EAST:
OPERATIONAL ISSUES

I. OBJECTIVES AND STRATEGY

Our principal objectives in the Middle East at present are: First, we want to ensure the emergence of a stable, friendly, broadly-based Lebanese government with which we can work to extend its authority throughout the country, aiming at the ultimate withdrawal of all foreign forces -- including the MNF. Second, we want to shape the conditions that will eventually make possible a Jordanian-Israeli negotiation in accordance with your September 1 initiative. Of course, these efforts take place within the framework of other broad objectives: to help assure the security of Israel, to protect the Western world's vital oil supply lines, to maintain American preeminence in Middle East peace diplomacy, to bolster our moderate Arab friends, and to reduce the Soviet role in the area.

These objectives are interrelated. Specifically, a satisfactory outcome in Lebanon will help us in the broader dimension of Middle East diplomacy. Conversely, an American humiliation in Lebanon will weaken our position generally in the Middle East.

A. Within Lebanon

Within Lebanon, our objective of strengthening the Government of Lebanon (GOL) requires a strategy with several elements. We must maintain the balance of forces that helped us achieve the ceasefire: e.g., the LAF, the MNF, and our offshore naval presence. The United States must play an active role behind the scenes in the reconciliation talks both to foster accommodation

We must help and urge Gemayel to broaden his base and strengthen his position by reaching political accommodation with key groups such as the Shia and the Druze, thus splitting

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NLRR M2608-098/7 #56240
BY AMF NARA DATE 10/23/08

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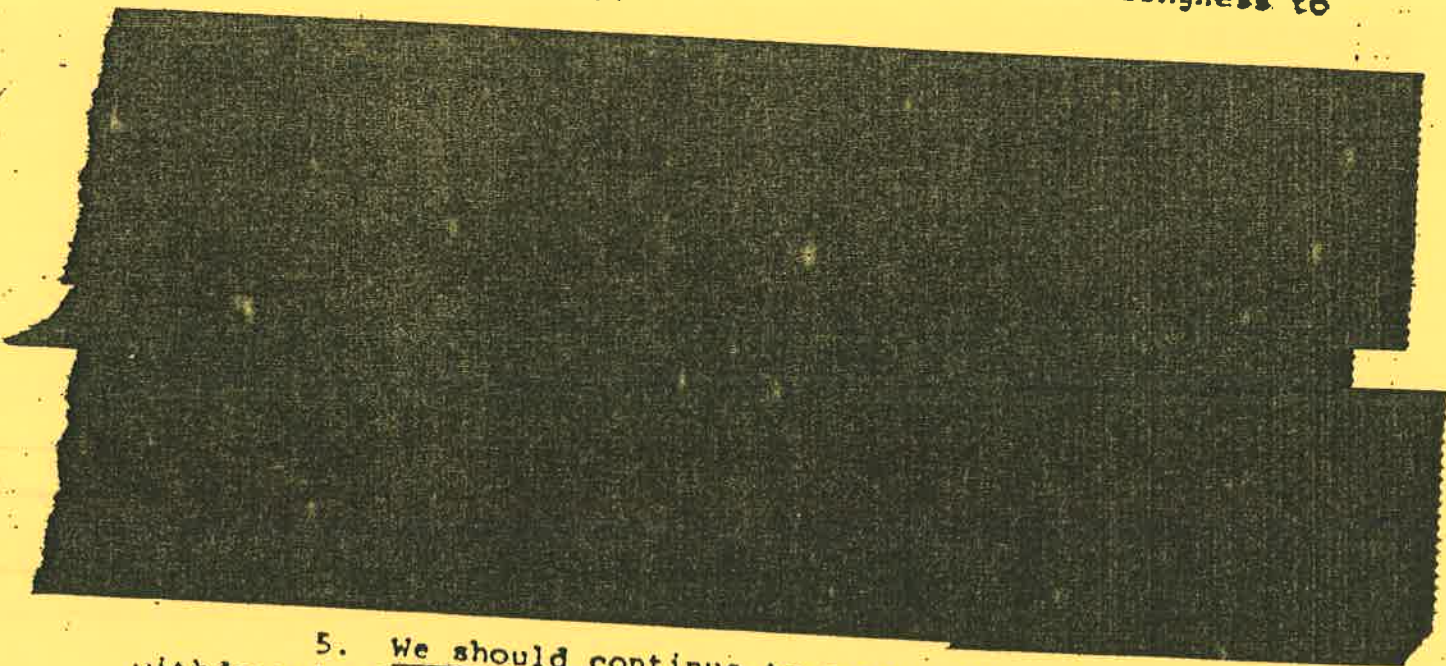
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the opposition specifically:

