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June 17, 1982

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Senior Interagency Group No. 24

TO :	OVP	- Mrs. Nancy Bearg Dyke
	NSC	- Mr. Michael O. Wheeler
	ACDA	- Mr. Joseph Presel
	AID	- Mr. Gerald Pagano
	CIA	- Mr. Thomas B. Cormack
	Defense	- COL John Stanford
	ICA	- Ms. Teresa Collins
	JCS	- MAJ Dennis Stanley
	Treasury	- Mr. David Pickford
	UNA	- Amb. Harvey Feldman
	USTR	- Mr. Dennis Whitfield

SUBJECT: U.S. Policy Toward Latin America

Attached is a revised draft of the policy study discussed June 16 in the IG meeting on U.S. Policy toward Latin America in the post-Falklands environment. This paper will be the subject of the SIG to be held Tuesday, June 22, at 4:30 p.m. It is intended that the SIG hold a discussion rather than a decision meeting.

Katherine Shirley for
L. Paul Bremer, III
Executive Secretary

Attachment:
Draft Study

LATIN AMERICA

11 JUN 09

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June 17, 1982

Falklands Crisis: Implications for U.S. National Interests and Policies

The hostilities in the South Atlantic have shocked the hemisphere and its institutions. This paper assesses the impact on U.S. interests in Latin America and proposes a series of measures to control the damage.

The IG agreed that managing events and preserving U.S. options for the future were more realistic objectives than the often elusive goal of "improving relations". It being also the consensus of the agencies that the measures now necessary, particularly with regard to South America, require neither major new resources nor a shift in U.S. strategic priorities, the paper does not employ an options format. Rather, the paper consists of an assessment and analysis followed by proposed courses of action consistent with the overall thrust of current policy.

I. THE PROBLEM

US/UK opposition to Argentina's first use of force was fully consistent with a principle widely accepted in Latin America, where potentially dangerous historic tensions are common (e.g., among Argentina-Chile-Peru-Bolivia-Ecuador, Colombia-Venezuela-Guyana, Nicaragua-Colombia-Central America, Guatemala-Belize), and where the rule of law has traditionally been considered the "equalizer" in the asymmetric relationship between the "colossus to the north" and our smaller and weaker Latin American and Caribbean neighbors. At the same time, U.S. support for an extra hemispheric country at war with a Latin American country, and the perceived U.S. unwillingness to prevent the outbreak of major hostilities, reinforced suspicions and doubts about the reliability of the United States commitment to the peace and welfare of this hemisphere.

The IG assumed that confrontation or at least tension between Argentina and the U.K. will continue. Restored British control over the Falklands is unlikely to lead to a formal cease-fire or effective early negotiations. Argentina will maintain its sovereignty claim and harass the U.K. diplomatically and perhaps militarily. Britain appears ready to fortify and develop the islands, and possibly to encourage their ultimate independence.

II. ASSESSMENT

We conclude that the South Atlantic crisis has impaired U.S. interests and influence quite differentially according to country and issue. Underlying trade and finance patterns, for example, are unlikely to be greatly affected. In addition, some of the generalized reaction is rhetorical, and will give way with time to renewed efforts at inter-American accommodation.

Four major categories of problems stand out:

-- Official state-to-state relations have been affected quite unevenly. Our most severe problems are with Argentina, Venezuela and Peru; Chile has attempted to move closer to the United States; relations with Brazil, Mexico and the Caribbean Basin have been little affected. In geopolitical terms, the South American environment is more fluid, increasing the importance of Brazil.

-- Personal attitudes toward the U.S. are more critical. The perception is widespread throughout the region that our priorities lie elsewhere and hence that U.S. support is not entirely reliable. This impact comes less from the Falklands crisis itself, than from its reinforcement of long-standing grievances and prejudices. This reaction is particularly damaging to traditional symbols of U.S.-Latin American cooperation and common destiny.

-- Our security interests and the stability of South America have been eroded. The duration and intensity of the fighting has created significant new pressures to increase military preparedness and weakened (1) the credibility of the U.S. ability to maintain hemispheric peace and stability and (2) the integrity of the Inter-American System. Both were previously assumed to guarantee that interstate conflicts in this hemisphere would be limited to a few days of actual fighting.

