DEPARTMENT OF STATE
BRIEFING MEMORANDUM

February 19, 1975

CONFIDENTIAL

To: The Deputy Secretary
From: EA - Philip C. Habib

Your Appointment with South Vietnamese Senate Chairman, Tran Van Lam
Thursday, February 20 - 4:30 pm

PARTICIPANTS

US

The Deputy Secretary
Robert Richmond, EA/VN
(notetaker)

Senator Tran Van Lam
PHONETIC: Lahm
ADDRESSED: Mr. Chairman

Senator Tran Minh Tung
Ambassador Tran Kim Phuong

CHECKLIST

-- Assistance levels - Emphasize that the Administration is making every effort to obtain the needed $300 million FY-1975 Supplemental military assistance.
SETTING

Vietnamese Senate Chairman Tran Van Lam and a number of his colleagues are visiting Washington this week at his Government's initiative to seek Congressional support for the requested $300 million FY-1975 supplemental military assistance appropriation.

Our objective is to convince the Vietnamese that the Administration is making every effort to obtain the appropriation.

BACKGROUND/ANALYSIS

Our policy is to provide Viet-Nam with enough economic assistance to initiate economic growth leading toward self-sufficiency and to also provide military aid adequate for defense against North Vietnamese attacks. Because of funding limitations imposed by Congress we are not now providing the needed resources. The $700 million FY-1975 military assistance appropriation clearly is inadequate. At present and anticipated levels of North Vietnamese attacks the South Vietnamese will run out of many basic military necessities by the end of the fiscal year. There is little room on the economic side to divert resources to the defense effort because our economic assistance programs have been reduced by nearly 40 per cent this year in terms of dollars and by well over 50 per cent in terms of resource flows. North Vietnamese capabilities have been increasing and they now have a larger, better equipped attack force located in better positions in the South than ever before. South Vietnamese logistic weaknesses coupled with increased North Vietnamese strength has led to an unfavorable military situation with an even more unfavorable prognosis.

The $300 million FY-1975 supplemental military assistance appropriation would provide the South Vietnamese with some urgently needed supplies such as fuel, ammunition, medical supplies, spare parts, etc. It would not replace heavy equipment which is being lost, worn out, and destroyed.
The Vietnamese have sent a number of similar delegations in the past to meet with members of Congress when important bills are under consideration. They are concerned about mounting Congressional and public opposition to continued U. S. assistance for Viet-Nam and the possibility that the Administration's resolve to obtain adequate funding may be weakening. Ambassador Phuong cites such indicators as the refusal of traditional supporters of Viet-Nam (e.g. Senators Jackson and Hugh Scott) to receive him or the delegation. The Vietnamese may also seek clarification of President Ford's Chicago statement that all assistance to Viet-Nam could be ended in three years.

ISSUES/TALKING POINTS

Assistance Needs

**Vietnamese Position:** Although the United States promised the Vietnamese adequate assistance, we have sharply reduced our supply levels. North Vietnamese attacks are increasing and the South Vietnamese Army cannot defend the country adequately without additional ammunition, fuel, medical supplies and spare parts. The requested $300 million FY-1975 supplemental military assistance would provide some of the urgently needed supplies.

**US Position:** We continue to seek adequate military and economic assistance for South Viet-Nam.

**Your Talking Points**

-- The Viet-Nam policy of this Administration remains constant -- i.e., to provide assistance to the Republic of Viet-Nam adequate to its self-defense and movement toward economic self-sufficiency.

-- To that end we are now seeking $300 million supplemental military assistance for Viet-Nam for FY-1975 and will ask for $1.3 billion for FY-1976. On the economic aid side we are seeking full appropriation of the $450 million authorized for FY-1975 and plan to request $725 million for FY-1976. (The latter figure remains classified.)
-- We are seriously concerned about the diminishing Congressional support for continuing high levels of assistance to Indochina. We know there is some strong Congressional opposition to the $300 million military supplemental, but we will make every effort to get this.

-- The President is working closely with the Congress on Indochina aid matters and will continue these efforts to develop a constructive dialogue between the Executive and Legislative branches on this subject.

-- We are hopeful that a bipartisan Congressional Commission will shortly visit Viet-Nam to make a first-hand review of the situation there.

-- The President's recent remarks in Chicago concerning a final three-year assistance program for Viet-Nam represents one possible approach which might be considered in our continuing dialogue with the Congress on this subject. The recent report by Senator Sam Nunn -- proposing after a two-year transition period a level of aid to South Viet-Nam based on estimated Chinese and Soviet aid to North Viet-Nam -- represents another possible approach.

Attachment:

Biographic data

Drafted: EA/VN:RGRichmond:bk
x21315:2/19/75
Tran Van Lam

Phonetic: Lahm

Chairman of the Upper House, Republic of Viet-Nam

Addressed as Mr. Chairman

Tran Van Lam has been Chairman of the Upper House since 1973, following his election to the Upper House as head of a pro-Government slate. Prior to that he served four years as Foreign Minister. In that capacity he signed the Paris Agreement on behalf of the GVN in 1973.