More

1. We should maintain our forces in Beirut and offshore. Our MNF contingent and supporting naval presence should be maintained as a backstop to the GOL during the difficult reconciliation negotiations and as insurance against periodic breakdowns in the ceasefire and renewed pressures from Syria or its surrogates. We must consider whether further decisions are now necessary to protect American forces against attacks from strategic points in the security perimeter around Beirut.

2. We should encourage Genayel to appeal to the Shia leadership to join and support the Central Government. Recognizing the pivotal importance of Nabih Berri and the demographic weight of the Shia community in Beirut and southern Lebanon, we must find ways to increase their willingness to support the government.



5. We should continue to pursue the objective of withdrawal of all foreign forces. Under appropriate conditions, the further Israeli turnover of territory to the LAF can be a means of strengthening Genayel, facilitating his efforts to coopt the Shia and the Druze, and assuring the security of Israel's northern border. We should defend the May 17 agreement as the only existing formula for ensuring both Israeli withdrawal and Israeli security, but we should

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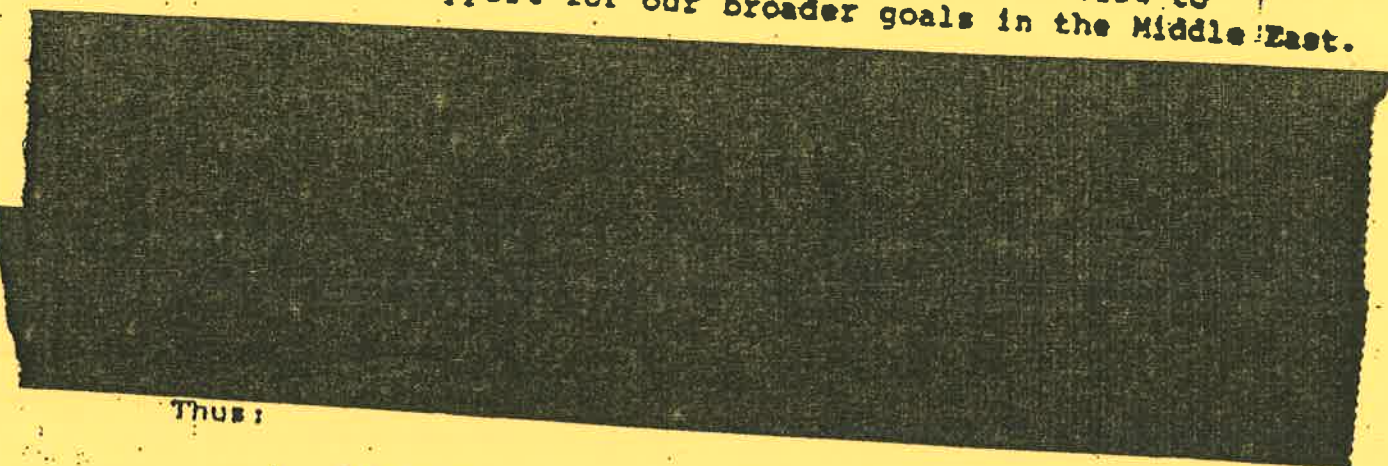
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understand Gemayel's need for tactical flexibility with respect to its implementation.

6. We must keep Saudi Arabia actively engaged in the process of securing national reconciliation and the withdrawal of all foreign forces.