-- Soviet opportunities have increased, particularly in Argentina, where the Soviet Union will seek to increase trade and establish an arms relationship. In cooperation with Cuba, the Soviets are also exploiting the conflict to foster Latin American differences with the U.S. on major regional and global issues.

The IG felt strongly that our response to these problems should make clear that we are neither guilty of any wrong doing nor willing to buy friendship. Nor should we behave in a precipitate manner that suggests we can be blackmailed.

A major problem inhibiting our ability to deal with the new situation is the contradiction between perceived U.S. support for British policies, especially if the U.K. attempts to determine the future status of the Falklands without reference to Argentina, and our efforts to manage relations with key countries in South America, especially Peru, Venezuela and Argentina. The same considerations which have led to U.S. support for the U.K. up to now will make it difficult if not impossible for many Latin Americans to distinguish U.S. from British policy.

The best way to deal with this fundamental contradiction to rebuilding U.S. interests in the region is to promote an end to the Argentine-U.K. confrontation and a return to the negotiating table. In particular, we should dissuade the U.K. from prejudging unilaterally the future status of the islands, and avoid any commitment of U.S. troops to the islands in the absence of a U.K.-Argentine agreement.

In addition, these problems come after several years in which we have pursued our South American objectives with relatively little sustained engagement and very low levels of official resources. Although the President's vision of region-wide cooperation had led us to make efforts to improve ties to South America, including Argentina, our priorities have been focussed to the North. The Caribbean Basin and Mexico should continue to receive priority attention, but the Falklands crisis has underscored the need to also develop policies capable of sustaining a greater degree of cooperation with South America as well.

III. ANALYSIS

A. Bilateral Relations

In Argentina, our materiel supply to the U.K. and our support for the British even after the sinking of the General Belgrano will not be soon forgotten and could be used to make us the scapegoats for Argentine failures. How long this will last depends on several factors, including internal political evolution in Argentina, U.K. willingness to return to the negotiating table, and the degree to which the U.S. is perceived to support a negotiated settlement of the sovereignty dispute. Some evolution away from the current military government is likely, but, even if a Peronist

Government with a military supply relationship with the Soviet Union does not develop, any successor regime will place a very high priority on asserting Argentine sovereignty over the Falklands. Unless the United States is seen as willing to bring about a negotiated settlement, the prospects for near-term improvement in U.S.-Argentine relations are dim and our ability directly to influence that government minimal.

We expect Argentina to develop the capacity to build a nuclear device as rapidly as possible. This could happen before the end of 1985 (by violating safeguards on German and Canadian facilities), or by 1987 (using indigenously developed unsafeguaded materials and facilities). Denial of external inputs, particularly from Germany, could delay this development, but will not preclude it. A decision to test a device, however, may hinge on Argentina's assessment of the dangers that Brazil would then feel compelled to develop and test its own weapon.

Argentine resistance to a military relationship with the Soviet Union has been weakened by isolation at a time of desperate need; resistance would all but disappear if access to U.S. and European arms continues to be denied, or if the Soviets provide terms as favorable as those given Peru in recent years. Our major leverage against such a development is Argentina's financial position. Should Argentina fail to restructure existing debt, the GOA would be unable to purchase Western arms and would of necessity turn to the Soviet Union.

Peru is the only American ally whose principal military supplier is the Soviet Union, and posed special challenges for us even before the Falklands conflict. Peru has been the only Latin country to supply significant military support to Argentina. The Peruvian military may seek to continue this aid even if Argentina refuses to accept a ceasefire and continues hostilities. This could open new opportunities for the Soviets, either to supply new equipment to Peru to replace that transferred to Argentina, or to use Peru as a conduit and figleaf for supplying Soviet equipment to Argentina. Any opposition to these moves by President Belaunde, perhaps the most pro-American of the South American chiefs of state, could lead to his overthrow. Any of these developments would seriously affect U.S. interests, and the prospect requires that we give priority attention both to developing a diplomatic posture on the Falklands that Peru could support, and to re-establishing a military supply relationship with Peru that will give it an alternative to the Soviets.

In Bolivia there will be a foreign policy echo of events in Argentina. Argentine influence has been and will continue to be significant. Except during the current Torrelio regime, the GOA has usually worked at cross purposes with the U.S. Should an Argentine/Soviet arms connection be established along the lines of that existing today in Peru, Bolivia might very well follow the lead of its two traditional regional allies, with the additional risk that Soviet influence on Bolivian policy would be facilitated by Bolivia's weak and corrupt institutions.

