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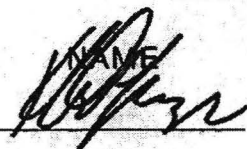
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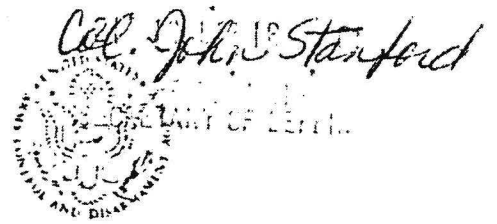
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UNITED STATES ARMS CONTROL AND DISARMAMENT AGENCY
Washington, DC 20451

June 18, 1982

MEMORANDUM

TO: State/ARA - Thomas O. Enders
FROM: ACDA/NWC - Norman Terrell *NT*
SUBJECT: June 17 Falklands Paper

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Authority: EO 13526
Chief, Records & Declass Div, WHS
Date: DEC 22 2017

Thank you for sending me the new version of the Falklands paper. I found the revisions to be very constructive and they picked up my major points. I have some additional comments on which I think we are in accord. If there are any problems, perhaps we should talk about them before the SIG.

1. On page 4 in the discussion of Argentine nuclear developments, I would like to remove the reference to the FRG and change it to read:

"Denial of external assistance could delay..."

Also, at the end of the paragraph I would like to add, "Should Argentina or Brazil develop or test a nuclear device, this could have serious implications for the Tlatelolco regime. This could contribute to the desire of other Latin American countries to explore a nuclear weapons option sometime in the future."

2. On page 9, Section A.1., I believe it would be useful to spell out what "negotiations with Argentina" might encompass and change line 6 to read: "The most effective step in this direction would be to seek a neutral formula (e.g., transfer of sovereignty to Argentina, a condominium arrangement, or International Court of Justice arbitration) for the possible disposition of the islands. I also believe that in place of "cease-fire," we should insert "end of hostilities" here and throughout the paper.

3. Page 9, Section A.1., para. 3. The second sentence gives the impression that we are pressuring the British while the hostilities are still going on. I suggest we change that sentence to read, "This will be effective only if we are willing to urge Britain to negotiate with Argentina along the above lines once hostilities have ended."

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OFFICE OF THE
SECRETARY OF STATE

Washington, D.C. 20520

July 13, 1982

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-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: Notification of IG Meeting

The IG on U.S.-Latin American Relations in the post-Falklands environment will convene on Friday, July 16, at 4:00 p.m. in Room 6909 of the State Department. Assistant Secretary Enders will chair the meeting.

Attached is a revision of the previous IG study of post-Falklands policy, with annexes, for discussion at the IG.

Attendance will be principal plus one. Addressees are requested to telephone the names of their representatives to Mrs. Sheila Lopez at 632-5804 by COB Thursday, July 15.

Page determined to be Unclassified
Reviewed Chief, RDD, WHS
IAW EO 13526, Section 3.5
Date: DEC 22 2017

L. Paul Bremer, III
L. Paul Bremer, III
Executive Secretary

Attachment:
As stated.

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July 13, 1982

FALKLANDS CRISIS: IMPLICATIONS FOR U.S. NATIONAL INTERESTS
AND POLICIES IN LATIN AMERICA

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EXECUTIVE SUMMARY

The underlying lesson of the Falklands conflict was that U.S. credibility and leverage with Argentina did not match the US interests at stake. Aside from Argentina, crisis-induced damage to U.S.-Latin American relations has varied widely from country to country and appears manageable on most matters. But the potential for future conflicts and instability counsels a long-term effort to build relationships with the major players in South America to maintain local balances of power, delay nuclear proliferation, and narrow openings for the Soviet Union.

Our highest priority in Latin America should remain to prevent instability or inroads by the Soviet Union or its client states in our immediate environs -- Central America, the Caribbean and Mexico. To demonstrate that the Falklands conflict did not distract us from this central purpose and to reaffirm our constancy to friends and adversaries in this hemisphere, a number of immediate steps are desirable in this area, where further deterioration would directly affect U.S. security and well-being:

- A decisive push for Congressional approval of the President's Caribbean Basin Initiative (CBI);
- Strenuous efforts to secure requested FY 82 supplemental and FY 83 foreign assistance funds for Central America/Caribbean; and
- Elaboration of a U.S. policy approach toward the new Mexican Administration in preparation for a possible early Presidential meeting.

Policy toward South America must take into account the resource limitations imposed by our Caribbean Basin and extra-hemispheric priorities, including the need to maintain the credibility of our global arms transfer, non-proliferation and trade policies. We must also avoid the impression of a knee-jerk response to the Falklands setback and ensure that we do not burden our effort to secure vital Central America/Caribbean funds with additional controversy.

The problems we face in South America are serious:

- Preserving a peaceful equilibrium between Argentina and its neighbors, especially Brazil

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and Chile, in the face of Argentine rearmament, exploration of the nuclear option, and reassertion of nationalism.

- Lessening the chances of domestic instability or unfavorable policy evolution in economically vulnerable Bolivia, Ecuador, Peru, Paraguay, and Argentina (serious balance of payments problems also loom in Brazil and Chile).
- Limiting Soviet arms transfer opportunities, particularly in Peru and possibly in Argentina.

Managing these problems will require a long-term effort to enhance relations with Brazil, Venezuela, and eventually Argentina -- the major South American economic powers and potential arbiters of security.

Brazil is of singular importance to this objective. Although reluctant to march in lockstep with the U.S. and extremely cautious in exercising influence with its neighbors, Brazil's economic, military, and institutional capabilities give Brazil formidable potential regional influence. The IG favors efforts to develop a U.S.-Brazilian relationship as intense as that with U.S. alliance partners in Europe. Brazil's current nuclear cooperation with Iraq serves as a warning not to build a web of organic relationships linking Brazil to the West could ultimately cause significant disruptions to our interests.

Venezuela also is of immediate importance. The resurgence of anti-Americanism occasioned by the Falklands and the coming Venezuelan Presidential elections could weaken our cooperation on Cuba and Central America.

Our South American policy should develop in phases:

Immediately:

- Begin to rebuild relations with Argentina in the context of political moves in the Falklands acceptable to the UK and Argentina;
- Develop a policy on Argentine rearmament through third parties in consultation with the UK;
- Establish a dialogue with Argentina and Brazil on nuclear security issues, the Treaty of Tlatelolco (Latin American nuclear-free zone agreement), and safeguards. With Brazil, seek concessions facilitating Presidential waiver of Symington-Glenn restrictions;

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- Nurture Cabinet-level policy consultations with Brazil, and explore the possibility of a Brazil-U.S. trade agreement as part of a new round of negotiations concentrated on the advanced developing countries;
- Maintain modest assistance and other economic relief measures to the vulnerable South American states.

Early 1983:

- Certify Argentine and Chilean eligibility in tandem for U.S. military aid and sales with appropriate ancillary conditions;
- If Brazilian concessions warrant, move to resolve nuclear supply problem with Brazil through amendment to U.S. law. Waive Symington-Glenn to permit limited military cooperation;
- Address Brazil's sugar grievances, if possible.

Over time, we would also:

- Seek to meet requests for arms transfers positively and promptly, but within NSDD 5 guidelines;
- Capitalize the Special Defense Acquisition Fund (SDAF);
- Explore military co-production arrangements with Brazil;
- Seek to re-orient Argentine grain trade from overdependence on the USSR;
- Increase military training and exchange programs in South America;
- Enhance science and technology cooperation, exchange programs, democratic political action, and high-level U.S. visits;
- Oppose development of new Cuban ties in the hemisphere; and
- Work to reduce Peruvian military ties to the Soviet Union.

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I. U.S. INTERESTS

U.S. interests in Latin America and the Caribbean may be summarized as follows:

- a region free of Soviet-dominated or other hostile governments requiring a significant commitment of U.S. military resources. Our ability to maintain constructive relationships and to isolate and constrain Cuba has enabled us to avoid committing significant resources to defend our southern flank.
- stable and democratic political systems and institutions capable of dealing effectively with local social, economic, and security problems.
- cooperative bilateral relations to deal with geographic proximity (our neighbors' cooperation is essential on issues that directly affect U.S. society, including migration, narcotics, tourism, fisheries, border cooperation, etc.) and to maintain effective collaboration on international issues. The region's 33 votes in the UN and other fora can make a major difference to achievement of U.S. global objectives.
- protection of major U.S. trade and investment. U.S. exports to Latin America (now more than \$41 billion annually) exceed those to the rest of the Third World combined, and match those to the European Community; imports of oil and raw materials are important to the U.S. economy. U.S. investment totals \$38 billion, with an annual return of approximately \$7 billion.
- prevention of nuclear proliferation and maintenance of stable balance of power relationships to help prevent conflicts between hemispheric countries requiring a commitment of U.S. personnel or resources.
- receptivity to U.S. leadership within the hemisphere, requiring an image of the U.S. as a friendly country which can be relied upon to meet its hemispheric commitments (e.g., the Caribbean Basin Initiative, support for governments threatened by insurgencies).