Lam was born in Saigon in 1913. He received a pharmacy degree from the University of Hanoi in 1939 and began his business career as a pharmacist in Saigon. His business interests still include pharmaceuticals. He is reputedly a fairly wealthy man.

Lam spent five years in the Diem government's National Assembly and was then appointed Ambassador to Australia and New Zealand in 1961. Returning to Viet-Nam in 1964, he stayed out of politics until he headed a successful slate in the Upper House elections called under the new Constitution. While in the Upper House he undertook considerable traveling in 1968 and 1969 to boost Vietnamese foreign policy interests. He was named Foreign Minister when the present Prime Minister, Tran Thien Khiem, formed his first Cabinet in September 1969.

Lam's performance as Foreign Minister was good. He is regarded personally as an "intelligent, polite and cultured gentleman."

Lam is a prominent southern Catholic layman, and has been active as well in the Viet-Nam Council on Foreign Relations, the Rotary Club and Junior Chamber of Commerce.

He is married and has six daughters and three sons. He speaks fluent English.
Tran Minh TUNG

Chairman of the Senate Finance Committee, Republic of Viet-Nam

Addressed as Senator

Senator Tran Minh Tung is Chairman of the Finance Committee of the Vietnamese Senate. He is a leading figure in President Thieu's "Democracy Party" which he headed in 1972. Senator Tung has served as Minister of Health on two occasions.

Senator Tung was born in Saigon in 1930; entered the Medical Corps as a 1st lieutenant in 1954. He received his law degree from Saigon University in 1951 and his medical degree in 1956. He was named commandant of the Military Medical School in 1965 and to the People-Army Council in mid-1966. He was Secretary General of the National Medical Association from 1967 to 1969.

Dr. Tung is married and has three daughters. His English is fluent.
Tran Kim PHUONG

Ambassador of the Republic of Viet-Nam to the United States

Addressed as Mr. Ambassador

Tran Kim Phuong became Ambassador to the United States on July 21, 1972. He is a career diplomat and had been serving as Deputy Foreign Minister since June, 1971.

One of Saigon's top diplomats, Phuong is hard working and obviously a rising star. He is well connected in Saigon, and is close to President Thieu. He is gifted with a phenomenal memory and can be extremely gracious. An ardent nationalist, he promotes the Vietnamese position with vigor and can be quite aggressive. He is basically suspicious of the Japanese, actively anti-French, and loathes Sweden.

Phuong was born in Hanoi on November 5, 1926, and educated in France. He joined the Vietnamese diplomatic service when it was formed in 1954. He served in the Ministry of Foreign Affairs in Saigon from 1955-1957, as First Secretary of the Vietnamese Embassy in Washington from 1957-1959, as Consul General to Singapore and Charge d'Affaires to Malaysia from 1959-1964, as Ambassador to Malaysia from 1964-1967 as Ambassador to Australia from 1967-1970, and as Vice Minister of Foreign Affairs 1971-1972.

Phuong speaks French, English and Vietnamese. His English is accented, but fluent.

Mrs. Phuong (aka Vu Thi Tin) was born in Hanoi on June 19, 1926. Her parents live in Saigon and celebrated their 50th wedding anniversary in December, 1974. The Phuongs are Catholic. They have two children, twins born in 1965. Mrs. Phuong is a lawyer and has taken post graduate courses at George Washington University.
MEMORANDUM

To: DOD/ISA - Mr. Morton Abramowitz
   DOD/JCS - Brig. Gen. Charles D. Youree
   DOD/PASD(C) - Mr. Erich Von Marbod
   CIA - Mr. William Christison
   NSC - Mr. William Stearman
   AID/SA - Mr. Garnett A. Zimmerly
   H - Mr. Samuel Goldberg
   PM - Mr. Thomas Stern
   OTP - Mr. Douglas Pike

From: EA - Robert H. Miller

Subject: Comprehensive Three-Year Aid Program for Viet-Nam

Attached is the redraft of the subject paper. It takes into account our discussion on Wednesday.

I would be grateful for any comments you may have by mid-afternoon Friday, February 21.

Attachment:

As stated

EA:RHMiller/sb

SECRET - GDS
Comprehensive Three-Year Aid Program for Vietnam
(FY 1976 - 1978)

The President, in discussing aid for Vietnam, has said he would be willing to take an accepted figure of sufficiently large amounts over a three-year period and, if the Congress will appropriate it, he would agree not to ask for any more. Additionally, he has said that, if we could agree on a figure and agree on a time span, he would commit himself that that would be the end.

Subsequent to the interview, the figure of $6.0 to $6.5 billion for military and economic aid has been set down as the overall figure to consider in carrying forward the President's concept. These figures are consistent with previous multi-year aid projections for Vietnam provided to the Congress.