B. The Broader Dimension

In the broader dimension of our Middle East strategy, a pivotal element is our relationship with Israel. There are basic areas of disagreement and basic areas of common interest and collaboration. For the last several months, Israel has seemed to be going through an unprecedented period of war-weariness and demoralization, now compounded by economic and political crisis. While Israel has not eased its policies toward the occupied territories, its apparent lack of assertiveness in Lebanon has undermined the balance of forces there and emboldened the Syrians. Our objective should be to reinvigorate our relationship with Israel with a view to enlisting more support for our broader goals in the Middle East.



Thus:

1. We must energize the US-Israeli strategic dialogue. NSDD-99 recognized that US-Israeli cooperation was an important means of countering the Soviet/Syrian bid for dominance in the Middle East. The apparent demoralization of Israel now threatens to remove a key counterweight to Syria. There is an urgent need for candid discussions with the Israelis at a high level on basic questions of strategy, not only for Lebanon but the Middle East in general. There is a need to bolster both Israeli self-confidence and mutual confidence, restoring an intimate strategic dialogue which will cover some things we want from Israel as well as things Israel wants from us. It is time to consider new or strengthened steps in military cooperation, possible emergency economic

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assistance in the current economic crisis (should Israel so request), and enhanced political cooperation in Third World areas outside the Middle East. At the same time, we want to see Israeli flexibility with respect to withdrawals from Lebanon, policies in the West Bank and Gaza, and our efforts to strengthen and cooperate with the moderate Arab states (e.g., the Jordan Logistics Planning program).

2. We must continue our pursuit of the peace process. We must keep the September 1 initiative on the table and look for opportunities to shape the conditions that will make progress possible. The turmoil within the PLO, and the Syrian assault on Arafat, could have far-reaching consequences. [REDACTED] We must continue to show our concern for the fate of the Palestinians on the West Bank and Gaza.

3. We must reexamine our strategy toward the Iran-Iraq War. The war poses risks that must be contained and also possible opportunities to be exploited. Our objectives should be to ensure that plans are available to cope with any Iranian disruption of oil traffic through the Gulf, to find ways of preventing the balance of power from tilting against Iraq, and to respond to requests from the Gulf states for assistance against threats from Iran. At the same time there may be opportunities to isolate Syria and Libya in the Arab world in their capacity as supporters of Iran.

4. We must bolster our moderate friends, Egypt, Jordan, and Saudi Arabia, as another counterweight to Syria. We must encourage the reentry of Egypt to a position of leadership in the Arab world. We should not allow Israeli opposition to deter us from proceeding vigorously with the JLP program and other security assistance in order to strengthen King Hussein and Jordan -- the country that is the key to the peace process as well as a country under Syrian pressure.

II. OPERATIONAL DECISIONS

A. Within Lebanon.

1. To maintain the balance of forces in Lebanon and in the greater Beirut area, we should:

-- continue our present force commitment to the MNF in Greater Beirut,

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-- maintain a credible off-shore naval presence to support the MNF,

-- keep our MNF partners engaged in the common effort, and

-- define the security perimeter around Beirut and consider whether further decisions may now be necessary to protect American forces against attacks from Suq al-Gharb and other strategic points.

2. To enhance the GOL appeal to Nabih Berri and the Shia community, we should:

-- encourage Berri and other Shia leaders to participate in an extension of Lebanese civil authority south of the Awwali line (accepting earlier Israeli offers).

-- facilitate the relocation of the Phalangist Lebanese forces from barracks and strongholds in southern Lebanon.

-- encourage prompt Saudi assistance in the reconstruction of southern Lebanon along the lines proposed for the Shouf, and

-- encourage G-nayel to give adequate weight to prominent Shia leaders in a government of national unity.

3. [REDACTED] we should:

-- encourage more direct and frequent discussions with other local Druze leaders on conditions concerning their communities.

-- encourage the disbursement of US (and Saudi) reconstruction aid to the Druze and Shia communities through the central government (but earmarked for these communities).

