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National Security Council Meeting
August 15, 1986, 11:00 a.m.-11:40 a.m., Cabinet Room

SUBJECT: State Visit of Brazilian President Sarney (U)

PARTICIPANTS:

The President

The Vice President

The Vice President's Office:
Mr. Craig L. Fuller

CIA:
Director William J. Casey
Mr. Robert Vickers

State:
Deputy Secretary John C. Whitehead
Mr James Michel

USTR:
Ambassador Clayton Yeutter

Treasury:
Secretary James A. Baker, III
Mr. David L. Mulford

USIA
Mr. Marvin L. Stone
Mr. William Dieterich

OSD:
Secretary Caspar W. Weinberger
Mr. Richard L. Armitage

JCS:
Admiral William J. Crowe
Lt General John H. Moellering

Justice:
Mr. Stephen S. Trott

White House:
Mr. Donald T. Regan
Admiral John M. Poindexter
Mr. Larry Speakes

Commerce:
Secretary Malcolm Baldrige

OMB:
Mr. James C. Miller
Mr. L. Wayne Army

NSC:
Mr. Rodney B. McDaniel
Ms. Jackie Tillman

Minutes

Admiral Poindexter: Mr. President, the meeting today is to review developments regarding Brazil in preparation for the September 10 state visit of Brazilian President Sarney. Since we won't be in Washington between now and shortly before the 10th, we thought we should meet now. (U)

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The last time we considered Brazil was after the Falklands War when a variety of actions were approved to improve relations with the South Americans and, of course, Brazil was an important stop when you visited Latin America in late 1982. Many important changes have occurred since then and it is appropriate that as this state visit nears we take a close look at where Brazil is going and assess the status of the various aspects of our relations. (S)

Brazil had a successful transition from military rule to a democratic system in 1985 and admirably weathered the tragic death of President-elect Tancredo-Neves shortly before the inauguration. President Sarney has moved skillfully to consolidate his position as President and to strengthen the democratic system in Brazil. It is fair to say that he has done far better than what was expected. President Sarney also seems to be moving his country to realize its great potential and Brazil is becoming an increasingly important player in the world scene. They and we are having problems adjusting to this changing role. (S)

It appears obvious that it is in the interests of the United States that we establish good relations with this southern giant. It isn't easy. They still behave like a Third World country in many respects even as they emerge as a major presence on the world scene. (S)

We are trying to improve our military relations with them. I understand that Admiral Crowe will be visiting Brazil later on in September. We have important trade issues with Brazil about which we have to demonstrate to the Congress that we are addressing seriously. Clayton just finished a session with them that we'll hear his report about. They have a \$100 billion foreign debt and the world's highest economic growth rate. In foreign policy, Brazil has re-established relations with Cuba and is a member of the Contadora Support Group. Because of its Portuguese heritage, it is active in Africa, particularly Angola. It is developing a vigorous space program and is developing its nuclear industry. We have concerns about proliferation and tech transfer. (S)

Yet as we look at these and other important issues, we should remember that Brazil is still consolidating its democracy. This November Brazil will have elections for an assembly to write a constitution. Keep in mind that Latin America constitutions are not statements of principles like ours, but detailed documents that treat economic, political, social, trade and other issues. Sarney is a moderate and would like to prevent leftists from winning disproportionately which would result in significant long-term consequences for US interests and Brazil's future. We share this goal and we should all understand that a good state visit will contribute positively to these elections. (S)

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Our goal should be then to be among the first in recognizing that Brazil has arrived as an important actor and help Brazil adjust to its new status, including the problems that necessarily follow.