Illustrative three-year breakdowns

A. $6.5 billion
   1. Military aid
      FY 1976  1.7
      FY 1977  1.5
      FY 1978  1.1
      $ 4.3

B. $6.0 billion
   1. Military aid
      FY 1976  1.7
      FY 1977  1.3
      FY 1978  1.0
      $ 4.0
2. Economic Aid

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**Objective**

The objective would be to seek Congressional agreement to terminate our large-scale grant aid programs, both military and economic, to Viet-Nam by providing continuing high levels of aid in the final three years (FY 1976-78). The final three-year grant aid program would be presented as the fulfillment of our long-standing obligation to Viet-Nam rather than as a veiled decision to abandon it. Thus, we would seek to reassure South Viet-Nam that a final three-year grant aid program of this magnitude would constitute an acceptable calculated risk for both countries.

**Factors to be Considered**

1. The chances of a major North Vietnamese offensive during the 1976 dry season (January-May) are at least 50-50. If such an offensive does not occur then, the chances of its occurring in subsequent years increase. Moreover, it is possible that an offensive of the 1972 magnitude could still occur this year.
2. North Viet-Nam has well over a year's supply, at high combat levels, of ordnance on hand in South Viet-Nam. It has maintained this logistic capability during the past year of relatively heavy combat, and it is likely to continue to do so until it makes the final decision whether or not to launch an all-out offensive. The proposed three-year aid program is not likely to change North Viet-Nam's intentions in this regard.

3. A comprehensive three-year aid program for Viet-Nam is not likely to cause Hanoi to change its plans for military action against the South, with the important exception that it would be likely to ask Moscow and Peking for stepped-up aid. For their part, Moscow and Peking, while not inclined to give Hanoi a blank check, would likely agree to step up their assistance to Hanoi to enable it at least to maintain the existing balance with the GVN's military forces. Moscow and Peking would undoubtedly rationalize their response by charging that it was the U.S. that had changed the equation in Viet-Nam. A brief intelligence analysis of likely Communist reaction to the three-year program, prepared by the CIA, is at Tab A.

4. Even if there were no major North Vietnamese offensive during the time period, a three-year military aid program of the magnitude of $4.3 billion would merely
maintain South Viet-Nam's military position at the status quo, leaving the country in as great a need for military aid at the end of FY 1978 as it is today. The larger the military aid program, of course, the greater the chances would be that South Viet-Nam would survive a major North Vietnamese offensive in the FY 1976-78 time frame.

5. A three-year economic aid program totalling $2.2 billion would require unrealistically high investment levels in relation to GNP, even if spread over a four or five-year period. If after FY 1978 the GVN were required in addition to purchase its own armaments and other military supplies, either from abroad or from local production, this would place substantial additional pressure on the economy. Tab B provides an illustrative breakout of a three-year economic assistance program for FY 1976-78.

Military Considerations

Table I, attached at Tab C, provides an illustrative breakdown, by year, of categories of equipment and amounts, of a three-year military aid program totalling $4.3 billion. This breakdown is based on the following assumptions:

1) That no US grant military assistance will be provided after FY 1978;

2) That during the three-year period that combat intensity will average out to that experienced so far in FY 1975; and
3) That the FY 1975 $300 million supplemental will be adopted.

The program broken down at Table I could be readily adjusted by years if, for example, a major North Vietnamese offensive made it imperative to provide a greater proportion of the equipment and supplies early in the three-year period. The program at Table I makes no provision for modernization—only replacement—for reasons of cost. Neither does it include provision for developing local production facilities to reduce costs over the longer run and to enhance self-sufficiency, such as facilities to produce small arms and ammunition, communications equipment including batteries, expanded rebuild capabilities, personnel equipment items (ponchos, boats, uniforms, etc.), small vessels, and rubber products. On the other hand, if the level of combat were lower than the relatively high level assumed, an armament industry might well be possible within the projected funding levels. Similarly, if export earnings grow more rapidly than anticipated (see below), it might be possible to devote a greater proportion of the $6.5 billion to military aid during the FY 1976-78 period than the $4.3 billion currently projected.

It should be noted that, under the assumptions given above, the assistance provided in this three-year program,
if managed judiciously, is expected only to keep the RVNAF at present status quo levels throughout the three-year period. It will not in itself provide South Viet-Nam with its continuing military needs, which will be dependent upon South Viet-Nam's ability to produce arms or purchase them on credit or for cash.

A fuller discussion of the military considerations is at Tab D.