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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 focused on Central America, the Caribbean, and Mexico. For several years now, we have pursued our South American objectives with little sustained engagement and low levels of official resources.

II. ASSESSMENT

U.S. opposition to Argentina's first use of force was widely accepted in Latin America. Despite general public support for Argentine sovereignty over the disputed islands, in only one country -- Venezuela -- did a majority (62%) approve of the Argentine military takeover. The prevalence of territorial tensions (e.g., among Argentina-Chile-Peru-Bolivia-Ecuador, Colombia-Venezuela-Guyana, Nicaragua-Colombia-Central America, Guatemala-Belize) puts a premium on the peaceful settlement of disputes. In addition, the rule of law is seen as an important "equalizer" in asymmetric hemispheric power relationships.

U.S. support for the U.K.'s military campaign to retake the islands was just as widely resented. Our open support for an extra-hemispheric power, particularly in the face of two 17-0-4 Rio Treaty votes supporting Argentine sovereignty claims, reinforced suspicions and doubts about the reliability of the U.S. commitment to Latin America. Fortunately for us, Argentina's reputation for arrogance, and the collapse of its forces on the ground, helped to cushion reactions.

We conclude that the South Atlantic crisis 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, much of the generalized reaction was rhetorical, and will give way with time to renewed efforts at inter-American accommodation.

The IG identified four categories of problems:

- Official state-to-state relations have been affected quite unevenly. Our most severe problems are with Argentina, and to a lesser extent with Venezuela, Panama and Peru; Chile has attempted to move closer to the United States; our relations with Brazil, Mexico and the Caribbean Basin have been little affected. In geopolitical terms, the

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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. Falklands crisis reactions were 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 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 may increase, particularly in Argentina, where the Soviet Union has a long-term opening 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.

Although the fighting has ended, the political repercussions continue. If the U.K. attempts to determine the future status of the Falklands without reference to Argentina, U.S. association with British policies will severely hinder efforts to manage U.S. relations with key countries in South America (especially Peru, Venezuela and Argentina).

III. ANALYSIS

A. Bilateral Relations

1. Argentina. Managing relations with Argentina will entail many vexing problems. Our objectives include encouraging political moderation, economic recovery and accommodation with the UK, facilitating modest Argentine rearmament to avoid an Argentine military relationship with the Soviet Union, and discouraging Argentine development of nuclear weaponry.

Our leverage is limited. Our materiel supply to the U.K. will not be soon forgotten and could

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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, and U.K. willingness to return to the negotiating table. Unless the United States is seen as supporting a negotiated settlement, the prospects for basic improvements in U.S.-Argentine relations are dim.

Whether Argentina, which has Latin America's most sophisticated nuclear program, will decide to build a nuclear device as rapidly as possible is unclear. However, Argentina could develop the capability to produce significant quantities of fissile materials suitable for nuclear explosives not covered by IAEA safeguards or other commitments precluding such use. Denial of external assistance and economic constraints could delay this development, but this could happen by late 1985 (by violating safeguards on German and Canadian facilities), or by 1987-90 (using indigenously developed unsafeguarded materials and facilities).

Should Argentina build a nuclear device, Brazil would feel compelled to follow suit. Argentine or Brazilian development of a nuclear device would have serious implications for the Tlatelolco regime, and could stimulate other Latin American countries to explore a future nuclear weapons option.

Argentine conventional rearmament is likely to take place initially with Western arms obtained through secondary suppliers. But Argentine resistance to a military relationship with the Soviet Union has been weakened by isolation at a time of desperate need; resistance would further weaken if access to U.S. and European arms continues to be denied. A turn to the Soviet Union for some modern weapons could take place in the medium term despite resistance from pro-Western economic elites and military concern over the training and logistical problems that would arise from the adoption of Soviet systems.

2. Peru is the only South American country whose principal military supplier is the Soviet Union. Peru was also the only country to give Argentina significant material support against the U.K. This could open new opportunities for the Soviets to supply new equipment to Peru to replace that transferred to Argentina. Opposition to these moves by President Belaunde, perhaps the most pro-American of the South American chiefs of state, is unlikely to be effective.

3. In Bolivia, Argentine influence will continue to be significant. Should a Soviet arms connection

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be established with Argentina as well as Peru, Bolivia might well follow the lead of its two traditional regional allies.

4. Elsewhere in Spanish South America, reactions vary greatly. Chile fears Argentine revanchism could worsen Beagle Channel tensions, and sees stronger U.S. ties as a counter to Argentina. Venezuela is angry at the U.S., shamed by Argentina's collapse, and uncertain over the future. Other countries fall in between. Ecuador, for example, cancelled a working visit to Washington by its President at the height of the crisis, but is pointedly maintaining good bilateral relations with the U.S.

5. Brazil. In this more fluid environment, Brazil could emerge as a new center of gravity -- perhaps even against its will. The crisis was a serious setback to Brazil's efforts to encourage a strong and stable Argentina with which Brazil could have a non-adversary relationship. Brazil's transfer to Argentina of Embraer 111 radar planes had the dual purpose of tilting to Argentina and making more difficult a British attack on mainland bases. 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 encourage moderation and preempt an Argentine turn to the USSR.

The conclusion that Brazil will emerge as the key to the balance of power in South America is partly negative, in that we believe neither Argentina nor any of the Spanish-speaking countries can alone be a touchstone of hemispheric stability. But it is also the product of important positive considerations. Brazil has the seventh largest economy in the free world, competent leadership, and a society generally compatible with ours.

But if the South Atlantic crisis underscores our need to enter the 21st century with a web of organic interrelationships that link Brazil to the West, that goal will be impossible to attain without major efforts on our part. Brazil is not ready or eager to assume the responsibilities of regional power. Brazil is often uncomfortable among its Spanish-speaking neighbors, 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. Argentine

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instability could increase Brazilian interest in cooperating with us, but our open support for the British military response to Argentine aggression increased Brazilian sensitivities to close association with us.

From a U.S. perspective, Brazilian growth creates explicit conflicts with various aspects of U.S. global economic, nuclear and even military policies. But Brazil is also the only country in South America with which a globally significant alliance relationship is possible, and where the penalties of not developing a wide range of mutually supportive relationships would transcend bilateral issues.

6. 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. Honduran leaders, some of whom have close Argentine ties, have expressed concerns about the reliability of our commitments. 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.

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

B. Attitudes

The conflict fueled Latin American feelings of inferiority and irrelevance to our global concerns. Emotional reactions are often transitory, and in this case were often accompanied by anger at Argentina as well. But the widely held reaction that the U.S. does not take Latin Americans seriously could inhibit cooperation in support of U.S. interests.

In the immediate aftermath of the crisis, increased 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

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countries in their place has powerful gut appeal. Such Falklands-supported "lessons" as anti-colonialism, anti-imperialism, and solidarity among the dispossessed are a shot in the arm to nationalist-populist movements, like Peronismo and Aprismo, and particularly their military and leftist variants.

The lasting effects of the current mood -- which varies greatly from country to country (with Venezuela and Chile at opposite ends of the spectrum) -- will depend on how the crisis evolves, and what posture we adopt. For the moment, however, our ideological influence is 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. Efforts to organize Latin-only organizations that exclude the U.S. are more likely.

Although the rhetorical battle will be uphill, Chile, Colombia, and economic elites generally will successfully resist pressures for more statist and nationalist economic policies. Brazilian concern that the United States is insensitive to its development needs could lead it to adopt an ambiguous position. Mexican anti-Americanism will surface from time to time, but Mexico's unique ties to the U.S. will damp it down.

Argentina was clearly hurt by the international perception of its government as a murderous dictatorship. However, the access and influence in Latin America of Anglo-American human rights organizations -- Amnesty International, for example -- have been damaged by the ethnocentrism of their implicit claims that human rights concerns would block Argentine unity on the Malvinas.

Finally, it should be noted 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. Regional Stability

Military institutions, throughout the hemisphere but especially in South America, have powerful new

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claims to national resources. We expect that political liberalization in the region will continue, and that the region's serious financial balance of payments problems will constrain military procurement. But the ability of governments, whether military or civilian, to resist demands for modern arms has been weakened by the crisis. This is a new and potentially destabilizing factor in a region traditionally bedeviled by territorial disputes.

Before the Falklands crisis seven South American countries -- Argentina, Brazil, Chile, Colombia, Ecuador, Peru, and Venezuela -- accounted for some 80% or more of Latin America's weapons procurement. The Falklands crisis will lead to increased emphasis on all-weather systems, maintenance, self-sufficiency and larger stocks of precision-guided munitions. France (and to a lesser extent the FRG, Italy, Spain, and Israel) have the best competitive position. Soviet sales opportunities could prove substantial in Argentina as well as Peru. Military industries in Argentina, Brazil, and several other countries will be stimulated. Mexico and Central America have more 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." Participation in Inter-American military maneuvers will be curtailed (in addition to Argentina, Brazil, Ecuador, Peru, and Venezuela have already formally pulled out of this year's UNITAS exercise), 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 is likely to be through arms transfers to Peru and Argentina. In the 70's, Soviet subsidies enabled Peru to modernize with SU-22 fighter-bombers and T-54/55 tanks at relatively low cost. Peru's ability to make heavy arms 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 successfully managed. Argentina's massive bilateral trade imbalance with the Soviet Union is an 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

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only \$42.5 million in Soviet machinery and nuclear supplies. Moscow's interest in gaining a military supply position in Argentina would also appear substantial: it would consolidate its Peruvian foothold, threaten Chile, and assure access to badly needed grain imports.