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5. To advance the goal of withdrawal of all foreign forces, we should:

-- encourage Israel and the GOL to devise alternative and interim security arrangements to permit further Israeli withdrawals, and

-- continue to defend the May 17 agreement in discussions in both Damascus and Beirut as well as in our public statements.

B. The Broader Dimension.

1. To broaden and deepen US-Israeli strategic cooperation and to bolster Israeli willingness to assert a constructive influence in the region, we should:

-- accelerate military cooperation with Israel with a view to providing a proposed program to the Department of State by a date certain, as required by NSDD-99,

-- authorize a mission to conduct a wide-ranging strategic dialogue with the Israeli leadership on the underlying importance of a common strategy for Lebanon and the Middle East with special focus on the Soviet-Syrian threat,

-- schedule a visit to Israel by General Vessey soon afterwards to begin discussions with the Israelis on joint planning for major contingencies involving the Soviet Union, as per NSDD-99,

-- give favorable consideration to outstanding Israeli requests related to FMS, transfer of production technology, renegotiation of the 1979 MOA on defense cooperation and procurement, and intensified sharing of military technology and intelligence, particularly with respect to Soviet weaponry and military activities in Syria,

-- be prepared to continue our dialogue with the GOI on the Israeli economy, including the possibility of USG financial assistance in the context of an effective GOI economic stabilization effort, and

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-- make clear that we find Israeli opposition to the JLP unacceptable and are concerned about Israeli policies on the West Bank and Gaza.

2. To advance the prospects for the peace process, we should:

[REDACTED] consider means of encouraging Arafat to resume his dialogue with Hussein),

-- restate in stronger terms our opposition to Israeli settlement activity in the West Bank and Gaza, and

-- pursue our program of urging the Israelis to improve the prospects for economic development and the flexibility of administrative procedures to improve the quality of life for Palestinians living in the West Bank and Gaza.

3. To contain the risks and exploit the opportunities of the Iran-Iraq war, we should:

-- continue our efforts for a UN Security Council resolution, acceptable to both sides, exempting oil facilities from attack,

-- develop a scenario for diplomatic action in case of a dangerous escalation of the war, in coordination with our allies and our friends in the region,

-- assess the probable economic effects of possible interference with the flow of oil through the Gulf and determine criteria for activating a US military response,

-- assess the requirements for naval and other military capabilities in the area in order to be prepared to safeguard the vital international waterways of the Gulf,

-- reconsider our unwillingness to approve the transfer by Italy to Iraq of frigates containing US-made component,

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-- take further steps with Israel and Korea to halt the flow of US-made arms to Iran, and reinforce controls on the direct sale to Iran of US equipment of military value,

-- continue to use our influence with third countries to discourage the supply of critical equipment to Iran, and

-- in the event Iran instigates or threatens an oil crisis, use the opportunity to [redacted] and demonstrate support of the Gulf Arabs.

4. To strengthen our moderate Arab friends in Egypt, Jordan and Saudi Arabia, we should:

-- urge the Arab moderates to normalize relations with Egypt and recognize the importance of Egypt as a counterweight to Syria,

-- urge the Saudis to restore economic ties and economic aid to Egypt,

-- work to ensure the passage of the Jordan Logistics Planning program,

-- help strengthen the Jordanian Army against Syria, and

-- work to maintain the commitment of Egypt and Israel to their peace treaty and help them to resolve outstanding differences.

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TALKING POINTS FOR ROBERT C. MCFARLANE

INTRODUCTION

Mr. President:

- This meeting is to pick up where we left off last Friday. The draft Strategy paper circulated last evening is a useful framework to discuss our next steps in Lebanon and more generally in the Middle East.
- Secretary Shultz would you lead the discussion on the recommended course of action and the next steps for decision.

SECRETARY SHULTZ

SUMMARY

Mr. President, I think we have enough here to prepare a decision directive for your signature. We will circulate a draft NSDD to principals this afternoon and have it ready for your signature tomorrow.