In the new environment created by the crisis in the South Atlantic, Brazil could emerge as the new balance wheel -- perhaps even against its will. We should encourage a larger role for Brazil and seek to influence Brazilian policies through development of closer bilateral ties.

The crisis is a serious setback to Brazil's efforts to encourage a strong and stable Argentina with which Brazil could have a non-adversary relationship. Brazilian sensitivity to Argentine domestic political developments and opposition to substantial Soviet inroads in South America could lead Brazil to tilt further toward Argentina in an effort to preempt the USSR.

Brazil is not ready or eager to assume the responsibilities of regional power. Like the United States, Brazil is an "odd man out" in the Spanish-speaking world, and has growing interests in Africa and the Middle East. Brazilian foreign policy is commercially pragmatic and politically very sensitive to South American fears that Brazil could act as a U.S. surrogate. Even without seeking an overt leadership position, however, Brazil's relative economic and military weight, institutional competence, and the absence of territorial disputes with any of its neighbors, give it great potential influence.

It is in our interest to foster Brazilian influence as a complement to our own efforts. Should we fail to entice Brazil into assuming greater responsibilities, our own role would have to be greater, with correspondingly greater risks of overexposure or politically undesirable commitments (e.g., Chile).

In Central America, vested interests in ties to the United States and cultural distance from South America will limit effective anti-American nationalism. Nonetheless, our ability to deal with Nicaragua has diminished. Regional peace-keeping efforts in Central America will be more difficult to organize, with South American participation less

likely. Tensions between Guatemala and Belize (the only place in the hemisphere other than the Falklands where the U.K. stations combat troops) will continue to fester if unresolved. Argentine influence with some Central American officers could lead to adoption of policies hostile to the United States.

In the Caribbean support for the U.K. by all English-speaking states except Grenada should further isolate Grenada's pro-Cuba government, but can slow cooperation with Spanish America bilaterally and through the CBI.

B. Attitudes

The conflict has reinforced that most potent of poisons, the Latin American sense of inferiority and irrelevance to our global concerns. Argentina's key psychological weapon is a widely held belief that as "Anglo Saxons," we do not take Latin Americans seriously. This perception inhibits cooperation in support of U.S. interests.

In the immediate aftermath of the crisis, some North-South and non-aligned rhetoric is inevitable. This is especially true of spokesmen of the more emotionally-charged countries such as Venezuela, Panama, and Peru and those seeking to exploit any rift between the U.S. and the Latins (e.g. Cuba and Nicaragua). The argument that the U.S. and the U.K. acted as racist industrialized powers cooperating to keep developing countries in their place has powerful gut appeal. These concepts are consonant with such Falklands-supported "lessons" as anti-colonialism, anti-imperialism, and solidarity among the dispossessed.

These emotional-ideological currents are likely to give a shot in the arm to nationalist-populist movements, like Peronismo and Aprismo, and particularly their military and leftist variants. Efforts to organize Latin-only organizations that exclude the U.S. are also more likely.

Chile, Colombia, and economic elites generally will successfully resist pressures for more statist and nationalist economic policies, but the rhetorical battle will be uphill. Brazil's concerns that the United States is insensitive to both its development needs and its global weight could lead it to adopt an ambiguous position. Mexico's anti-Americanism, always present, will continue to surface from time to time, although the unique relationship with the U.S. will continue to exert its control.

The longevity or lasting effects of the current mood -- which varies greatly from country to country (with Venezuela and Colombia at opposite ends of the spectrum) -- will depend on how the crisis evolves, when and how it it settled, and what posture we adopt along the way.

At least for the moment, however, our ideological influence is considerably reduced. Efforts by U.S. spokesmen to employ the "Western Hemisphere Ideal," "Pan-Americanism," or the broader "Western Civilization" themes as proof of a common U.S.-Latin American destiny will not prosper. In some countries our friends are not eager to be seen offering us an abrazo; instead, they are holding us at arms length until the emotional level subsides.

Although Argentina was clearly hurt by the international perception that its government is a murderous dictatorship, the access and influence in Latin America of Anglo-American human rights organizations have been damaged by the apparent ethnocentrism of many of their positions.