Cuba also has a obvious interest in Argentina. But Argentina's leaders remain conservative, and Cuba's probes are likely to go unanswered unless a Peronist government comes to power. Cuba's chief gain from the crisis is the increase in anti-U.S. attitudes, which could erode Cuba's hemispheric isolation. Since the Falklands, for example, the government of Venezuela has begun to explore improved relations with Cuba.

IV. RECOMMENDATIONS

The IG's approach was that managing events and preserving U.S. options for the future were more realistic objectives than the often elusive goal of "improving relations". The IG also felt strongly that our response should make clear that we are neither guilty of any wrongdoing nor willing to buy friendship. Nor should we behave in a precipitate manner that suggests we can be blackmailed.

The IG agreed that Congressional approval of the President's Caribbean Basin Initiative (CBI) is critically important to our credibility. Absent significant additional resource flexibility, the central thrust of our efforts in the increasingly fluid geopolitics of South America must now be to develop a stable framework that will provide warning, leverage, and cooperation to avoid similar crises in the future.

A. Bilateral Relations

1. Following through on the CBI is more vital than ever. The CBI is critical to our credibility 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 fuel our critics' argument that the hemisphere is low on our scale of priorities. In addition to moving ahead on the CBI, we should intensify efforts to bridge the gaps between the Commonwealth Caribbean and Spanish America, and we should continue to press the U.K. to increase economic assistance and defer new moves to grant independence to Caribbean dependencies.

2. Rebuild relations with Argentina. Our immediate

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task is to ensure that neither side takes decisions that would prejudice a final resolution of the Falklands issue. The most effective step in this direction would be for the U.K. to resume negotiations with Argentina over the Falklands.

We should also ensure that we are perceived in Argentina as working to help Argentina get a basically creditworthy economy back on track. The removal of our economic sanctions should be exploited to demonstrate our interest in encouraging sound economic policies, a restoration of traditional trade patterns, and reestablishment of international creditworthiness.

3. Develop a policy toward Argentine rearmament to preempt Soviet sales. Two options are available to advance this objective, which should be promoted in consultation with the U.K. (A) Raise no objection in principle to arms sales from Brazil, Israel, and Western European suppliers such as the FRG, Italy, Spain or France. (B) Certify Argentine eligibility for U.S. military aid and sales early next year in the absence of renewed hostilities, 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 5, below). Argentina is unlikely to rely on the U.S. as a supplier in any event, but certification would be politically important and could slow a turn to the USSR. Congressional resistance to certification on human rights grounds would be significant.

4. Foster reduced 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). Increasingly the Soviets are seeking short-term credits from grain suppliers to finance their purchases. This policy has the effect of discouraging Soviet grain purchases from Argentina, which cannot provide financing. In light of the Soviet Union's financial constraints, we would expect the Soviets to rely less on Argentine grain in the future, which means that Argentina can be expected to diversify its markets.

5. Chile. We have a major interest in preserving the balance of power between Argentina and Chile. Despite recent events, however, Argentina may still

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be easier to certify 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, and would make it impossible to influence Chilean military orientation or human rights practices in return for restoring a security relationship. Certification and the resumption of aid and sales to Chile is our goal; the timing must carefully weigh these issues.

6. Seek to delay Argentine development of the unsafeguarded facilities that would give it a nuclear explosives 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 intensify efforts to convince Argentina that nuclear devices will degrade, not enhance, Argentine security, and that regional security would be enhanced by full entry into force of the Treaty of Tlatelolco.

7. Foster Brazilian influence as a complement to our own efforts. Our long-term 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. 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).

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 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 welcome regular cabinet-level consultations on a wide range

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of issues as discussed between Presidents Reagan and Figueiredo; we should agree. What we could each do to maintain the balance between Chile and Argentina might be an important initial topic for exploration;

- resolving the nuclear supply problem (which would require Brazilian acceptance of a full safeguards regime, considered to be highly unlikely, or changes in U.S. law which the Administration has decided not to seek at this time) as an important signal of our acceptance of Brazil as a responsible partner;
- cultivating military-to-military contacts and relationships. To reinstate IMET would require a Presidential waiver and Congressional support to overcome the restrictions posed by the Symington-Glenn amendment to the Foreign Assistance Act;
- strengthening cooperation in science and technology, taking advantage of upcoming discussions on space launch vehicle cooperation and the renewal of the bilateral S&T cooperation agreement;
- addressing Brazil's grievances over U.S. sugar quotas, if possible. Given the constraints imposed by our domestic price support program and our GATT obligations, the only feasible remedy is probably to reexamine the entire domestic price support program in 1983.
- seeking a more forward-looking trade relationship. Brazil has resented our "graduation" policy on GSP, although it has in fact had a relatively light impact on Brazil thus far. The present GSP program expires in January 1985. There is a strong likelihood that Congress will force large-scale or even total graduation of Brazil and other major beneficiaries of GSP. We should focus our efforts on the proposal for a new round of negotiations concentrating on the advanced developing countries. In such a negotiation, we would expect improved access for U.S. products to the Brazilian market, but would also be in a position to negotiate on products of particular interest to Brazil, and to put our trade relationship on a basis easier to sustain in the long run.

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- on MDB graduation, developing opportunities to reiterate at the senior levels that we envision flexible application of the graduation concept; in the IDB, for example, Brazil might take on a larger role as a donor, while continuing to benefit from some borrowing on other forms of assistance even after the IBRD graduation threshold is reached.
- improving and broadening regular intelligence exchanges.

8. 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, NSF, NIH, AID, Agriculture, and others). Although affected by policy decisions, these programs often escape policy consideration and are often not coordinated with private sector 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 could be launched.

9. Be as bilaterally responsive as possible to individual countries. Modest assistance efforts should be sustained in Bolivia, Peru, Ecuador, Paraguay to limit the repercussions of Argentine economic weaknesses. Economic measures with direct negative consequences to particular countries (e.g., silver sales and Peru) should be reviewed carefully on their merits. We should work to prevent past tensions from coloring future relations if conditions permit (Chile, Uruguay, Bolivia). We should also be sensitive in implementing the terms of the Panama Canal treaties to avoid their becoming an issue.

B. Attitudes

1. Reiterate justification for our position. The best and only stance for us is to hold to the correctness of our opposition to the first use of

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force, to explain our policy not as a choice between Europe and Latin America but as one of adherence to the rule of law, and to back that up with actions that demonstrate commitment to Latin America. We should avoid giving any hint that we believe that our relationship with Latin America has been undermined. 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. 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.

3. Other symbolic possibilities would have to be carefully vetted in coming months to avoid counter-productive reactions. They 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 Secretary Shultz, 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, Venezuela.

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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 an 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. Regional Stability

1. Meet requests for arms transfers from the major South American countries as positively as possible within the policy guidelines set forth in NSDD-5. We should not press sales to Latin America as a special exception to our global arms transfer policy. We must be mindful that countries in the region may have

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differing objectives, and that any transfer must satisfy U.S. interests in maintaining regional stability. Within this context and consistent with U.S. interests, we should make available more advanced systems than in the past and consider making the first introduction of new systems into the region.

This approach would not enable us to regain our position as the region's primary supplier in the face of aggressive West European and Soviet marketing with concessional financing. The attractiveness of some of our technology (e.g., missiles, fighter aircraft) should, however, enable us to obtain some information and influence. The key, except 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, pre-empting 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 the development of its own materiel production. Co-production or licensing arrangements are complicated and controversial, and would 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. Even if no viable arrangements could be found, an offer would symbolize our interests in a working alliance and give us a concrete subject for policy discussions and subsequent cooperation with Brazil. Entering into such arrangements would require Brazilian acceptance of U.S. control of re-export of U.S. components and technology (to, e.g., Libya, Iraq). One possibility would be agreed production for NATO plus most of Latin America, with other recipients negotiated on a case-by-case basis. The downside risk is that Brazil might not agree to controls, and that resulting friction could create additional strains on U.S.-Brazilian relations.

4. Expand military exchange programs. Give priority to Congressional enactment of provision in

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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. This authority would remove an irritant in our relations with Brazil, where we have not been able to repay Brazilian training of U.S. officers, and 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 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 occurred, 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. We should actively oppose development of new Cuban ties in the hemisphere.

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 for inclusion in the FY 84 security assistance budget and should be assigned a high priority. While

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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. We should consider the impact of such an increase on Peru's neighbors, and balance with increases for other deserving friends, e.g., Colombia.

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

V. IMPLEMENTATION

A. Timing

Action on the CBI is vital immediately, but most of the measures and goals identified in this paper constitute a medium-term strategy to be implemented over several years. Appropriate phasing is identified in the Executive Summary.