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MEMORANDUM

NATIONAL SECURITY COUNCIL

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INFORMATION

October 18, 1983

MEMORANDUM FOR ROBERT C. MCFARLANE

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NLS M02-020 #15

FROM: DONALD R. FORTIER *DF*

By amf, NARA, Date 10/13/04

SUBJECT: Thoughts for the Middle East NSPG and Beyond

I had only a few minutes last night to append my thoughts to Phil and Geoff's memo on the NSPG; moreover, I intend to allow Phil to take my seat at the NSPG so that you can have the benefit of your Lebanon team. Still, if you will indulge me, there are a few thoughts that I would like to convey; they will not strike you as novel, but I'm not sure how much some of the other bureaucratic actors may have reflected on them. I put the two most important thoughts--strategic cooperation and the need for bridges to Iran--in the cover memo. In case we don't get a chance to speak I pass the others along for whatever use they may be.

Red Lines. State's paper picks up the importance of enhancing our military posture around Greater Beirut--creating red lines that can stand as a test of our resolve. We need to create political red lines as well, particularly if our aim is to prevent a Syrian dominated outcome. Perhaps the most important such red line is the Israeli-Lebanese agreement. Standing firm on this is necessary not only for our own credibility but also for inducing the Israelis to work with us in assuming a more aggressive posture in Lebanon. Once the agreement vanishes the Israelis lose an important prop by which to legitimize their past--and future--involvement. Less obvious, but also important, the agreement can be used by us--if we are skillful--as a lever for accentuating differences between the Shia/Druze communities and the Syrians--since abolishing the agreement is a sine qua non for the latter more than the former.

Egypt. State also highlights our idea of elevating Egypt as an alternative to Syria. Merely wanting this, however, will not make it so. The moderate Arab states are already shrewd enough to see that Egyptian protection is something devoutly to be desired. If the moderate Arabs felt Egypt could in fact be a credible and effective guarantor of their security, they would need little prodding from us in bringing Egypt back into the fold. This brings us, then, back to the idea of trying to enlist the Egyptians as part of the MNF: for in that capacity the Egyptians would be thrust more directly into the role of a Syrian counterweight, a fact that would not be lost on the other Arab states. Egypt's role in Lebanon is important then not merely for

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adding numbers or legitimacy to our mission, but rather because its presence would signal something serious to the Syrians and to the moderate Arabs we are trying to win over to Egypt's cause.

Of course Egypt itself is not going to participate in the MNF simply because we may desire it. But if we play upon Egyptian fears of Syrian ascendancy, help to stimulate further Israeli withdrawals, and appear to have a credible and serious strategy for countering Syrian power, they may find the game more interesting.

Strategic Cooperation with Israel. I have probably already droned on long enough about my concern that we may devalue strategic cooperation if we link it too crudely to the withdrawal question. That is not to say we shouldn't use such a linkage as bait internally, but others need to be educated to the fact that the most handsome dividends from such cooperation will only come over time and as a result of the Israelis believing that this cooperation is durable and aimed at deterring serious threats rather than facilitating short range political gains.

DOD has never quite grasped the equities of the deal: strategic cooperation in the pure sense is as much a favor to us as to Israel; such cooperation confers leverage on us primarily by virtue of the fact that it persuades the Israelis that our stake in them is strategic and abiding rather than ephemeral and built on the quicksand of political pressure. Two other quick thoughts. Some of the things we may want to do eventually probably should not be done now, lest we contribute to inflating the achievements of a government we may wish to see replaced. Second, some of the specific cooperation we may wish to go forward with will not seem persuasive if we fail in parallel to create a real planning dialogue with professionals to give context to specifics. (I asked Dennis Ross to flesh out this point in a separate piece.) The most significant danger of all, however, is in once again dangling something before the Israelis that we are not prepared to deliver on. The next chance may well be our last.