Economic Considerations and Future Aid to South Viet-Nam

Critical to South Viet-Nam's ability to survive after FY 1978 will be its ability to command adequate resources for its continuing military and economic needs. It seems clear that the Congress would be receptive to the three-year program of continued high aid levels only if it clearly signalled the termination of all grant military and economic aid and, by implication at least, of sole US responsibility for South Viet-Nam's security and independence. The question then becomes one persuading the Congress that, after the termination of grant military and economic aid in FY 1978, South Viet-Nam should be treated like other developing countries and provided access to other more "normal" US aid resources, such as concessional development loans, Export-Import Bank loans, FMS sales and concessional credit. If we cut South Viet-Nam off from all sources of
U.S. aid and credits, if we made it an aid "pariah," we would stand little chance of encouraging third-country or multilateral aid. Thus it will be important to persuade the Congress to agree that South Viet-Nam would remain eligible for all forms of U.S. aid except grant aid in amounts governed by normal considerations. A brief discussion of specific options for future military assistance to South Viet-Nam after FY 1978 is at Tab E.

Recent AID analyses indicate that, even to maintain private consumption at constant levels over the FY 1976-78 period, and taking into account the assumption of relatively high levels of combat during the period, the U.S. will need to continue to provide grant aid at annual levels close to those envisaged for the three-year program discussed in this paper (e.g., around $700 million annually). These aid level projections assume that South Viet-Nam's foreign exchange earnings will grow steadily from an estimated $150 million in 1975 to a possible $225 million in FY 1978, and that its borrowing capacity could increase from an estimated $280 million in 1975 to close to $1 billion in 1978. The analyses also assume third-country grant aid levels rising slightly over the period from $175 million per year to about $190 million per year. The general effect of continued major hostilities would be to require even greater
inflows than indicated above if a substantial decline in private consumption is to be avoided. Otherwise, South Viet-Nam's private consumption could drop sharply, say by as much as 10%, unless and until the economy recovers, grant aid becomes available in quantity from sources other than the U.S., export earnings grow and South Viet-Nam's economy attracts foreign loans.

Thus, for South Viet-Nam to survive economically after FY 1978, if U.S. grant aid is terminated after that date, it will need substantial additional resources to those already forecast. This points up the need for emphasizing the development of South Viet-Nam's export earning potential during the three-year period: agricultural production, particularly rice; and petroleum exploration and exploitation. It will mean that the GVN will have to take additional steps to get greater mileage out of available resources. It points up the need as well for energetic diplomatic efforts to augment third-country and multilateral aid during the three-year period.

1) South Viet-Nam's future economic development undoubtedly lies in heavy emphasis on agriculture, where the country's rich resources give it a comparative advantage. A substantial area, perhaps as much as a million hectares, remains idle and could be brought into production with
sufficient capital investment, although the accessibility of a sizeable part of this land is doubtful because of security considerations. The productivity of land presently in use could be greatly increased with better irrigation and water control.

By the end of FY 1978, South Viet-Nam could once again be exporting major quantities of rice -- several hundred thousand tons per year -- which would be an important source of foreign exchange. These prospects could be improved if, as in 1972, intensive North Vietnamese military activity continues to be confined principally to non-rice producing areas.

2) Regarding foreign investment potential, the major oil companies have engaged in two rounds of bidding for exploratory concessions off the coast of South Viet-Nam. The companies have paid or pledged approximately $50 million in "signature bonuses" to the GVN. The results of initial exploratory drillings have been encouraging, although the commercial exploitability of the oil findings thus far has not yet been fully established. Several proposals for foreign private investment in other industries are pending. A good GVN record of export performance and GNP growth beginning in 1978 could stimulate increased direct investment and commercial loans. This prospect will of course be affected by potential investors' perception of the security of their investment.
3) In addition to measures the GVN has already taken to reduce dependency on foreign aid and to maximize its effectiveness, more needs to be done. Additional measures include: improving economic planning, coordination and administration across the board, speeding structural readjustments to declining foreign aid and rising import prices, and reappraising domestic price subsidies, exchange rates and overall monetary and fiscal policies.

4) An important part of South Viet-Nam's ability to sustain itself militarily and economically after FY 1978 will be its success on developing local production facilities for smaller military items. This needs urgent exploration to determine its potential.

5) Although third-country and multi-lateral aid for South Viet-Nam has not been great up to now, we should seek to increase it by energetic diplomatic efforts. Similarly, we should continue to push for the formation of an aid donor group for South Viet-Nam, as well as for additional third-country aid.

Parallel Diplomatic Efforts

Diplomatic efforts designed to promote compliance by all parties with the Paris Agreement, including realization of the provisions for a political settlement, would be an important adjunct to a three-year final grant aid program. Such efforts by the United States would help to offset the potential destabilizing effects in South
Viet-Nam of a terminal three-year grant aid program. They would involve approaches to Moscow, Peking and Hanoi. They could also include efforts to internationalize responsibility for South Viet-Nam's security (e.g., through the UN, regional security pacts, etc.) Consideration might also be given to determining under what conditions we would offer to provide North Viet-Nam with the postwar reconstruction aid envisaged in Article 21 of the Paris Agreements.

