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*The Director of the Foreign Operations Administration (Stassen) to
the Secretary of State*

SECRET

WASHINGTON, November 30, 1953.

DEAR FOSTER: Supplementing our telephone conversations with reference to the Israel Mutual Security funds for Fiscal Year 1954 and in response to your letter of November 21,¹ this is the situation as I see it.

Largely through a very firm position which we have taken with the Israeli Government, a significant improvement has been made in the financial situation of Israel. The short-term debt for which they sought to obtain a \$75,000,000 Export-Import Bank loan (which was declined) has been reduced, and a restricted import policy is being followed. Special resources are being mobilized from private sources and good use is being made of the German reparations payment.

My staff has made a very thorough analysis of the current financial situation and has concluded that a portion of the \$26,250,000 aid which has been appropriated, allocated and approved to Israel for the first half of Fiscal Year 1954 is urgently needed to prevent a default in December in their foreign exchange and that, in fact, such a default might occur during this week if resources are not made available.

It is our further judgment that the \$20,000,000 requested is not all necessary, but that \$9,000,000 is essential and can be made available for commodities eligible for our program during the current fiscal year and delivered since the Appropriation Act was passed. We are, therefore, proceeding on my responsibility in implementation of the Israel aid program and in accordance with procedures under the new law approved by our General Counsel, to release \$9,000,000 to them today. None of this money will be used to pay government debts.

It is our view that a default would defeat the very objective of the Mutual Security legislation and that since we are in the last month of the second quarter of the fiscal year, it is entirely right that some of these resources to the extent necessary be used as set forth.

We have taken into account all information furnished by the United States Embassy and Mission at Tel Aviv, and the additional

¹ See footnote 4, Document 735.