It should be noted, however, that some regional leaders have privately expressed the hope that we will not hold against them the pro-Argentine stance they adopted at the OAS, and that they hope to see a return to "business-as-usual" normalcy as soon as possible.

C. Security Interests

A major new and potentially destabilizing factor in the regional equation is that military institutions, throughout the hemisphere but especially in South America, have powerful new claims to national influence and resources. While we expect that the general trend toward political liberalization in the region will continue, and that financial problems will act as a constraint on military procurement, the ability of governments, whether military or civilian, to resist demands for modern arms has been weakened by the crisis. Resources will be diverted from economic development.

Even before the Falklands crisis dramatized arguments for modern forces, seven countries -- all in South America -- had embarked on significant weapons procurement programs to upgrade or replace aging weapons systems. They were Argentina, Brazil, Chile, Colombia, Ecuador, Peru, and Venezuela. The Falklands crisis will accelerate military procurement with an emphasis on more sophisticated all-weather systems, improved maintenance, greater self-sufficiency and larger stocks of munitions and precision-guided

missiles. France (and to a lesser extent the FRG, Italy, Spain, and Israel) have the best competitive position, but all suppliers, including the U.S., will be eligible. Soviet opportunities will be substantial. Military industries in Argentina, Brazil, and several other countries will be stimulated. Mexico and Central America have already begun limited modernization programs and will be less affected.

Training and military doctrine will remain avenues of influence. Service-to-service contacts with the U.S. and other modern militaries will be highly sought after and defended as a means of "keeping up technically", but will be hedged to reduce opportunities for U.S. influence. South American participation in formal Inter-American military maneuvers like UNITAS will be curtailed, but probably only for a year or two, given their usefulness as a source of operational experience and resources.

D. Soviet-Cuban Opportunities

The Soviet Union's initial opportunity will come through arms transfers to Argentina. The USSR subsidized military sales to Peru, enabling the Peruvians to buy "Cadillacs for the price of Volkwagens". In addition, Peru's ability to make heavy army and air force purchases from the Soviet Union without visibly losing internal or foreign policy flexibility may lead some to conclude that Soviet political influence -- and the cost in U.S. ties -- can be managed. Argentina's massive grain-induced bilateral trade imbalance with the Soviet Union provides a ready economic incentive to both sides for an arms transfer relationship. According to Soviet figures for 1981, the USSR bought $3.3 billion -- mostly grain and meat -- from Argentina, while Argentina bought only $42.5 million in Soviet machinery and nuclear supplies. Soviet interest in gaining a military supply position in Argentina thus appears substantial: it would consolidate its Peruvian foothold, threaten Chile, and assure access to badly needed grain imports.

Cuba also has an obvious interest in Argentina. But Argentina's leaders remain conservative, and Cuba's few new talking points are unlikely to change the geopolitical map unless a Peronist government comes to power.

IV. PROPOSED COURSES OF ACTION

The IG concluded that the changed situation resulting from the Falklands crisis can be managed almost entirely within current resource limitations. Indeed, the key

resources required are intellectual energy and political imagination to strengthen natural affinities and private sector interests.

In considering the individual actions and options discussed below, however, we should be aware that some will be very controversial in terms of U.S. public and Congressional reactions. This section therefore concludes by considering Congressional implications.

A. Measures to Manage Bilateral Relations

1. Rebuild relations with Argentina. How quickly we can do so will depend on whether Argentina continues the air and naval war; but it is also true that movement in the U.S. position may encourage Argentina to withhold further military action and accept a formal ceasefire. The most effective step in this direction would be for us to work with the U.K. to encourage the resumption of negotiations with Argentina over the Falklands. Should the U.K. not do so, we should make clear that we have no position on the issue of sovereignty.

Our immediate task is to ensure, in the emotional aftermath of the Stanley surrender, that neither side takes decisions that would prejudice a final resolution of the Falklands issue.

-- If Argentine military action continues, we should privately ask key Latin American countries to bring pressure on the Argentines. This will be effective, however, only if we are prepared to convey willingness to pressure Britain to negotiate with Argentina.

-- If Argentina accepts a de facto or formal ceasefire, we should immediately respond by lifting our military and economic sanctions, noting that Resolution 502 has been complied with. This move should be coordinated with Congress, the EC, and NATO as well as the U.K. Ideally, our move should come first.