Diplomatic steps are likely to be called for by the Congress in agreeing to such high sums of money for the final three years, and we should be prepared to work out a careful diplomatic program to meet their concerns. Such a program, carefully conceived and energetically executed, could assist South Viet-Nam after FY 1978 in a "controlled" fashion. Without such a program, the risk is high that the end result would be "uncontrolled."

Legislative Considerations

Final decisions regarding a legislative format for a comprehensive three-year aid program for Viet-Nam should be taken in consultation with the Congress. The essential issues are:

1) whether to seek the funds all at once or on a yearly basis and

2) whether to seek new and separate Viet-Nam aid legislation or to retain the existing legislative formats of DAV
in the Defense budget for military aid and the Foreign Assistance Act for economic aid. A discussion of the first issue is at Tab E. In the end, decisions will be based on assessments of how Congressional receptivity can be maximized. This would seem to argue for a lump-sum three-year authorization to get the program established, followed by yearly appropriations. Similarly, there may be a certain virtue in establishing separate legislation for a combined program of Viet-Nam economic and military aid, especially since the economic aid figures would loom so large in any global foreign aid legislation. Moreover, the Congress has already decreed that DAV be transferred to the foreign aid bill in FY 1977, thus adding mightily to the Viet-Nam "distortion" of that legislation. On the other hand, if presented with the prospect of termination of grant aid to Viet-Nam at the end of FY 1978, the Congress might see merit from a management standpoint of absorbing the three-year program within existing legislative vehicles.

Moreover, the Executive Branch is obliged by Section 15 of the FY 1975 State Department USIA Authorization Act to submit new multi-year aid projections for Indochina by April of this year. Finally, of course, although the Congressional delegation about to go to Indochina will focus on the need for supplemental assistance for this fiscal year, they inevitably will get into the question of how
much longer we will be obliged to aid South Viet-Nam. In this connection, it is pertinent to note that the President has instructed that the FY 1976 foreign aid legislation be submitted by March 1. The DOD appropriation request has already been submitted.
SECRET/EXDIS

Comprehensive Three-Year Aid Program for Vietnam
(FY 1976 - 1978)

WORKING OUTLINE

In an interview appearing in the Chicago Tribune on Sunday, February 9, 1975, the President, in discussing aid for Vietnam, is quoted as saying he would be willing to take an accepted figure of sufficiently large amounts over a three-year period and, if the Congress will appropriate it, he would agree not to ask for any more. Additionally, he is quoted as saying that, if we could agree on a figure and agree on a time span, he would commit himself that that would be the end.

Subsequent to the interview, the figure of $6.0 to $6.5 billion for military and economic aid has been set down as the overall figure to consider in carrying forward the President's concept.

I. Origins of the figure.

A. The Secretary's letter to Congressional Committee chairmen of July 22, 1974, submitting multi-year aid projections.


II. Three-year breakdown options.

A. $6.5 billion

   1. Military aid

      FY 1976 1.7
      FY 1977 1.5
      FY 1978 1.1
      \[ \text{Total} = 4.3 \]

B. $6.0 billion

   1. Military aid

      FY 1976 1.7
      FY 1977 1.3
      FY 1978 1.0
      \[ \text{Total} = 4.0 \]
2. Economic aid

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<td><strong>$2,000</strong></td>
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III. How to present to the Congress: we seek a common approach on which both the Executive and Legislative branches can agree.

A. Congressional requirement for new aid projections by April 1975 (PL 93-475, Section 15(a); FAA, Sections 35 and 36).
B. President's reply to the 82 Senators and Congressmen.
C. Congressional delegation to Indochina.

IV. Timing of presentation to Congress.
A. To obtain support for the FY 1975 DAV supplemental?
B. Save for FY 1976 Administration position?

V. Format of presentation.
A. Retain in DAV and FAA respectively.
B. Separate Vietnam legislation.
C. Tie to Israel.
D. Three-year authorization and appropriation.
E. Three-year authorization and annual appropriation.
F. Annual authorization and annual appropriation.
G. "Lump sum" authorization and appropriation.
H. Separate sums for military and economic aid.

VI. Nomenclature.
A. "Vietnam Aid -- Final Program".
B. "Vietnam Assistance (Termination) (Completion) Act".
C. "Vietnam Aid: Fulfillment of Commitment Act".

VII. Other necessary elements.
   A. Relate three-year aid program to Paris Agreement.
   B. Specific issue: how to deal with political settlement.
   C. Parallel diplomatic efforts.
   D. Consistency with Article 7?
   E. After 3-year program completed.
      1. Cutoff vs. nominal levels.
   F. Third-country and multilateral aid; private investment.
   G. GVN actions.

VIII. North Vietnamese Reaction.
   A. 1976 dry season -- critical period.
   B. NVA stock levels in South Vietnam.
   C. Soviet and Chinese aid levels.
   D. North Vietnam overtures for political settlement?

