

April 21, 1948

Chairman McCabe

Proposed credit to Iran for

Mr. Knapp

purchase of surplus military equipment

A special NAC Staff meeting was called yesterday afternoon to consider a proposal by the State Department and the National Defense establishment for giving a credit to the Government of Iran covering surplus military equipment required to equip the Iranian army.

This is an unprecedented kind of transaction. The military equipment in question is located in the United States, but it is planned to declare it surplus and to transfer it directly to the OFLC, which ordinarily handles only surplus located abroad. The sales price of the property is 10 million dollars, but in addition there will be costs of repair, packaging, and transportation amounting to 16 million dollars. No funds are available in the U.S. Government to cover this latter expenditure, nor is the Government of Iran prepared to finance it. It is therefore proposed to request a Congressional appropriation of this sum which would be advanced to the Government of Iran as a long-term credit bearing the same terms as those of the OFLC covering the purchase of the property (interest at 2-3/8 per cent--maturity 30 years).

Owing to the military nature of this project, there is some doubt as to whether the Council would desire to become involved. It has never taken any action, for example, in connection with the military aid program for Greece and Turkey. On the other hand, the Council has passed on all surplus property credits. The Staff Committee has therefore decided to have the Secretary of the Council report this proposal at this afternoon's meeting so that any member of the Council can raise objections or request formal Council action. In view of the very special character of this transaction, it would be my recommendation that the Council let this proposal go by simply with a notation in the minutes that no objection to the proposal was expressed.

JBK:mla