B. Congressional Aspects

Our strategy in dealing with the public and Congress should emphasize that:

- we have a new situation in Latin America which requires steps to protect U.S. interests;
- these steps 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 growth of cooperation that would in time provide some restraining leverage on military and nuclear developments.

Arms Transfers. We would prefer to keep arms procurement at a low level and must avoid stimulating sales, but our interests demand that we be prepared to assist countries in maintaining regional balances of power to avoid new outbreaks of hostilities and prevent possible Soviet inroads. A key problem in this regard is that Congress and much informed opinion in the U.S. has traditionally opposed arms sales to Latin America as unnecessary, counterproductive, wasteful, and supportive of militarism.

In the post-Falklands environment, we believe that U.S. unresponsiveness would reduce U.S. influence and prestige in matters that many South Americans who are not military will consider vital to their

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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 flexible arms transfer policies established by the Reagan Administration, and build Congressional support for their use.

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ANNEXES

1. Latin America and the Caribbean: Country-by-Country Impact of South Atlantic Crisis on Bilateral Relations with the U.S.
2. Assumptions About Soviet Moves.
3. The Argentine Nuclear Program.
4. U.S. Non-Proliferation and Law and Policy.
5. The Post-Falklands Arms Market in Major South American Countries: Demand and Potential Suppliers.
6. MDBs and the Graduation Issue in Latin America.

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ANNEX

LATIN AMERICA AND THE CARIBBEAN
COUNTRY-BY-COUNTRY IMPACT OF SOUTH ATLANTIC CRISIS
ON BILATERAL RELATIONS WITH THE US

ARGENTINA

Substantial short and long-term -- economic, military, nuclear and political -- but still to take shape. See text of main paper.

BELIZE

Belize, which depends on the resident 1400 man British Defense Force for defense against Guatemala in a Falkland-like territorial dispute, has been fully supportive of the British and US positions throughout. While the GOB is pleased about the position we took against Argentine aggression, our actions will have no long-term effect on our relations with Belize.

BOLIVIA

The South Atlantic crisis has worsened Bolivia's already critical economic problems by reducing Argentina's financial contribution. This has increased the need for other external aid and sharpened the frustration felt by Bolivians over the refusal of the USG to resume its role as a major donor. Our support of the British, while not the dominant factor, has combined with local circumstances to reduce substantially the influence which we enjoyed a few months ago. This situation is likely to continue for the near future.

Longer-term effects depend importantly on events in Argentina and the South Atlantic. Recent Argentine governments have regarded Bolivia as a client, and many Bolivians have accepted the relationship. Bolivia's economic difficulties will make it dependent on external assistance for years to come. The erosion of good will toward the U.S., brought about partly by the South Atlantic crisis, could increase the acceptability in La Paz of overtures from Soviet bloc countries.

BRAZIL

In the short-term, Brazil will look to the US to help sort out the UK-Argentine dispute and to prevent dangerous deterioration of Argentina's internal situation. If instability grows in Argentina, and if it is accompanied by

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large-scale Argentine rearmament and arms modernization, Brazil's sense of insecurity could rekindle Brazilian interest in a strengthened political and security relationship with the US. This would be particularly likely if Argentine instability and resentment created a significant opening for the Soviets and the Soviets moved to take advantage of it. However, should the US show itself incapable of containing international disputes in the continent, Brazil could well move to distance itself even more from the US and toward a pronounced position of solidarity with Latin America, the Third World and even the NAM.

Over the long-term, Brazil's security posture will be heavily influenced by the US decision to assist the UK. Barring appropriate corrective action by the US, Brazil will not accept a US security umbrella as adequate to its national defense needs. Should continental politics, particularly deteriorating US-Latin relationships, force Brazil into a South America leadership role, the long-term impact of the South Atlantic crisis may well be a significant weakening of the US-Brazilian relationship.

CARIBBEAN, ENGLISH-SPEAKING

Except for Grenada, the English-speaking Caribbean strongly favored the UK in the South Atlantic crisis; the position taken by the US should have no consequences for our essentially good bilateral relations. In Grenada, the additional South Atlantic irritant will have little impact on our already strained and distant relations.

CHILE

For Chile, the South Atlantic crisis has been particularly delicate. The GOC early declared neutrality and abstained on the pro-Argentine OAS resolutions. It was supportive of our position that the use of force must not be rewarded. Chile's strong rivalry with Argentina and fears of aggression in the Beagle Channel area provided the driving force for its careful handling of the issue. Thus, despite big risks, Chile saw this as a golden opportunity to weaken its enemy and perhaps move toward a better relationship with the US, which it regards as a potential guarantor of its territorial integrity. The Chilean Foreign Minister proposed to the Secretary in mid-June a return to a fully normal relationship as quickly as possible. Thus, in the South Atlantic crisis, Chile distanced itself from a majority of its Latin American neighbors and turned to us in an effort to bolster its security position in favor of potentially volatile future Argentine actions.

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COLOMBIA

Public emotions in favor of the Argentine cause were relatively mild. Although GOC shares the generally held Latin American view of Argentine sovereignty over the Falklands, Colombia voted with the US at the OAS and the UN. The GOC resolutely maintained its open agreement with the US that Argentina's resort to force was unjustified.

The longer-term picture is less clear. President-elect Belisario Betancur is an emotional supporter of Argentine sovereignty and Latin American solidarity. However, he too does not accept the GOA's use of force. The Betancur administration may be in an excellent position to mediate the dispute or help us mend fences where they have been damaged.

COSTA RICA

The GOCR supports Argentina's claim to the Falkland Islands. Costa Rica's present economic problems are so overriding, however, that the South Atlantic crisis takes second place to its need to cultivate a close bilateral relationship with the US in order to survive the current crisis.

As was evident by reports of the exchange between Presidents Reagan and Monge during their June 22 White House meeting, Monge understands that the US must conduct a global policy concerned with preventing the destruction of freedom or the expansion of communist forces throughout the world, and how important it is that the strategy succeed not only for the US, but also for Latin America as a whole.

CUBA

The South Atlantic crisis may make it somewhat more difficult for Latin American nations which had been supportive of our Central American and Caribbean policies to be seen cooperating with us. We do not, however, expect major shifts in Latin American attitudes towards Cuba since the individual nations base relations with Cuba on bilateral national considerations rather than on feelings towards Washington. Cuba's support for Argentina will be seen as a cynical and opportunistic effort by Cuba to warm up to a regime it still despises. The South Atlantic crisis should not significantly reduce Cuban isolation.

The effect of the South Atlantic crisis on US-Cuban relations will depend on how Havana reads the results of

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that conflict. If Cuba sees the crisis providing more leeway for subversion by eroding Latin American support for US policies, Cuba could take advantage of the situation. It is more likely that Havana would prefer (at least initially) to solidify any new influence in the Hemisphere rather than risk any credit it may have earned. It is, therefore, doubtful the South Atlantic crisis would give Cuba a significant feeling of freedom or cause Castro to back off possible willingness to talk with the United States.

DOMINICAN REPUBLIC

The Dominican Republic sided with Argentina in the South Atlantic crisis without any particular enthusiasm, largely to avoid breaching Latin solidarity at a time when the GODR is seeking Hemispheric support in its bid for a Security Council seat. GODR officials have made clear to us that they do not consider our differing positions on the issue as significant. The South Atlantic crisis, therefore, should have no appreciable short or long-term repercussions on US-DR bilateral relations.

ECUADOR

Fearing domestic political consequences as a result of the South Atlantic crisis, the GOE cancelled its participation in UNITAS and quietly withdrew from an unofficial working visit to Washington by President Hurtado. However, the Foreign Ministry pointedly increased its cooperation with us on other less sensitive matters in order to limit damage to the bilateral relationship. Our present efforts to counter threats of a military coup are greatly appreciated by Hurtado. While solidarity with Argentina will remain an important theme in domestic politics, in the long-run our bilateral relationship is unlikely to suffer significant damage. The GOE's major foreign policy preoccupation is its border dispute with Peru, and it wants to maintain our good will in its quest for a diplomatic settlement.

EL SALVADOR

As a fraternal Latin American country, El Salvador is likely to continue to support Argentina in the UN, OAS, and other international fora. However, the exigencies of the ongoing civil strife in El Salvador and the need for continued US support will dampen what little overt opposition there has been to our policy. During the June 12 meeting between the Secretary and Salvadoran Foreign Minister Chavez Mena, the latter remarked that the position of the US in the South Atlantic crisis was "recoverable."

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Chavez Mena also offered to aid the U.S. on the issue with other Latin American countries.

GUATEMALA

The South Atlantic crisis will have no significant impact on our complicated bilateral relations with the present government of Guatemala, which depend much more on our willingness to provide economic and security assistance to Guatemala than on any fallout from the South Atlantic crisis. Although publicly a strong supporter of Argentina in the conflict and critical of the US role, privately, President Rios Montt has told us that he understood the strategic and geopolitical reasons for which the USG supported the UK. The general public has less sympathy for our role.