IX. Will South Vietnam be self-sufficient after three-year "surge" program, or will need for aid be just as great after FY 1978?
   A. Viability of economy -- including rice and oil.
   B. Military capability.
   C. Political stability.

X. Public Affairs handling.
   A. Success vs. completion of our obligation.
The Paris Agreement of January 27, 1973 remains at the center of our policy respecting Viet-Nam. Despite the major violations of the Agreement that have been effected by the North Vietnamese, we continue to believe that the Agreement affords the best basis for an eventual political settlement. The proposed three-year terminal aid program for South Viet-Nam is fully consistent with the Agreement and with our responsibilities as a signatory. In particular, the provision of high-levels of military aid over this three-year period would be carried out in a manner to accord with the "piece-for-piece" provisions of Article 7 of that Agreement.

The execution of the three-year program would, we believe, serve to move the Vietnamese parties back in the direction of a settlement. Specifically, such a program would rectify the military and economic balance which over the past several months has been shifting in favor of North Viet-Nam, essentially because of reductions of our aid to the South. Such a program would be a strong signal to South Viet-Nam, as well as to North Viet-Nam and its allies, that the United States will see through its obligations to assist the RVN in self-defense and development.

As a new equilibrium is reached -- particularly, as we estimate, if this should come after another round of heavy combat in 1976, we anticipate that North Viet-Nam might well turn seriously once again toward negotiations, as it did in late 1972. In these circumstances the RVN would likely respond.
constructively to any such option by Hanoi to return to the negotiating track. The U.S. role herein would be to stimulate, as necessary, a flexible RVN approach to resumed talks. We could and would not get into the details of a political settlement. Any such settlement -- to be meaningful and lasting -- would have to be worked out fundamentally by the concerned Vietnamese parties.

The three-year surge of military and economic aid to South Viet-Nam would represent the driving engine of our policy. An important complement, however, would be our continuing diplomatic efforts to turn Hanoi away from a military and toward a political solution. While these efforts, both private and public, would be directed toward all the participants in the International Conference on Viet-Nam, as well as other selected countries, the main focus would be dialogues with the Soviets and Chinese. Over the past two years such discussions have been of rather limited effectiveness. But we will have to persist. An obvious area of concentration is the question of Soviet/Chinese arms flow to North Viet-Nam and, in particular, the issue of a massive resupply should Hanoi expend much of its current stockpile of equipment and consumables in a major military offensive.

One facet of these issues that might bear some consider-
with the Soviets and Chinese -- and this well may be the case in view of declining U.S. influence in Indochina, U.S. energy/economic problems, etc. -- one such possibility is the PRG. In return for some fair assurance that Hanoi's allies would keep a substantial lid on military resupply, we could weigh an evolving posture whereby the U.S. would tacitly agree to a "Third Viet-Nam", i.e. to increasing international acceptance of the PRG (thus gaining some leverage out of which an issue we almost certainly will continue to lose ground).

At the end of the three-year aid-surge period we could -- with good fortune -- envisage a Viet-Nam situation something along the following lines:

-- A signal de-escalation of the fighting and a return to RVN/PRG political discussions.

-- A de facto "Three Viet-Nam" configuration, with the PRG moving toward an international acceptance more or less equivalent to that of the RVN.

-- An RVN maintaining its relative military and political strength and moving substantially toward self-sufficiency (e.g. with significant rice exports, incipient oil production, development of local industry (i.e. fertilizer production), etc.

-- A DRV (and PRG) focusing primarily on consolidation of the home base and gearing up for the forthcoming essentially

EA/VN: RH Wenzel 2/14/75
February 14, 1975.

To: Dep Asset Sec of State Robert R. Miller (State tel: X 20272)

Attached is draft of CIA contribution on Communist reactions to the postulated three-year aid program for South Vietnam.

Bill Christison
INTELLIGENCE MEMORANDUM

SUBJECT: Communist Reaction to the Postulated Three-Year Increase in US Aid to South Vietnam

THE NORTH VIETNAMESE REACTION

1. The level of US aid, while one factor for Hanoi to consider, is not likely to be a key determinant of North Vietnam's future strategy in the South. The provision of the postulated three-year aid package would not cause Hanoi to back away from its basic objective of gaining control of South Vietnam or to significantly soften its terms for a political settlement with Saigon. It would, however,

-- disabuse the North Vietnamese of any hopes they might have had of an early US abandonment of Saigon and of a quick or easy victory in the South; and

-- reaffirm in Hanoi's mind that North Vietnam must continue to face the same question encountered since the signing of the Paris Agreement: how to attack and topple a GVN which remains heavily subsidized by the United States.