We should also ensure that we are perceived in Argentina as working to help Argentina get a basically creditworthy economy back on track. We should encourage sound economic policies, a restoration of traditional trade patterns, and reestablishment of international creditworthiness.

2. Reduce Argentine dependence on the Soviet grain market. The USSR has become a major customer for Argentine grains, but is not a consistent buyer. When the Soviet

demand is high, Argentina is assured badly needed revenue. But if the USSR demand declines significantly and abruptly (as has happened) the Argentines may resort out of desperation to barter arrangements (grain for arms). It is therefore in the U.S. interest to promote diversified markets for Argentine grain exports.

3. Develop a policy toward Argentine rearmament to preempt Soviet sales. (A) Raise no objection in principle to Brazil, Israel, and Western European suppliers, particularly the FRG, Italy, Spain and France, to preempt Soviet and Arab arms sales to Argentina. (B) Consider certifying Argentine eligibility for U.S. military aid and sales as soon as Argentina has agreed to a ceasefire, if we have reasonable assurance that Argentina will not again violate the Arms Export Control Act, and if we have also found a way to certify sales to Chile (see 4, below). Argentina is unlikely to rely on the U.S. as a supplier in any event, but certification will be politically important and could slow a turn to the USSR or the radical Arabs. We expect major Congressional resistance to certification.

4. Chile. We have a major interest in preserving the balance of power between Argentina and Chile. Despite recent events, it may still be easier to certify Argentina than Chile. Letelier/Moffitt causes special difficulties in the Chile case, and there is greater congressional opposition on human rights grounds. To go ahead with Argentina but not Chile could cost us heavily with one of the few South American states where our relations are presently undamaged, including the loss of any opportunity to moderate the Chilean military buildup or its human rights practices. Certification and the resumption of aid and sales to Chile is our goal; the timing must carefully weigh these issues.

5. Seek to delay Argentine development of the unsafeguarded facilities that would give it a nuclear option. Continue to work with key suppliers, especially the FRG, to minimize Argentine opportunities to acquire nuclear technology free of safeguards. Give priority to reaching an understanding with the PRC, whose established nuclear relationship with Argentina is unconstrained by the NPT or other formal arrangements. Although our influence within Argentina will be minimal in the foreseeable future, we should not abandon efforts to convince Argentina that nuclear devices will degrade, not enhance, Argentine security.

6. With Brazil, our goal could be to develop a relationship in which both countries act to contain and hopefully resolve potential conflicts -- not necessarily in concert,

but with the full and shared knowledge that stability must be maintained. To overcome Brazilian sensitivities to overly close public association with us will require discretion and patience. In expanding the Brazil relationship, moreover, we should attempt to avoid contributing to Argentine insecurities. Key steps could include:

-- consulting closely and regularly in both Washington and Brasilia on the means to maintain a stable regional balance of power. We would make clear that we believe this can only be achieved over the long haul if we do not work at cross purposes. Brazil would want to consult on a wide range of issues; we should agree. What we could each do to maintain the balance between Chile and Argentina might be an important initial topic for exploration.

-- improving and broadening regular intelligence exchanges;

-- inviting Brazil, as the seventh largest economy in the free world, to participate in the next economic summit. Acceptance would be unlikely, but the gesture would make the point we take Brazil seriously.

-- developing a closer relationship to the Brazilian nuclear program including resolution of the nuclear supply problem (which would require Brazilian acceptance of a full safeguards regime or changes in U.S. law) would be important signals of our acceptance;

-- cultivating military-to-military contacts and relationships, including naval cooperation and some weapons co-production (with the controls required by U.S. law on re-export);

-- strengthening cooperation in science and technology; and

-- addressing Brazil's grievances over U.S. sugar quotas and dealing with Brazil's perception that U.S. policies on GSP and MDB graduation reflect U.S. insensitivity to Brazil's economic problems. On sugar, we will need to adjust the quota system to allow for growth in exports to the U.S. On GSP graduation, we must take care to minimize damages to the Brazilian exports. On MDB gradua-

tion we should seek opportunities to reiterate at the senior level that we support flexible application of this MDB policy in which a country's regional income disparities and other unique problems and needs are taken fully into account.