(C)

Director Casey: President Sarney comes to Washington knowing that he currently enjoys widespread popularity at home and anxious to improve his image as a world statesman. Last April, he became Brazil's first civilian president in 21 years. Sarney had a left-leaning cabinet and little independent support base. To win popular support, he pushed political and economic reforms and abandoned unpopular IMF-backed austerity policies in favor of economic growth, which reached 8 percent last year. Early this year, he announced a bold economic plan to freeze wages and prices and dramatically reduce inflation. (C)

His popularity ratings are very high. Still, he faces several domestic challenges in the coming months. Gubernatorial and Congressional elections in November will determine the future course of his government and the strength of the leftist challenge to his presidency. The next Congress will sit as a Constituent Assembly, drafting key legislative guidelines covering the full spectrum of Brazilian political, economic and social policies. The left is unhappy with the wage freeze and the slow pace of land reform. (C)

With his domestic popularity currently high, Sarney is undertaking several diplomatic initiatives designed to bolster his image as an independent world statesman. He has increased his public criticism of Pretoria for its apartheid policy, and obliquely criticized the US for its support of UNITA in Angola. He plans to present a proposal for a "South Atlantic zone of peace" at the next US General Assembly session, calling for the elimination of superpower naval, military, and nuclear forces in the region. Sarney's recent summit meeting with President Alfonsin of Argentina highlights substantially improved political relations and lays the groundwork for future economic integration. (C)

Civilian rule has brought a slight thaw in relations with the Soviet Bloc, but Sarney continues to move slowly in expanding ties. Brazil has recently agreed to Soviet participation in developing strategic Brazilian mineral reserves. Sarney also restored diplomatic relations with Cuba to prevent the Left from exploiting the issue in this November's elections. Relations with Libya are wary, and Sarney banned new arms sales in the wake of Rome and Vienna terrorist attacks last year. (C)

Sarney apparently hopes to use his trip to Washington to ease bilateral strains over finance and trade issues and generally to

put our relations on a sounder footing. Sarney has cooperated with US anti-narcotics programs and will probably express renewed commitment to these efforts while in Washington. His administration has played a limited and unenthusiastic role in the Contadora Support Group, and he can be expected to gloss over Central American issues. (C)

He hopes to return home with an enhanced image as a statesman, one that he can parlay into support for moderate congressional candidates in November. (C)

Deputy Secretary Whitehead: The first point I'd like to make is that Brazil is more important than most Americans realize. Geographically, it occupies half of a continent. It has the eighth largest economy in the free world, larger than the economies of Mexico, Argentina and Venezuela combined. We are sometimes called the colossus of the north; well, Brazil is the colossus of the south. This visit, between the two biggest countries in the Americas, we would hope would serve to build a bridge, a partnership between the two countries. We need them on our side. (C)

As the Admiral pointed out, Brazil is a new democracy. Tancredo-Neves, who died before he could be sworn in as president, had been elected president after 21 years of military rule. Tancredo was enormously popular, a distinguished, dignified man. Sarney was an unknown, somewhat uncharismatic. But he has come up, met the challenge in a spectacular way, and is now very popular and strong. (C)

Just as we have elections in November, they do as well. They will elect a new congress that will write a new constitution. This constitution will determine the forward direction of Brazil for sometime to come. The signs now are that the elections will go well for Sarney, and understandably, he will be trying to defer as many prickly issues as he can until after the elections. (C)

Brazil has a very strong economy; it's booming. Its real growth last year was eight percent and this year will probably be seven percent. It's hard to imagine any other country that is growing like this. They are in such a strong position that they have not gone to the IMF. They don't need money, so don't have a need to borrow. This creates a problem for us. (C)

Our bilateral relations are not that good. We should have good relations with Brazil, but we don't. We have hundreds of little points of irritation, mainly in trade, that Clayton can tell us about. And they go beyond just the informatics case, it's in

pharmaceuticals, they don't respect our patents, our copyrights. They are causing real problems in the new GATT round; they oppose us on services. We have disagreements on debt, they stick their thumbs at the IMF, the Paris Club. We have a whole agenda of irritations. (C)

Someone once described them as being very much like a teenager. Somedays they feel like an adult, somedays they behave as though they are still children. They want us to treat them like they are still a developing country and believe they deserve access to our markets. But then they are not willing to give us access to their markets. They are still not willing to act responsibly. (C)