HAITI

While the South Atlantic crisis is of no direct interest to Haiti, the GOH supported the Argentine position, in a low-key way. GOH officials have explained to us that they see similarities between Argentina's claim to the Falklands and Haiti's claim to Navassa Island, which we consider US territory. Those officials maintain that Haiti's support for Argentina was intended to reinforce its claim to Navassa Island but do not see our differing positions on the South Atlantic crisis as being relevant to our bilateral relations. The direct short and long-term impact on those relations, therefore, should be negligible.

HONDURAS

Honduran support for Argentina was cautious and measured. Honduras supports the Argentine claim of sovereignty over the Falkland Islands; however, Honduras also condemns the use of force in international relations and repeatedly urged the parties to reach a pacific and negotiated agreement to the conflict.

As in other Latin nations, Honduran opinion, both public and official, sided with Argentina with displays of dismay and anger at US backing of Great Britain. In particular, the Honduran military widely respects the Argentine military and considers Argentina a good friend and a strong ally. Many junior officers are graduates of Argentine military schools and in recent years, both the Argentine and Honduran military have been moving closer to each other. The CINC of the Honduran armed forces is a graduate of the Argentine Military Academy and an admirer of Argentina.

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The above notwithstanding, overall Hondruan interests depend primarily on a strong relationship with the U.S. Given the presumption of a growing threat posed by the Nicaraguan arms buildup coupled with an ongoing economic crisis, Hondurans can ill-afford to side too strongly with Argentina against the US. At the most we will continue to hear cries of dismay at our actions but with time they will die down as Hondurans turn more and more of their attention to their own monumental problems while looking for increased US assistance and support. The only major negative impact is the loss of Argentina's support in the area for our overall Central American strategy.

MEXICO

It is unlikely that US-Mexican relations have been damaged by the South Atlantic crisis. Mexico would have preferred the US stay neutral, but fully shared the US opposition to Argentina's use of force, even though historically Mexico has supported Argentina's claim. On the UK action, Mexico takes the position that no country has the right to enforce a UN resolution unilaterally, and here Mexico faults the US support of the British. Mexican Foreign Secretary Castaneda said publicly that he did not foresee adverse effects on US-Mexican relations and that any damage done to our relations with the hemisphere would be "neither permanent nor extremely grave."

NICARAGUA

Nicaraguan leaders are delighted that the South Atlantic crisis took place -- they are glad to be, for once, in the mainstream of Latin American thinking and in the midst of a wave of Latin American solidarity. Nicaraguan quickly expressed solidarity with the Argentine people, and sought to place the blame of the whole affair on the US. The Sandinistas hope the US ability to mobilize the OAS and Rio Treaty against them has eroded. While the crisis had the effect of shifting Argentina's focus away from Central America, it did not lessen the concerns of Nicaragua's neighbors and of democracies like Venezuela and Colombia about the drift of the Nicaraguan revolution.

PANAMA

In the short-term, GOP leaders will continue to cite US action in support of Great Britain during the South Atlantic crisis as illustrating the perfidy of the US in turning from its hemispheric friends to support its European ally. Anti-US rhetoric has gone so far as to claim that

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the US is a Trojan horse in the midst of the Americas. Panamanian leaders called for Latin American solidarity and exclusion of the US.

Over the long-term, especially if the CBI takes hold, the rhetoric will diminish, but the deep-seated feeling that the US acted against the interests of its friends will continue. Depending on how the Falklands question is resolved in the next six months and our success is mounting the programs we aim for in the region, we may be successful in "massaging" our friends into relative tranquility and in re-instilling the confidence our friends had in us, although the President and Foreign Minister of Panama will continue to use our action in this crisis at every opportunity against us.

PARAGUAY

Although Paraguay voted with Argentina at the UN and OAS, its support has been lukewarm. The GOP does not agree with Argentina's invasion of the Falklands and has privately told us it concurs with the UK's actions. Foreign Minister Nogues reportedly made a last minute decision to attend the May 27-29 OAS session only after Argentine President Galtieri personally telephoned President Stroessner. Throughout the crisis, the Foreign Minister never referred to the islands by name. And in his last OAS speech, has alluded to the lives and territory Paraguay lost to Argentina and Brazil. More recently, President Stroessner told the Argentines they should avoid using the US as a scapegoat for Argentine defeats. There is tension between Paraguay and Argentina over the latter's tampering with the course of the Pilcomayo River and the big Yacyreta project is stalled because of Argentine complications. Overall, our relations with Paraguay will not suffer unduly because of the South Atlantic crisis, although popular sentiment is no doubt more anti-American than in the past.

PERU

Peru was one of Argentina's most ardent supporters in the South Atlantic. Our relations with key Peruvian sectors -- notably government policy makers, the powerful military institution, political party figures and most influential sectors of the media and academia -- are now undergoing a period of chill. President Belaunde, at a June 20 press conference, called for Washington to launch a "Marshall plan" development program to make up for the damages caused by our actions in the conflict.

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Longer term prospects are somewhat better. Generally, the pragmatic business class did not support the Argentine venture; our investment, commerce and financial relations, so critical to Peru's development, will suffer little damage. The Secretary's meetings with the Foreign Minister and the Prime Minister and the November State visit of Belaunde should help reestablish our relations with the GOP and the ruling AP party. Centrist APRA and leftist opposition parties, however, will exploit this issue as long as possible. Probably the longest term set back will be our relationship with the military. Doubts about the reliability of the US as an arms supplier have been rekindled, frustrating our efforts to wean Peru from its dependence on Soviet materiel.

SURINAME

Suriname took a fence-sitting position on the South Atlantic crisis, strongly supporting Argentina's claim to the Falklands while criticizing the undemocratic nature of the junta and Argentina's use of force. Foreign Minister Naarendorp also has made critical remarks about the British, US and Soviet roles in the crisis. The Falklands issue is not one of great importance to Suriname, and our differences should not in themselves cause significant short or long-term damage to our bilateral relations.

URUGUAY

Uruguay's military government has strong ties to Buenos Aires and sought to show support for Argentine aspirations while maintaining formal neutrality. Uruguay played a constructive role in the OAS and agreed to accept prisoners and wounded from both sides. Despite claims of neutrality, Uruguay's tilt was unmistakable. President Alvarez is a close personal friend of Galtieri. The GOU allowed Argentine intelligence to conduct covert operations in Uruguay. Uruguay publicly criticized the US. Its decision to declare our Political Section Chief persona non grata was clearly (although never explicitly) connected to the Falklands. Since our reciprocal PNGing of their diplomat, however, both sides have tried to limit the damage and recent Uruguayan statements have been more positive. Interestingly, at one stage, elements within the military flirted with offering to the US certain Falklands-related landing rights -- a sign that attitudes toward Argentine dominance of the region remain ambivalent, even among the military. Our net assessment, however, is that the bloom is off our relationship with Uruguay for now and future dealings may be far more difficult than during the past year.

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VENEZUELA

Venezuela, one of Argentina's most ardent supporters, has been long on emotional criticism of the US role in the South Atlantic but short on punitive actions. The GOV has pulled out of UNITAS, postponed smaller CINCSOUTH training exercises and cancelled a US Navy ship visit. It also declined to participate in a CBI donors meeting. We expect a chill on our political relations for six months to a year while the country recovers from its hysteria. Its principal effect may be to limit our official access at the presidential and cabinet level. The Foreign Ministry in particular might resort to harrassment on OAS and Rio Treaty matters and might decline in-depth exchanges on Caribbean Basin, CADC and other regional political issues. Venezuela will nevetheless continue its aid to the Caribbean Basin and will still support democratic governments in the region. US-Venzuelan economic relations will generally remain strong.

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Annex: Assumptions about Soviet Moves

The Falklands conflict has resulted in no immediate direct gains for the Soviet Union in Latin America apart, perhaps, from the case of Argentina. The possible damage to US-Latin American relations and the likelihood of a decrease in US influence within the region over the near term, however, offer Moscow exploitable opportunities. The USSR can be expected to move energetically and quickly to try to strengthen state-to-state ties, concentrating on economic relationships and, if possible, military sales.

As before, Soviet tactics will differ in Central and South America, as well as with respect to individual states within each region. The strains between the USSR and Central American Governments (with the exception of Nicaragua) have not been eased by the Falklands crisis. The general belief that Moscow is aiding the spread of insurgencies probably precludes a significant improvement of Soviet ties with the governments that are the targets of these insurgencies. The Soviets thus can be expected to continue their policy of support for leftist forces, hoping for the eventual emergence of anti-US, socialist-oriented regimes in El Salvador and Guatemala. From Moscow's viewpoint, the tensions between the US and key actors in Washington's Central American policy improve the prospects of such an approach.

The exceptions are Nicaragua, which has been largely co-opted by the Soviets and Cubans, and Panama. In Panama, the Soviets seem likely to hew to their tactic of expanding their presence mainly through commercial ventures. They have already obtained (March 1982) a long-sought preliminary agreement from the Panamanian government for Aeroflot landing rights, and are now negotiating for a fishing fleet base at Vacamonte. Following the death of Omar Torrillos, the Soviets also stepped up pressure for the establishment of diplomatic relations, and presumably will intensify that pressure in the months ahead.