7. Increase U.S. cooperation in science and technology (a) with the governments of the Andean Pact, Argentina, Brazil, and Chile and (b) with their private sectors. A number of countries, especially Brazil, are ready for productive cooperation to mutual advantage. Such a program would coincide with the desire to strengthen indigenous R & D capability in the wake of the Falklands Crisis. Existing U.S. government programs are spread among various agencies (NASA, Energy, Transportation, NIH, AID, Agriculture). Although they are affected by policy decisions, they often escape policy consideration and are often not coordinated with private sector, university, and research institute activities. The Department could sponsor an early conference, hosted and run by the NSF, of representatives from U.S. industries and research institutes involved in R & D to consider areas where cooperation between the U.S. and Latin America might be expanded, including Space, Biotechnology, Physics, Chemical Engineering, Education, Agriculture, Health, and the Environment. Using ideas outlined in the conference, an expanded program combining interagency cooperation, private sector support, and a comprehensive view of past R & D programs could be launched.

8. Be as bilaterally responsive as possible to individual countries, including efforts to prevent past tensions from coloring future relations if conditions permit (Chile, Uruguay, Bolivia). Continued cooperation with the Andean countries should reduce the costs of the Falklands crisis to our interests there. Modest assistance efforts should be sustained in Bolivia, Peru, Ecuador, Paraguay to limit the repercussions of Argentine economic weaknesses. More importantly, economic measures with direct negative consequences to particular countries (e.g., silver sales and Peru) should be reviewed carefully on their merits. We should also be particularly sensitive to the need to implement the terms of the Panama Canal treaties, to avoid this becoming an issue in the current environment.

B. Measures to Deal With Impact on Attitudes

1. Reiterate justification for our action. The best and only stance for us is to hold to the correctness of our opposition to the first use of force, continue to explain our policy not in terms of a choice between Europe and

Latin America but rather of adherence to the rule of law, and back that up with actions that demonstrate commitment to Latin America. We should avoid giving the impression that we believe that our relationship with Latin America has been irrevocably undermined. This, or any indication of a sense of guilt or remorse, would simply fuel the emotional fires in places like Caracas and Lima. As the dust settles, our principled support for the rule of law will become more widely accepted.

2. Following through on the CBI is more vital than ever. The CBI is critical to our position in Central America and the Caribbean and provides a point of contact to Venezuela and Colombia. Our failure to live up to the expectations we have created would provide further evidence that the hemisphere is relatively low on our scale of priorities. Efforts to bridge the gaps between the Commonwealth Caribbean and Spanish America should be intensified. Continue to press the U.K. to increase economic assistance and defer new moves to grant independence to Caribbean dependencies.

3. Encourage symbolic ties that emphasize U.S. interest in Latin America. The most important step would be to assiduously cultivate individual leaders, through the kind of special attention they deserve and appreciate: a strengthened/expanded program of visits to and from Washington by chiefs of state and other high level officials; entree to high places when Latin leaders come to Washington. Other possibilities, which would have to be carefully vetted in coming months to avoid counterproductive reactions, might include:

-- Establishing a Presidential Commission on U.S. interests and policies in South America to develop a stronger U.S. consensus and to symbolize U.S. interest in driving a reliable new bargain for hemisphere relations. The Commission could include members or staff from Congressional, economic, defense, hispanic, and academic constituencies.

-- Use the Commission to prepare the groundwork for a Presidential visit to South America, possibly in conjunction with the 200th anniversary of Bolivar's birth July 24, 1983.

-- Schedule travel to South America by high level USG officials not identified in the Latin mind with our policy of support for the British. Possibilities include Judge Clark, Ambassador

Middendorf, Ambassador Kirkpatrick, AID Administrator MacPherson, Senators Percy and Baker, Representatives Wright, Lagomarsino, Zablocki, Gilman.

-- Establish Interparliamentary Commissions with the Congresses of selected South American countries, patterned after the Mexican model. Possibilities include Brazil, Colombia, and further down the road, Veneuzela.