But their desire for a good friendship with us is strong. The trick is to adopt an attitude that reflects their level of development. We are working on a specific plan, a new initiative, for a so-called "wise men council" of civilians, half would be Brazilians, half would be Americans, to perhaps monitor the trade issues while keeping our broad objectives and goals in mind. (C)

President Reagan: What is the population of Brazil? (U)

Robert Vickers: About 130 million. (U)

Secretary Baker: I don't have much to add to what John Whitehead said except to say that their economic performance is very dramatic. They have a very big surplus and so they are thumbing their nose at the international financial institutions. I, quite frankly, don't think this performance is sustainable over the long term. They are unwilling to accept their place in the world, still behave like an LDC, and are hard to get along with. The main thing you could do in this visit is to encourage them to grow up, to accept the responsibilities for the position they have achieved. (C)

Secretary Weinberger: This is a typical example where we tried to impose our morals on someone else and it really backfired. We traditionally had very strong military ties with Brazil. In World War II our forces used northeast Brazil as a jumping off point for the invasion of Africa, they had a division in Italy and so forth. In 1977, our human rights policy led to their booting out our 200 strong military team and since then they have turned to France and others. They are the fifth largest in arms sales in the world. They are willing to sell arms to anyone, including some we wish they wouldn't sell to. They make good equipment. We can't train them, using the so-called IMET program, because they haven't signed the nuclear non-proliferation treaty. (C)

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We have tried to improve the security relationship starting with a series of high level visits from the services and the Department. Admiral Crowe is the highest level going there. We are trying to indicate to them that we really want to have good military relations with them. They are interested in our training programs. (S)

The military is more willing than the industrialists to work with us. The industry people refuse to accept our re-export rules, which I think we have to maintain, so it's a problem. But we will continue our efforts to build this relationship. (S)

I think you might want to mention to them that you understand how acutely hurt they were by the actions taken in 1977, that we think of them as a valued friend. They used to train here, now they are going to France. We are one generation away from their future leadership. It might be helpful too to engage them on how we can try to restore our normally good relations. (S)

USTR Clayton Yeutter: I have heard it said that the Brazilians are the French of South America. [laughter] I think that's an apt description; they are so perceived by many others. Cap is correct about the implications of the human rights policy. That comes up frequently in our discussions during negotiations. They have never forgotten it. It permeates all our relations with them. (S)

President Reagan: When was this done? (S)

Deputy Secretary Whitehead: Under President Carter in 1977. (S)

USTR Yeutter: On trade issues, they want to have their cake and eat it too. They are the most protectionist country in the world. But they love our free market, they love the GSP duty free status. But when it comes to our selling in their market, they close and shut down their borders. Informatics is just one of the worst of many cases. They have shut down our access and it is costing us from one-half to one billion in lost computer exports. (S)

After years of trying to negotiate with them about informatics, about a year ago a decision was made to initiate a 301 case against them. This means that by September 16, I've got to send you recommendations and you have a statutory obligation to make decisions about whether to retaliate or not. They have hinted that they may choose not to come on the state visit since the 301 decision comes immediately in the aftermath of his visit. Paulo Tarso Flecha de Lima is their quasi-trade minister and he was anxious and nervous about this during our talks last week in Paris. (S)

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The ball is in their court. I think we'll probably hear something from them in a week or ten days. Then we'll probably have an EPC meeting to draft our recommendation for you. (C)

There has been a strong nationalistic reaction to this issue. The whole "gringos pushing us around" bit. It is a very difficult issue for Sarney, who is, after all, a genuine moderate. He has members of his Cabinet saying don't give in to the gringos. (C)

After our recent meetings in Paris I wrote them a personal memorandum outlining the best package I thought they could come up with to avoid retaliation. The question will be if we get a lousy package, do we retaliate, and kill the visit? I think that if they come back with a solid package, we could recommend that we suspend, not withdraw, but suspend, the 301 case and over the next 3 to 6 months see if they follow through. (C)

Admiral Poindexter: Are they trying to protect or establish their computer industry? (C)