In South America, modest advances in state-to-state relations are possible for Moscow in the wake of the Falklands. The most likely means of expanding Soviet influence in Argentina is through an arms supply relationship. The subject apparently was discussed in Buenos Aires during the Falklands crisis, but there is no evidence that a deal was struck; arms were not supplied in any event. The Soviets may have been hesitant about initiating such a relationship while the fighting was going on. Reasons for an eventual acceptance of Soviet arms would include Argentina's need to replenish military supplies and the possibility of a continuing arms embargo against Buenos Aires by Western suppliers. The political orientation of future Argentine governments will affect this issue, but Argentina's officer corps generally is anti-communist and inclined to acquire Western weapons if they are available at reasonable prices.

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A prospective fourth consecutive poor grain crop in the USSR this year would deprive Moscow of the leverage it might have derived from being Argentina's major grain customer. If, for example, Moscow decided to eliminate its dependence on US grain, it would have to import from Argentina. Indeed, it may need imports from both the US and Argentina to meet its total grain requirements. Nonetheless, the USSR is likely to pressure Argentina to increase purchases from the Soviet Union to help redress the trade imbalance. Anxiety in Buenos Aires over grain markets would serve Moscow's causes. In such an environment, Soviet offers of military equipment at concessionary rates or on a barter basis could increase the attractiveness of an arms deal. Even minimal Argentine military purchases would be considered in Moscow as an opening for future expansion.

But even with a breakthrough here (Moscow has sold arms only to Peru so far), the USSR is not expected to make a major push to sell arms elsewhere in Latin America at this time. Instead, the Soviets would hope to establish a record of reliability and "impartiality" in their dealing with Argentina and Peru to strengthen the chances of expanding such relationships in the region over the long term.

For the present, however, the USSR will probably concentrate on expanding economic ties by offering concessional terms on Soviet-manufactured equipment for high-visibility development projects (such as the tin volatilization plant in Bolivia and hydroelectric projects in Argentina and Peru), and purchasing raw materials in exchange. But the USSR's own current economic difficulties will limit what the Soviets can deliver. Moreover, the equipment delivered often suffers problems of quality. The Bolivians, for example, are very displeased with their Soviet tin plant.

In the political realm, the Soviets can be expected to keep a low profile, concentrating on aggravating US-Latin American differences, rather than pushing the USSR as an alternative partner, and promoting anti-US policies. Soviet propaganda probably will also encourage regional sentiment for a Latin American defense organization, or another type of regional body that would exclude the US. The US absence from such bodies, of course, would enhance the opportunities for the Soviets to lend discreet support on selected issues and to influence the deliberations indirectly through individual members.

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ANNEX

The Argentine Nuclear Program

Background (U)

The Argentine nuclear program is the most sophisticated in the region, including research and power reactors, fuel fabrication plants, reprocessing plants and a heavy water production facility. Argentina has openly stated its intention to develop a complete nuclear fuel cycle and, in fact, will have two parallel cycles -- one safeguarded and one unsafeguarded -- the latter allowing it unconstrained access to plutonium and a nuclear weapons option. Argentina has not ratified the Treaty of Tlatelolco, reserves its right to build PNEs under that Treaty, and strongly opposes the Non-Proliferation Treaty (NPT).

Although it is a member of the International Atomic Energy Agency (IAEA), it has resisted accepting IAEA safeguards on all its nuclear facilities and generally resents the restrictions and constraints placed by nuclear exporting countries on the supply of nuclear materials and facilities. Argentina has diversified its suppliers and has managed to stockpile enough material and equipment which, combined with its indigenous capabilities, has permitted it to make substantial progress toward an independent fuel cycle. Argentina also has developed the capability to build small research reactors and has exported one such reactor (to Peru).

Admiral Castro Madero, head of the Argentine Nuclear Energy Commission, has been quoted as saying that Argentina has the capability to make a nuclear weapon. In view of the Falklands crisis, some have conjectured that Argentina may feel a stronger need to move forward in the production of such a device.

Source: ACDA, June 1982

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THE ARGENTINE NUCLEAR PROGRAM

Argentina does not appear capable of producing a nuclear device at this time. It lacks the required special nuclear materials (plutonium or highly enriched uranium) and is not known to have any experience in designing or fabricating components for the device. Should Buenos Aires decide to violate international safeguards, an Argentine device might be available by 1985. Without violating safeguards, Argentina will not be able to produce a nuclear device until the end of the decade. While the Falkland crisis may be a factor influencing future political decisions on nuclear weapons, Argentina's limited scientific, industrial, and economic base will preclude significant acceleration of its nuclear program in ways relevant to nuclear explosives.

Argentina's drive towards a nuclear weapon option pre-dates the Falkland crisis by a number of years. Considerable resources have been committed to the development of a complete and unsafeguarded nuclear fuel cycle which duplicates a second, larger fuel cycle which does fall under international safeguards. Unsafeguarded facilities for uranium conversion fuel fabrication, heavy water production, and reprocessing are either operational or under construction. The Argentine have also been purchasing large quantities of unsafeguarded heavy water and

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other nuclear materials from foreign suppliers.

The final step toward Argentina's acquiring a complete unsafeguarded fuel cycle would be the construction of an unsafeguarded nuclear reactor. Clandestine information indicates Argentina plans or may have begun construction of such a reactor. The Argentines should be capable of building the reactor without overt foreign assistance. When, and if built, this reactor would permit production of significant quantities of unsafeguarded plutonium, perhaps by the end of this decade.

During the next few years Argentina only source of irradiated fuel (containing plutonium) are power reactors supplied by the FRG and Canada. These reactors are under international safeguards. Separation of plutonium in the spent fuel from the FRG supplied Atucha I power reactor is expected to begin in 1984 at an indigenous reprocessing plant being constructed at Ezieza. [REDACTED]


OSD EO 13526, Sec. 3.3(b)(1),(6)

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 The declared purpose for the reprocessing capability is to provide additional fuel for the country's civil nuclear power program. Reprocessing of the safeguarded Atucha fuel would require Argentina's accepting safeguards at the Ezeiza facility while processing it.

The IAEA may not be able to detect a limited diversion of fuel from the Atucha reactor given the gaps and weaknesses of the present safeguards arrangements at Atucha I recently identified in the course of an IAEA evaluation. However, a clandestine diversion is likely to provide only a limited quantity of plutonium at a potentially high cost to Argentina politically and economically, if it should be detected.

Given the necessary plutonium, Argentina has the facilities and organizational infrastructure to support a modest nuclear weapons program. We have no evidence of any research and development in the area of nuclear explosives design or high-explosive testing, but believe Buenos Aires could fabricate a crude implosion-type device by 1985.

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U.S. Non-Proliferation Law and Policy

Nuclear Cooperation with Brazil: The fundamental U.S. national security and foreign policy objective of seeking to prevent the spread of nuclear explosives to additional countries has been specifically endorsed by this Administration. U.S. peaceful nuclear cooperation with Brazil is limited by the Atomic Energy Act of 1954, as amended, which specifies criteria for such cooperation and requires its cessation if Brazil engages in specified types of activities relevant to nuclear explosives development.

At present, U.S. export licenses for enriched uranium fuel for Brazil's Angra I power reactor may not be approved due to the legal criterion that IAEA safeguards be maintained on all nuclear activities in Brazil at the time of an export. (Brazil operates limited activities not of practical proliferation concern per se, but not covered by safeguards.) The President may determine that failure to approve an export would be seriously prejudicial to U.S. non-proliferation objectives or would jeopardize the common defense and security, and waive this criterion. This action is subject to a Congressional override (which we regard as unconstitutional).

It might be more possible to defend continued nuclear fuel supply were Brazil to provide in return some type of "non-conventional" non-proliferation policy gain, eg. a public undertaking (other than in a treaty) not to develop or use peaceful nuclear explosives. Even then, a potentially-difficult Congressional debate would still be likely over Brazil's (and Argentina's) nuclear activities. Brazil's readiness to make such a statement, moreover, is open to question.

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The Act also requires termination of nuclear cooperation if a cooperating country engages in certain activities having direct significance for manufacture or acquisition of nuclear explosives, or assists another state in doing so. (A different restriction, applying to countries cooperating with others in reprocessing, does not apply to Brazil's cooperation discussed below with the FRG in this field.) There are limited lab-scale activities in Brazil which, while they do not at this time appear to trigger this provision, are said by some Brazilian officials to be ultimately explosives-related. Brazil is also reported to have provided natural uranium to Iraq-- it is under no obligation not to do this, but an Iraqi failure to report such shipments to the IAEA could violate Iraq's safeguards obligations. Further adverse information about these or similar Brazilian activities could be a further obstacle to resumption of U.S. nuclear cooperation, or could lead to its termination were it possible to resume such cooperation.