Iran-Iran. Again, I have already expressed my principal reservation, namely that the bureaucracy will take our idea of quietly capitalizing on existing tensions and turn it into a full blown tilt toward Iraq. We need to keep certain lifelines open to Iran, and avoid steps like badgering Japan and Korea from ending their arms deals with Iran; for the ties that our friends establish could be crucial to us in a succession crisis. We also have to be realistic in thinking about how we can convert tension into concrete results. Although State speaks of isolating Syria, the best we may in fact obtain is increasing

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Saudi support for the GOL. Of course, this would not be trivial.

Finally, we should not allow the bureaucracy's enthusiasm for exploiting the war to outrun its efforts for coping with radical escalation should it occur. Long gas lines would be harmful to the President too.

Splitting the PLO. Hussein is the best one to facilitate this end--or certainly better than we. To get him to talk to Arafat in the only way that will be convincing--i.e., bluntly--we have to first make some blunt noises of our own to Hussein. For example, having informed Hussein that we have a credible strategy for weakening Syria, we should tell him that this time we expect his support and will not look kindly on exyCses. Survivors defer to those who create the most heat, and Hussein and Arafat are both survivors. (Again, Dennis has some important thoughts on this subject, which he will write up separately.) This doesn't mean for example that we shouldn't fight hard for the JLP--to the contrary. But we also need to avoid getting so wrapped around our own axle that we forget the JLP is also important to Hussein precisely because it is his way of increasing our stake in him and in his survival.

Conclusion. Two other general observations in conclusion: State's paper lists a number of important and desirable ends, but there is little sense of either leverage or sequence. Influencing Franjieh, for example, can only be done as a consequence of--and not apart from--successful efforts to weaken Syria. Second, if you will permit me one last ride on my favorite hobby horse, I believe, with imagination, we can still build a role for the Turks and that doing this would contribute significantly to building pressure on Syria. Even if the Turks are unprepared to posture in the North, their presence in the MNF (which could be facilitated by Egyptian entry and quiet Iraqi support) would be intimidating to the Syrians precisely because of what the Turks could ultimately do in the north. In any event, I think we should continue to keep the Turks in the back of our mind.

To make myself clear, I have probably written these points more self confidently and bluntly than I should. I present my views on the Middle East to you only with the greatest implicit humility.

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THE SECRETARY OF DEFENSE

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WASHINGTON, THE DISTRICT OF COLUMBIA

October 21, 1983

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MEMORANDUM FOR THE ASSISTANT TO THE PRESIDENT FOR NATIONAL
SECURITY AFFAIRS

SUBJECT: US Policy in Lebanon and the Middle East

Based on Wednesday's NSPG meeting on the Middle East, this memorandum sets forth our views on the State paper that was prepared for the NSPG.

In our Lebanon policy, we must seek to use US influence, and that of Israel, to draw Druze support away from Syria and toward the central government. Likewise, Israel's influence with the Christian community should be directed toward support for the central government. This would improve the prospects for an effective political compromise within Lebanon. In the broader context, we should not assume that Syria will be a long-term adversary of the United States. Rather, our long-term goal should be to wean the Syrians away from Soviet influence. Such a policy requires firmness of purpose combined with a readiness to reciprocate if Syria takes some concrete steps supportive of US objectives.

The fragility of the current situation in Lebanon may not, for the near-term, permit significant change in status of the Multinational Force (MNF), but we should keep the options for alternate employment of the MNF open because of the changing situation in Lebanon. The static position of the Marines ashore presents an extremely difficult defensive situation, and the on-going sniper fire against the Marines indicates the MNF may be being targeted by factional elements. We should continue pressuring the GOL and all involved factions to stop the sniping. We should also resume our aerial reconnaissance flights over Lebanon. Ultimately, however, additional defensive actions by US forces may be required, or, it might be necessary and desirable to reduce or eliminate US ground presence in Beirut and keep our forces offshore, perhaps bolstered by additional naval gunfire support. Thus, we would not be weakening our commitment to help secure peace in the Mid East, but would actually strengthen it in terms of fire power. Any expansion in the employment of the MNF or their Rules of Engagement at this stage would be premature, could undermine the ceasefire and reconciliation process, and could be misinterpreted by Gemayel as a sign that he need not show flexibility in the current national talks.