USTR Yeutter: They are trying to build it. And it is a very shortsighted policy. There is no way they can compete with us or the Japanese in this area. They're just being shortsighted and cocky. (C)

Secretary Baldrige: You sent me down to Tancredo-Neves' funeral. The Vice President was so upset he didn't speak to me for a week. [laughter] But you'll remember when Tancredo came up here after their elections. We had a breakfast for him, and everyone was tremendously impressed with him. Then, he died, and Sarney came in, the second choice, in by luck, and not terribly self-assured. This insecurity comes out I think with the nation as a whole. Their cockiness is really a deep feeling of insecurity. Clearly these trade issues are bad and could even grow worse. But they all could be settled. Sarney knows they can be settled. But every time, in any negotiations on anything, where it looks like we might be getting an even shake, the press takes off with "they are being soft with the Americans." I'm taking the liberty of suggesting that you say two things: one, that we want to settle these trade issues. Two, that you have had your own problems in the US in the past, and many has been the time when you've had to lead public opinion. You might tell him that he can too, take the lead, lead the country. (C)

USTR Yeutter: The press has been incredible. Each time we meet we get six inch headlines, with articles all distorted. (C)

President Reagan: Is President Figueiredo still alive? (C)

Admiral Poindexter: Yes (C)

President Reagan: How does he get along with Sarney? (C)

Admiral Poindexter: Jackie, do you know? (C)

Jackie Tillman: Sarney is a member of the new civilian government and there are minimal relations with the past military government. (C)

President Reagan: I met Figueiredo when I was there. We got along very well. And he understands us. He presented me with a beautiful horse, a cross with a thoroughbred and a German Hanaford. Beautiful horse, can jump six foot, nine inch hurdle. And to show how well he understood us, he told me he was just lending it to me, it was not a gift. He still has the papers. [laughter] (C)

USTR Yeutter: On the political scene, Sarney is really worried about November, and how his party will fare. The political leftists are sowing discord and his people pleaded to me to buy some time for them. (C)

Chief of Staff Regan: And what do they think we have in November? (C) [laughter]

USTR Yeutter: Well, they know we have elections too. (C)

Deputy Secretary Whitehead: Their trade policies are mostly a result of their national pride and their desire to develop their own economy. They are afraid that this is the information era and that they will play no part in it unless they subsidize their own industry. They don't want to be dependent on the rest of the world. So they feel they must protect their own industry. So that is the rational basis for their policy, it isn't all just intransigence. (C)

President Reagan: How do they feel about outside investment? (C)

Deputy Secretary Whitehead: Quite good. There is a strong American community there. (C)

USTR Yeutter: But with lots of restrictions. They have a lot of export requirements, domestic content requirements. They do have a provision in the informatics law that allows for joint ventures. But they have yet to approve of a single case. So it's with lots of qualifications. (C)

President Reagan: When is the rest of the world going to learn? They only way to grow is to import people and money. (C)

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USIA Stone: USIA has its hands full in Brazil, to the point that it is the second largest effort for USIA in the world. We blanket Brazil with programs, visitors, everything. We are concentrating on themes like free trade, debt management, informatics; the growth of democracy and constitutional democracy; and we encourage a larger leadership role for Brazil in our programs. There will be a large press contingent here for the visit. A lot of Brazilian print journalists, Globo TV, plus USIA will be carrying much live coverage. So there will be a lot of exposure throughout not only Brazil but South America as well.

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Admiral Poindexter: Thank you, Mr. President. ~~(U)~~

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August 18, 1986

MEMORANDUM FOR JOHN M. POINDEXTER

FROM: JACQUELINE TILLMAN *JT*

NOTED

SUBJECT: MemCon of NSC Meeting on Brazil, August 15, 1986

Attached is the Memorandum of Conversation of last Friday's NSC meeting on Brazil.

RECOMMENDATION

That you review and approve the Memorandum of Conversation of the NSC Meeting on Brazil of August 15, 1986.

Approve _____

Disapprove _____

Attachment
Tab I MemCon

cc: Alex Platt
Steve Danzansky

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