Military Cooperation with Brazil: The Symington and Glenn Amendments (Sections 669-670) to the Foreign Assistance Act require termination of defined forms of assistance, including IMET training and FMS credit sales, if Brazil receives assistance from another country in enrichment or reprocessing. Brazil's 1975 agreement with the FRG provides for cooperation in both of these fields. Such cooperation, including transfer of materials, equipment and technology and construction of limited facilities, has already begun and is continuing. These facilities and technology provided by

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the FRG are under IAEA safeguards, but this does not alleviate the Symington/Glenn restrictions. These may be waived (again subject to a Congressional override) but waiver of the Symington restriction would require a further undertaking (not to develop nuclear explosives) which Brazil on principle will not give. Waiver of the Glenn restriction would be possible but pointless since the Symington prohibition would still apply. Waiver under Section 614 of the FAA is a possibility but is politically unfeasible, nor has Congress been willing in the past to generally ease these waiver provisions, which have relevance also for other situations (eg. Pakistan).

Limited modification of the law, permitting reciprocal invitation of Brazilian military personnel to U.S. service schools, is now under consideration. Unless accompanied by a radical alteration in Brazil's current nuclear policies, more extensive cooperation would require specific Congressional action to ease the Symington/Glenn restrictions for Brazil. While possible, such action could be politically difficult to obtain. It would also invite Congressional debate about Brazilian (and Argentine) nuclear programs and intentions that could be damaging to U.S.-Brazilian understanding in both military and nuclear fields.

Nuclear Confidence Building: Earlier steps towards nuclear and political cooperation between Argentina and Brazil exemplified by the nuclear cooperation agreements they signed in 1979 have not significantly lessened mutual suspicion about each others' nuclear activities. Brazil continues to pay careful attention to Argentina's

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nuclear activities and there is some indication that the Brazilian leadership is concerned that Argentina's Falklands defeat could lead it to seek nuclear weapons. The Brazilians are likely to discuss their concerns with Argentine officials, however, before taking steps to acquire their own nuclear weapons in response to these concerns.

While there is no major step that the U.S. can take to encourage nuclear confidence-building between Argentina and Brazil, we should seek ways to influence their nuclear relationship from the margins. We plan a low-key nuclear dialog with Brazil late this summer, which might provide a forum to encourage talks between Brazil and Argentina on nuclear issues. Other appropriate diplomatic contacts might be used to that end as well. Continued efforts also need to be made to encourage both Argentina and Brazil to put into effect the Treaty of Tlatelolco, which would be one way for them to demonstrate their long-term peaceful nuclear intentions.

Drafted: OES/NEP:SHinson/M:LDunn
6/30/82; X 22226/24252

Concur: P - Mr. Perry

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OSD EO 13526, Sec. 3.3(b)(1),(6)

ANNEX

THE POST-FALKLANDS ARMS MARKET IN MAJOR SOUTH AMERICAN COUNTRIES:
Demand and Potential Suppliers

The following seven countries accounted for 69.5 percent of Latin American arms agreements made between 1973 and 1981, and 85.1 percent of South America's:

Argentina is probably faced with strong demands from all three armed services for additional or improved weaponry, and is the likeliest large buyer over the near term. Its overriding priority will be aircraft and air-launched missiles. Buenos Aires will probably first try to replace combat losses with French warplanes. It could get fairly rapid delivery of new Mirage-III, -5/50 and Super Etendards, which are still in production (or which France might provide immediately from its own forces), and might join the queue for the Mirage-2000. Israel is likely to continue its established arms relationship with Buenos Aires, and could supply a few more used or overhauled Mirage-III/Dagger fighters, which it is phasing out, even more cheaply and rapidly.

as well. Most other new-production Israeli weaponry, however, contains US components and its sale is theoretically controllable. Other sources of used Mirage types might be Peru and, just possibly, Arab states such as Libya.

Argentina will almost certainly seek air-launched Exocets, and Super Matra 530 air-to-air missiles. French refusal or opportunistic prices, however, might force Argentina to look seriously at Soviet tactical missiles and fighters such as the current export MiG-21 or MiG-23, at least as a stopgap. Argentine-West German development of the Alpha Jet will probably be an only slightly lower priority, since co-production will bring Argentina its first jet aircraft-making capability. If it can afford to do so, Argentina might also approach France for C-160 Transall, or Italy for G-222, assault transports. Brazil will seek to supply additional Embraer maritime surveillance aircraft, but faces French competition from the larger, more capable French new-generation Atlantique. Brazil will also be seeking customers for its new fighter and for co-produced French Aerospatiale helicopters and its Xavante (MB-326) jet trainer. The West German MEKO-140 frigate contract may be resumed, but the Argentine Navy has not displayed the effectiveness in the Falklands War that the Air Force has, and will have difficulty getting priority. Offshore procurement for the Army, of other than SAMs, may also be cut back to pay for warplanes, but the regime will press ahead with domestic production of the TAM tank and of artillery.

Unsatisfied Army and Navy equipment demands caused by the financial drain of a major Western aircraft/missile purchase,

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may force consideration of barter for selected Soviet ground or naval arms. Argentina, however, is not likely to go for an across-the-board supply relationship of the Peruvian- or Cuban-Soviet type.

Brazil is closer to arms self-sufficiency than any other Latin nation, and is likelier to increase the pace of existing domestic arms programs and purchases of additional weapons technology and production licenses than it is to buy significant numbers of foreign-made weapons. Its external debt and foreign exchange situation also encourage this approach. Brazil has better reason than any other Latin nation to continue its relationship with Western Europe. Although its Air Force is aging, evaluation of the Italo-Brazilian A-X combat aircraft, which may now be at the prototype stage, may affect the timing of Brazil's choice of a replacement aircraft more than any results of the Falklands War. In addition, Brazil may opt to license the more modern Italian MB-339 jet trainer/light attack plane to succeed the predecessor MB-326K (Brazilian Xavante) on domestic production lines. Other programs, such as the CX 50-passenger military cargo/paratroop transport, will probably receive additional impetus. AVIBRAS, the missile producer, may seek to license more modern guidance technology or complete missiles, particularly ASMs, from France or Italy, and may resume production of the West German Roland SAM.

Chile's arms suppliers have been France, Israel, West Germany, the UK and Brazil, in that order. Already under some pressure to match Argentine and Peruvian inventories, Santiago has been purchasing a broad range of modern arms. Expenditures have risen sharply in the past few years, peaking in 1979 at over \$600 million and averaging around \$250 million a year since. Chile will probably seek to improve its air force and navy in the future, but may be likelier to add weapons of the types already in inventory than to seek more advanced kinds. Chile will seek to take advantage of the unexpected opportunity given it by Argentina's losses in the Falklands conflict to catch up, to the degree that its sluggish domestic economy permits, with Argentina, and its future arms selections will be to some extent conditioned by technological improvements in the Argentine inventory. Its neutral to pro-British stance in the Falklands situation may incline Western European suppliers--even France, which withheld part of an AMX-30 tank delivery on human rights grounds--to be more forthcoming with weapons and production licenses than they might be with Argentina. Recent Chilean-UK discussion of the sale of used British warships, however, may come to naught since the UK is likely to retain older ships in service to offset its Falklands losses. Although it has been slowly developing a broad domestic arms industry, Chile is far behind even Argentina.

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Colombian arms purchases, which had averaged only around \$9.5 million from 1977-79, spurted to \$343 million in 1980. They receded somewhat in 1981, but are still relatively high (\$38M). Most of the 1980 orders were placed with West Germany, primarily for four frigates (\$250M), radar and ammunition. Colombia also bought four Israeli Arava light transports for \$36 million. Almost all of 1981's purchasing was for \$30 million worth of Brazilian light armor. With Kfirs on the Ecuadorean side and the prospect of F-16s on the Venezuelan, Colombia might well consider augmenting or replacing its 18 1971-vintage Mirage IIIs in the near future.

Given the small share of government spending devoted to the military in recent years, Colombia's current healthy foreign exchange reserves and its concern for security in the light of an active guerrilla movement and the potential Nicaraguan threat to its island possessions are likely to motivate higher than normal arms purchases over the next few years. However, it will probably not choose the most advanced systems--purchase of F-5Es or Kfir C-2s is more likely than a request for the F-16.

Ecuador had already signed over \$700 million in new orders in 1981, up sharply from its \$160 million average in the preceding four years. About half went for 12 Israeli Kfir fighters, now being delivered, and the remainder included Brazilian light armor (\$170M), French Alouette and Puma transport helicopters (\$120M) and British early-warning radar (\$33M). It will take some time for these weapons to be delivered and absorbed into all three services and, apart from increased interest in tactical missiles, few major new orders are expected. Ecuador's poor and deteriorating financial situation will also limit new purchases, although tensions with Peru or a military coup could weaken restraint.

Peru's dependence on the USSR for late-model weaponry will continue for the near term. A few additional types of Soviet arms, such as Mi-24 assault helicopters (now being discussed) and air-launched missiles, might be introduced. Peru is probably in the market for an interceptor more modern than its Mirage-IIIs; the MiG-23 is an obvious and rapidly available, though expensive, possibility. There is a good chance that Peru, which has provided the most tangible support to Argentina, might consider raising the money while responding to immediate Argentine replacement needs by agreeing to sell Buenos Aires its Mirages in phase with deliveries of a replacement aircraft. But Peru's arms inventory is larger, more modern and more homogeneous than those of its neighbors, and Peru may concentrate more on developing, with both Soviet and possibly foreign assistance, a better capability to maintain its arms inventory. Peru is also likely to press on with licensed production of Western systems, including Italian Lupo frigates and MB-339 jet

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trainer/light attack aircraft, and may continue with plans for a helicopter assembly agreement with Italy.