2. Faced with this same old problem, Hanoi is not likely to make radical departures from its current approach and strategy in the South. During the past year the Communists have been following a course of measured
but escalating military activity designed to so weaken the CVN that it will be forced into negotiations at a disadvantage. Although Hanoi clearly hopes to achieve its objectives by avoiding the risks and losses of an all-out offensive, we believe Hanoi has been and will continue to be prepared to escalate all the way to such a course of action if it is dissatisfied with the results of a more measured course and senses the opportunity to win a decisive military victory. North Vietnamese military training programs over the past two years have concentrated on correcting the glaring weaknesses exposed in the 1972 major offensive suggesting Hanoi is indeed preparing its army for large scale offensive action in the South.

3. In addition, since January 1973 North Vietnamese supply stocks in South Vietnam have increased at an unprecedented rate. Aided by the development of a new supply corridor in South Vietnam and the major expansion of Dong Ha port in Quang Tri Province, the North Vietnamese shipped several hundred thousand tons of materiel -- about 25 percent ordnance -- into South Vietnam. In 1974 ammunition deliveries increased by roughly 50 percent over 1973 levels. Based on these shipments and a volume of other direct evidence of large Communist stocks in the South, we believe that the North Vietnamese have well over a year's supply (at high combat levels) of ordnance on hand in South Vietnam. They have maintained this logistic capability during the past year of relatively heavy combat, and we believe they can and will continue to do so until Hanoi makes the final decision of whether or not it will launch an all-out offensive.
4. The Intelligence Community has concluded that the odds are even for an all-out North Vietnamese offensive in 1976 and that if there is not an offensive during 1976 the odds would be even higher for 1977 and succeeding years. We believe that the aid package under discussion, which would shore up the GVN's position for at least three more years, neither reduces nor increases the likelihood of an all-out military confrontation.

5. Probably the most critical factor in Hanoi's assessment will be its reading of the strength of the South Vietnamese military and the latter's ability to contain a major offensive. Hanoi's decision on an offensive for 1976 would be influenced more heavily by results of the heavy fighting anticipated in South Vietnam in 1975 than by the promised delivery of an additional $4 billion in military aid to South Vietnam over the next three years.

6. We do not believe that the postulated aid program would allow the GVN to achieve military self-sufficiency by the end of the three years. Moreover, it is only prudent to assume that a major offensive in 1976 or 1977 would soak up much of the total $4 billion in military aid. The US aid program, however, would increase the likelihood that South Vietnam would survive a major North Vietnamese offensive in the next few years.

THE SOVIET AND CHINESE RESPONSE

7. Once it became clear that the US was increasing its level of aid to South Vietnam, Hanoi would almost certainly turn to the Soviets and Chinese for increased assistance, claiming that the equation in Vietnam had
been altered by the US. Faced with this situation, the Soviets and Chinese would strongly condemn the US move. At the same time, however, neither the Soviets nor the Chinese want to see an all-out military confrontation develop in Vietnam. They probably counsel a policy of restraint on Hanoi's part, arguing that the US move did not represent a major setback but was a last gasp effort after which South Vietnam would be left in the lurch. In line with this advice, we believe that the Soviets and Chinese would resist giving guarantees to rebuild North Vietnamese stocks in the aftermath of an all-out North Vietnamese effort to defeat South Vietnam -- a factor which could give pause to policy makers in Hanoi.

8. Although they would point out that a quantum jump in assistance was not necessary, the Soviets and Chinese would not be totally negative in their response to Hanoi. We believe that they would increase their assistance to North Vietnam to enable it to maintain the existing balance with South Vietnam's military forces.
OBJECTIVE: To leave RVN in a self-defensible posture after FY 78.

ASSUMPTIONS:

1. No US grant military assistance will be provided after FY 78.
2. No major offensive will occur prior to conclusion of FY 78 and during this period the combat intensity will equate to that thus far experienced in FY 75.
3. The supplemental request for FY 75 of $300M will be approved by the Congress.

DISCUSSION:

Apparent Operating Costs: Based on the above assumptions, the following operating costs, and rationale as appropriate, for RVNAF from FY 76-78 are postulated (see Table 1 for fiscal year breakdown):

- Ammunition: The RVNAF are presently drawing down ammunition to dangerous low levels. The $198M of ammunition in the supplemental will reestablish the required stockage level. Based on current RVNAF ammunition usage, we estimate that 20,000 short tons (ST) of ground ammunition and 4,000 ST of air munitions will be expended per month during these three FY's. Replacement costs for these munitions at FY 1975 prices are estimated at $600M annually. Considering expected inflation rates, $2.027 billion will be required to place the ammunition expenditures and to correct dangerous drawdowns. This will leave the RVNAF with 75 days of intense combat rate stockage at the end of FY 78, an optimum position for storage, maintenance and management purposes.