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Because of the movement toward national reconciliation, the continuing improvement in the LAF and the pending arrival of neutral observers, there may also be an opportunity and a basis for changing either the deployment or employment of the MNF. Whatever course of action is decided, we should act in full concert with our MNF partners. Briefing charts on the political-military situation in Lebanon, to include our security assistance program, are attached at Tab A.

In our relations with Israel, more reciprocity and balance is needed, as presented on the chart General Vessey used in the NSPG meeting.

On a number of current issues between the US and Israel, it should be noted that DoD has been very forthcoming. On the LAVI program, DoD has approved over 30 license requests even though the last thing the Israeli economy needs now is a huge expenditure to develop and build a new fighter plane admittedly inferior to the US planes sold to them. No further LAVI requests are currently pending. In addition, our domestic producers strongly object to our subsidizing the LAVI with funds designed to improve the Israeli military capability. The question of limiting offset purchases by US contractors on FMS sales is on hold by mutual agreement of NSC, State, DoD, OMB and Treasury pending review of comparable requests from many countries. Regarding joint cooperation in military development and production, the Israeli Government is reportedly pleased with the latest DoD draft, and talks are on-going. Our bilateral intelligence relationship was addressed in early September by Major General Tixier, DASD(NESA), who met in Israel with the Director of Military Intelligence; DoD is still awaiting a draft document from the Israeli Government that would upgrade this relationship. General Vessey is planning a visit to Israel in early January, and we understand that the Israelis are satisfied with the arrangements thus far.

However, DoD opposes the use of FMS funds in the US, Israel or anywhere for development of the LAVI aircraft since we should not be in the position of creating foreign competition to the US aircraft industry, or the use of US funds intended to improve Israeli military strength, to build a plane inferior to available US candidates. DoD continues to question the viability of the LAVI fighter aircraft as a cost-effective weapons system to meet future Israeli defense concerns.

We agree with State that Israel's opposition to the Jordan Logistics Planning program is unwarranted and unacceptable. The USG must continue to press Israel to withdraw its opposition to the program with the Congress. Occasionally favorable Israeli action should be secured without compensation over and above our current large payments to Israel. We also find Israel's support

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of elements opposing the central government to be counterproductive to US efforts to stabilize Lebanon. On the other hand, we should encourage Israel to convey a posture of firmness toward Syria and support Israel in opposing further Syrian or PLO advances that undermine Lebanon's integrity and independence.

The transition from Prime Minister Begin may offer an opportunity to restore the US-Israel relationship to a solid basis of fair reciprocity and balance in our cooperation. The Shamir government must understand that flexibility on key issues -- such as the West Bank -- will be required if it is to enjoy full US support. A strategic dialogue can serve both countries' interests, provided our negotiators pledge US actions only when reciprocal Israeli actions are forthcoming, and provided we keep in mind the limitations of Israeli capabilities in the event of a US-Soviet war in the region. We should not rush into major new negotiations with Israel, since the Israeli government may now be too weak to make concessions to us. Yet Israel's settlements policy on the West Bank must soon be addressed again; it is contrary to long-standing US policy and harmful to our interests in the region. It is also very costly for Israel; hence, this may be an opportune moment to enlist those Israeli leaders who are concerned with their economic crisis to force a change in the settlements policy.

We believe our policy of neutrality toward the Iran-Iraq War should be changed to move toward Iraq without, of course, giving the appearance to Iran of becoming a co-belligerent of Iraq. We should approve the Italian sale of frigates with US engines to Iraq, in part, because it would help our very supportive friends in Rome. Prime Minister Craxi's visit has provided an excellent occasion to give the good news to the Italians. We also agree that we should make a renewed effort -- in line with our long-standing policy -- to halt any sales of arms to Iran by Israel or South Korea. Such a modification in our policy of neutrality would help with our Arab friends. Broader aspects of the Iran-Iraq War and possible US military options to maintain freedom of navigation in the Strait of Hormuz should be treated as a new NSC issue.

Attachment

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