4. Cultivate multilateral diplomacy to complement our bilateral moves and reduce suspicions that we are trying to "divide and conquer." Maintain an active OAS presence, but focus initially on improving cooperation with subregional groupings, like the Central American Democratic Community, the Andean Pact, the Amazon Basin group, or the Cuenca de la Plata group, and on inter-American military ties. Another option might be to encourage initiatives, preferably by others, on the peaceful settlement of current territorial disputes. Still another possibility might be to plan now for a strong U.S. role at this year's scheduled Special OAS General Assembly on Cooperation for Development (without, however, implying commitment of major new economic assistance to the region.)

5. Strengthen ties to key political movements. In Venezuela, for example, the Christian Democrats and the Social Democrats both have international contacts that will give their views additional impact. But any appearance of a U.S. choice between them would be highly counterproductive.

6. Promote discriminating and substantive exchange programs between U.S. and Latin American Chambers of Commerce, think tanks, universities and other national institutions particularly in technical fields. Full use should be made of the talents of leading private sector organizations like the Americas Society. One objective would be to recover some of the ties between technocrats lost with the termination of AID training programs in South America in the 1970s. Other exchanges should have the objective to broaden Latin American awareness of our global concerns.

7. Move forward in a low-key fashion on the Secretary's St. Lucia proposal to create a institute for democracy. Though originally proposed as an OAS activity, and perhaps today most practicable within the Central American Democratic Community, the Andean Pact, or some other sub-regional

basis, the project would be best received if presented as part of a global initiative.

C. Measures to Enhance Regional Security Interests

1. Utilize full potential of U.S. arms transfer policies as set forth in NSDD-5 to meet requests from the major South American countries, with particular emphasis on modern systems, communications, and technology. Where it is to our political and strategic advantage and would enhance regional stability, we should consider making the first introduction of new systems into the region, and selling more advanced systems than we have in the past. We will not be able to regain our position as the region's primary supplier in the face of aggressive West European and Soviet marketing with concessional financing, but the attractiveness of some of our technology (e.g., missiles, fighter aircraft) should keep us in the game. The key, except perhaps for Peru, should not be the provision of significant security assistance resources (we have in any case had no materiel grant assistance to South America's key nations since 1968), but the development of a policy that can be defended as respectful, restrained and non-discriminatory.

2. Give priority to obtaining Congressional approval of the Special Defense Acquisition Fund (SDAF), with adequate capitalization and authority to meet the needs of the developing countries as well as the industrial powers. (We could have sold the A-37 to four or five Latin countries, preempting more costly aircraft, if the Cessna production line were still open.)

3. Consider co-production arrangements with Brazil, and perhaps symbolically on some weapons with the Andean Pact. Latin America will be looking increasingly to develop its own material production. Co-production or licensing arrangements could take some years to develop, but could enable us to short-circuit some of the cost, leadtime, and bureaucratic delays that plague U.S. sales. More importantly, even if no viable arrangements could be found, the offer would be symbolically important and give us a concrete subject for policy discussions and subsequent cooperation with Brazil. Only a major, high-level effort will get this off the ground. (A major sticking point will be U.S. control over re-export of U.S. components to, e.g., Iraq.)

4. Expand military exchange programs. Give priority to Congressional enactment of provision in foreign aid authorization bill (now awaiting floor action in both houses)

expanding DOD authority to provide no-cost training in U.S. military schools to countries providing such training to U.S. officers. While removing an irritant in our relations with Brazil, where we have not been able to repay Brazilian training of U.S. officers, the authority being sought could permit the expansion of reciprocal training in other Latin American countries. Personnel Exchange (PEP) programs in Latin America, for which no new legislation is needed, should also be expanded and given higher priority. Embassies in countries where the military play a major political role should be directed to nominate military officers for ICA's international visitor program.

5. Increase IMET and expand and upgrade the U.S. Military Schools in Panama. Promote U.S. military training and doctrine in Latin America through a revitalization of the U.S. Military Schools in Panama and similar mechanisms (e.g., exercises, unit exchanges and mobile training teams).

6. Direct the Arms Transfer Management Group to review inter-agency procedures for responding to arms transfer requests to reduce delays in providing policy approval and P&R/P&A data. Prompt decisions, even when our policy requires disapproval of the proposed transfer, improve our reputation as a supplier.

D. Measures to Deal with Threat of Soviet/Cuban Inroads

1. The best defense against Soviet/Cuban exploitation of the Falklands crisis is to take decisive action to protect U.S. interests and reestablish U.S. influence where damage has occured, thereby reducing incentives for a turn to the USSR. Such actions include the whole range of recommendations included in this paper.