TOTAL - $2.027B

- POL: Estimate that RVNAF will require $130M annually for POL requirements, based on the assumption that the present high prices will not be further inflated. POL storage capacity should be topped-off at the end of the period. **

TOTAL - $390M

*Inflation factor for South Vietnam was computed at 12%.
**60 day storage capacity at average consumption (FY 75)
Beyond the replacement of attrition items, efforts to develop labor intensive manufacturing capabilities to provide RVNAF material requirements should be emphasized. Examples of such efforts to reduce costs and enhance self-sufficiency include: (1) small arm and ammunition manufacture; (2) communications equipment to include batteries; (3) expanded rebuild capabilities; (4) personnel equipment items (pontos, boats, uniforms, etc.) production; (5) small vessel production; and (6) rubber product production.

SUMMARY:

The combined operating costs, based on the above assumptions, and investment costs total $4,234B. Obviously, if the assumed combat level does not obtain, more investment items may be accommodated within the projected program which will be presented to the Congress. We could opt to accept the risk of assuming a decreased level of combat activity. For example, the expenditure of 18,000 ST of ground ammunition rather than the 20,000 ST assumed, would generate $200M for reallocation for investment purposes over the Three-Year Period. An armaments industry is a vitally important investment to make for RVN to achieve self-sufficiency in ammunition and weapons manufacture. The figures contained in this estimate are reasonably conservative, in that a high level of combat is projected throughout the entire three-year period. An armament industry may well be within the dollar levels of this estimate if savings can be made. It also is possible that US or foreign private industry can be persuaded to assist in the development of ammunition and weapons factories. Additionally, the military and economic assistance programs to RVN are interrelated and must be mutually reinforcing. Possibly economic assistance can contribute to the initiation of RVN ammunition manufacture or other defense industries as an adjunct to economic development programs. Consideration was given to introduction of materials which were in violation of the cease-fire agreement but the magnitude of the projected operating costs precluded the introduction of any such items.

The assistance provided in this three-year program, if managed judiciously, is expected to keep the RVNAF at the same level at the end of the three years as they are at the present time.
SECRET - SENSITIVE

-- Spare Parts: Estimate that RVNAF will require $140M, 155M and $170M annually, respectively for FY's 76, 77 and 78, to satisfy repair requirements for aging equipment.

TOTAL - $.65B

-- Technical Assistance: Technical assistance costs for FY 76, 77 and 78 are estimated to be respectively $36M, $20M, and $15M annually. 

TOTAL - $.071B

-- Supplies and Services: Supply and service costs for FY's 76, 77 and 78 are estimated to be $150M, $135M and $120 respectively.

TOTAL - $.105B

-- PCH&T: Packing, crating, handling and transportation costs for FY's 76, 77 and 78 are estimated to be $175M, $157M and $170M respectively.

TOTAL - $.502B

-- Administration: Administrative costs for FY's 76, 77 and 78 are estimated to be $35M, $25M and $15M.

TOTAL - $.075B

-- TOTAL RVNAF OPERATING COSTS - $3.935B

*** Reduction of costs is in recognition of increased technical capabilities of RVN to assume tasks.

Major Item Replacement:

During the projected timeframe RVNAF will lose some critical items of equipment which should be replaced. Attrition rates for replacement items were based on best estimates derived from post- cease-fire combat data and recommended replacement items will replenish selective RVNAF TO&E requirements, rather than meet the higher cease-fire levels of equipment:

<table>
<thead>
<tr>
<th></th>
<th>1976</th>
<th>1977</th>
<th>1978</th>
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<tbody>
<tr>
<td>Weapons</td>
<td>1.55</td>
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<tr>
<td>Mobility Equipment</td>
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<td>Communication</td>
<td>55</td>
<td>62</td>
<td>69</td>
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<tr>
<td>Aircraft</td>
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<tr>
<td>Other</td>
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<td>14.40</td>
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<tr>
<td></td>
<td>89M</td>
<td>99M</td>
<td>111M</td>
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</tbody>
</table>

3 year total - $200M

*Inflation of 12%
# TABLE 1

($ Million)

<table>
<thead>
<tr>
<th></th>
<th>FY 76</th>
<th>FY 77</th>
<th>FY 78</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ammos</td>
<td>602M</td>
<td>672M</td>
<td>753M</td>
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<tr>
<td>POL</td>
<td>130M</td>
<td>130M</td>
<td>130M</td>
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<tr>
<td>Parts</td>
<td>140M</td>
<td>155M</td>
<td>170M</td>
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<tr>
<td>Tech Ass't</td>
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<td>20M</td>
<td>15M</td>
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<tr>
<td>Supp &amp; Serv.</td>
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<td>135M</td>
<td>120M</td>
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<tr>
<td>PCHET</td>
<td>175M</td>
<td>157M</td>
<td>170M</td>
</tr>
<tr>
<td>Admin</td>
<td>35M</td>
<td>25M</td>
<td>15M</td>
</tr>
<tr>
<td>TOTAL/$. Bll</td>
<td>1.268</td>
<td>1.294</td>
<td>1.373</td>
</tr>
</tbody>
</table>

Proposed Investment Costs: 0.082 0.092 0.111
TOTAL: 1.357 1.393 1.484 Total $4.234