- Peru's economic situation should, rationally, severely limit new arms purchases; however, the historical record suggests that the armed forces' requirements are consistently given high priority. This is particularly likely if concessional terms continue to be available from the Soviet Union. Peru's purchases will also be greatly influenced by Chilean and Ecuadoran arms purchases. On June 28, the US received a request for a formal letter of offer for a squadron of F-16/79 aircraft.

Venezuela began a force modernization program earlier in the 1970s, and now already has a well-equipped armed force in comparison to its neighbors. Arms contracts made between 1977 and 1981 averaged less than \$25 million annually. Caracas is taking a major step forward (and incurring a very heavy expenditure) with the F-16, possibly supplemented by a trainer/light attack aircraft. The British Hawk appeared to be the plane of choice, but probably is no longer. The US does not have a current aircraft of this type, but Venezuela could choose among the Franco-German Alpha Jet, the Italian MB-339, and possibly the Spanish CASA-101 or the somewhat older Brazilian-built MB-326. Venezuela lags well behind the larger Latin nations in developing a military-industrial infrastructure, and may for the next several years concentrate more heavily on this area than on acquiring major systems (other than aircraft). Venezuela is also improving its capability to maintain its arms--for example, it signed a ten-year Mirage parts and maintenance contract in 1979.

Economic considerations are less of a limiting factor for Venezuela than for any other major South American country. However, Venezuela will spend less on defense, over the next few years, than it had planned before the recent drop in oil revenues.

Drafted: INR/PMA/SA - M. Miller - 20233
ARA/RPP - G. Jones - 29362
June 29, 1982

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MDBs and the Graduation Issue in Latin America

One of the major recommendations of the interagency Assessment on US Participation in the Multilateral Development Banks (MDBs) is that there should be more effective graduation policies in the MDBs in order to free up scarce resources for those countries most in need. Effective graduation policies also enhance our efforts to obtain Congressional approval for US participation in the MDBs.

Four Latin American countries are affected currently by this recommendation (Argentina, Brazil, Mexico and Venezuela). With the exception of Venezuela, all borrow currently from the IBRD and the Inter-American Development Bank (IDB). We understand Venezuela would now like to resume borrowing from the IDB. These graduation issues now are being raised in the context of on-going multilateral negotiations on a proposed sixth replenishment of IDB resources.

In preliminary replenishment negotiations the US indicated it desired a significant reduction in IDB lending to Group A borrowing countries (Argentina, Brazil and Mexico) which under the current IDB replenishment is \$750 million annually. In light of the Falklands conflict and difficulties with the CBI package on the Hill, we have gotten Treasury concurrence that the US should now be somewhat more forthcoming on the issue of Group A lending while still maintaining the Administration's pursuit of more effective graduation policies. Accordingly, the US position now is to maintain Group A borrowing at current levels during the next replenishment and in addition to support sharply higher commercial co-financing targets to further increase Group A project lending.

Likewise, the issue of resumed Venezuelan borrowing must be handled very delicately. Direct US support for a resumption of Venezuelan borrowing would be inconsistent with the Administration's pursuit of more effective graduation policies. Rather than risking a counter-productive public confrontation, however, the US should attempt to resolve this issue behind the scenes with Venezuelan officials and IDB management. Venezuela should be encouraged to use IDB technical assistance in lieu of borrowing and serious consideration should be given to having the IDB help the Venezuelans to prepare projects and package loans for financing by commercial banks. Both approaches offer Venezuela something additional and yet are consistent with our approach to graduation. If these tactics fail, the US would still not state explicitly our opposition to a resumption of Venezuelan borrowing since by restricting the level of Group A lending, we will already be forcing some movement towards graduation. If Mexico, Argentina, and Brazil are prepared to share the limited loan program for Group A with Venezuela, we should not object publicly. Another means of implementing the graduation concept flexibly is to accept the Latin American concept of their contributing more to the soft loan window of the Bank and to convertible paid-in capital for the hard loan window.

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14 JUL 1982	<i>F. M. ...</i>	_____	_____
"	<i>W. R. Gibson</i>	_____	_____
"	<i>W. R. Gibson</i>	_____	_____
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SECRETARY OF DEFENSE ROUTING SLIP		ACT COPY TO	INFO COPY TO	TO		ACT COPY TO	INFO COPY TO
✓	OFFICE OF THE SECRETARY OF DEFENSE		✓		MILITARY DEPARTMENTS		
✓	SECRETARY OF DEFENSE		✓		SECRETARY OF THE ARMY		
	DEPUTY SECRETARY OF DEFENSE		✓		SECRETARY OF THE NAVY		
	EXECUTIVE ASSISTANT		✓		SECRETARY OF THE AIR FORCE		
	EXECUTIVE SECRETARY		✓		JOINT CHIEFS OF STAFF		
	PROTOCOL				CHAIRMAN		
1	UNDER SECRETARY FOR POLICY	✓			DIRECTOR, JOINT STAFF		
	DUSD (Policy)		✓		DEFENSE AGENCIES		
	ASD (International Security Affairs)		✓		DEF ADV RSCH PROJ AGENCY		
	ASD (International Security Policy)				DEFENSE AUDIOVISUAL AGENCY		
	DIR. NET ASSESSMENT				DEFENSE COMMUNICATIONS AGENCY		
	UNDER SECRETARY FOR RSCH & ENGR				DEFENSE CONTRACT AUDIT AGENCY		
	ATSD (Atomic Energy)				DEFENSE INTELLIGENCE AGENCY		
	ASD (Comptroller)				DEFENSE INVESTIGATIVE SERVICE		
	DASD (Administration)				DEFENSE LOGISTICS AGENCY		
	ASD (Health Affairs)				DEFENSE MAPPING AGENCY		
	ASD (Legislative Affairs)				DEFENSE NUCLEAR AGENCY		
	ASD (Manpower, Res Aff & Logistics)				DEFENSE SECURITY ASSISTANCE AGENCY		
	ASD (Public Affairs)				NSA/CENTRAL SECURITY SERVICE		
	GENERAL COUNSEL				ES. LTCOL Higgins		✓
	ATSD (Review & Oversight)						
	DIR, PROGRAM ANALYSIS & EVALUATION						

URG

TYPE OF ACTION REQUIRED

	PREPARE REPLY FOR SEC OF DEF SIGNATURE		COMMENTS AND/OR RECOMMENDATIONS
	PREPARE REPLY FOR DEP SEC OF DEF SIGNATURE		COORDINATE REPLY WITH
	REPLY DIRECT (Fwd cy of reply for Sec of Def records)		
1	APPROPRIATE ACTION		
	INFORMATION AND RETENTION		

REMARKS

DECLASSIFIED IN FULL
Authority: EO 13526
Chief, Records & Declass Div, WHS
Date: DEC 22 2017

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(This form is unclassified when separated from classified documents)

TYPE OF ATTACHMENT

☐ ACTION COPY

☐ ADVANCE ACTION COPY

☒ INFORMATION COPY

ACTION DUE DATE (YYMMDD)

ROUTING DATE (YYMMDD)

OSD CONTROL NUMBER

14 JUL 1982

X20719

DATA AUTHORIZATION INPUT FORM

SECTION I - MISC CONTROL DATA

DATE RECEIVED: 071482 CONTROL NO. X20719 gjs

CONTROLLED ITEMS RECEIVED: ORIG CC RCY(S) / PG(S) / CY NO. THRU
OF CYS. COVER MEMOS RECEIVED: ORIG CC RCY(S) PG(S) CY NO. THRU
OF CYS. ENCLS: / REPLY TO: REF(S)

DESTRUCTION CERT NO.

SECTION II - FILE & MICRO DATA

MICROFICHE: (YES NO MF: 212405 FICHE NO. A+B IMAGE(S) G8 B14
FILE NO.

SECTION III - ACTION

ACTION #1 USP FOR FAA S: COORD W:
ACTION #2 FOR S: COORD W:
COMMENTS:
SUSPENSE STATUS: IG

SECTION IV - DISTRIBUTION

TO	COPY	TO	COPY	TO	COPY
SD	<u>RwI</u>	PA		R&O	
DSD	<u>RwI</u>	GC		DUP	
ES	<u>2RwI</u>	AE		EAD	
SA		LA		EPD	
EN		NA		PRO	
SAF		ISP		ES (KS)	
JCS		DLA		DSD (VB)	
USP	<u>RwI</u>	DLA		SSW	
USR		BGN		NAD	
COM		SDR		MAS	
ADM		DSR		ADD	
HA		PAK			
ISA	<u>RwI</u>	LTB			
MRL		ADC			
PAE		ADC	<u>RwI</u>		

Page determined to be Unclassified
Reviewed Chief, RDD, WHS
IAW EO 13526, Section 3.5
Date: DEC 22 2017