2. Keep the pressure on Cuba without attempting to force a rapid denouement, recognizing that the regional environment is not propitious to U.S. "power plays". One exception might be Namibia. Hinder further development of Argentine-Cuban ties.

3. Reduce Peruvian military ties to the Soviets. Because of Peru's economic situation, concessional financing is essential if U.S. equipment is to compete with Soviet offers. A $30 million FMS financing program, including $25 million concessional terms, has been proposed to inclusion in the FY 84 security assistance budget and should be assigned a high priority. While the recommended level would be five times our FY 83 program for Peru, it is consistent with the levels of FMS financing offered Peru in the mid-70's.

4. Argentina. See above, IV.A.3.

E. Congressional implications

Our strategy in dealing with the public and Congress should emphasize heavily the following points:

-- we have a new situation in Latin America which requires new policies to protect U.S. interests;

-- these policies do not involve a commitment of significant new resources, except in the case of Peru;

-- some changes in attitudes and legislation are required to permit development of cooperation and restraining leverage in military, nuclear and technological relationships.

A revitalized arms transfer policy is needed to provide hemisphere cooperation and defense in times of crisis and to strengthen inter-American solidarity. We would prefer to keep arms procurement at a low level, but where imbalances occur we must act to stay in the game, avoid possible outbreaks of hostilities and prevent possible Soviet inroads.

We will have to explain to Congress how the new situation and our interests demand that we be prepared to assist countries in maintaining regional balances of power within the context of our arms transfer policies. For example, we will be unable to compete effectively with the Soviets and Europeans in the military arena without some changes in U.S. law, and public and Congressional attitudes. This may prove difficult since Latin American drives to acquire modern equipment traditionally create conflictive dynamics with the United States. Congress and much informed opinion in the U.S.are opposed to sales as unnecessary, counterproductive, wasteful, and supportive of militarism.

In the post-Falklands environment, U.S. unresponsiveness to the demand for new and better arms and equipment would not result in the denial of modern weaponry. Rather, it would reduce U.S. influence and prestige in matters that many South Americans who are not military will consider vital to their national security. To influence procurement needs and the related rethinking of security interests and needs, we will need to make full use in dealing with Latin America of the more responsive arms transfer policies established by the Reagan Administration, and build Congressional support for such use.

ANNEXES

I. ARMS TRANSFERS TO LATIN AMERICA AFTER THE FALKLANDS

II. U.S. STRATEGY IN POST-MALVINAS SOUTH AMERICA: PURSUING THE BRAZILIAN OPTION

DATA AUTHORIZATION INPUT FORM

SECTION I - MISC CONTROL DATA

DATE RECEIVED: 061882 CONTROL NO. X 20301

CONTROLLED ITEMS RECEIVED: ORIG 0 CC ___ RCY(S) 1 PG(S) 1 CY NO. ___ THRU ___

OF ___ CYS. COVER MEMOS RECEIVED: ORIG ___ CC ___ RCY(S) ___ PG(S) ___ CY NO. ___

THRU ___ OF ___ CYS. ENCLS: 1 REPLY TO: ___ REF(S) ___

DESTRUCTION CERT NO. ___

SECTION II - FILE & MICRO DATA

MICROFICHE: (YES) NO MF: 212405 FICHE NO. A IMAGE(S) E9 F13

FILE NO. Latin America

SECTION III - ACTION

ACTION #1 USP FOR FAA S: / COORD W: ___

ACTION #2 ___ FOR ___ S: ___ COORD W: ___

COMMENTS: ___

SUSPENSE STATUS: ___

SECTION IV - DISTRIBUTION

TO	COPY	TO	COPY	TO	COPY
SD	RWI	PA		R&O	
DSD	RWI	GC		DUP	
ES	2RWI	AE		EAD	
SA		LA		EPD	
SN		NA		PRO	
SAF		ISP		[illegible]	(KS)
JCS		DIA		DSD	(VB)
USP	RWI	DLA		SSW	
USR		SGN		MAD	
COM		SDR		MAS	
ADM		DSR		ADD	
HA		PAK			
ISA	RWI	LIB			
MRL		ADC			
PAE	✓	ADC	RWI		