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THE WHITE HOUSE
WASHINGTON

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MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with President Carlos Andres Perez of Venezuela

PARTICIPANTS: The President
The Vice President
James Baker, Secretary of State
Nicholas Brady, Secretary of Treasury
John Sununu, Chief of Staff
Brent Scowcroft, National Security Advisor
Bernard Aronson, Assistant Secretary of State
Designate for Inter-American Affairs
Robert Pastorino, NSC Notetaker

President Carlos Andres Perez of Venezuela
Enrique Tejera Paris, Foreign Minister
Miguel Rodriquez, Minister of Planning
Reinaldo Figueredo, Chief of Staff
Valentin Hernandez, Venezuelan Ambassador
Simon Alberto Consalvi, Ambassador-designate to the U.S.

DATE, TIME April 1, 1989, 8:00 a.m. - 9:30 a.m.
AND PLACE: Family Dining Room

The President began the breakfast meeting by welcoming President Perez to the White House, saying he understood Perez had had a good visit with Secretary Baker and had also met with David Rockefeller in New York. (C)

President Perez noted he had met with Rockefeller and a group of U.S. businessmen. In response to the President's query, he said that Mr. Vollmer, an old Venezuelan friend of the President, did not make the trip with him. (C)

The President stated he has heard a Rockefeller speech in which he advocated a major hemispheric meeting. He noted that a large, unplanned meeting could be counterproductive; some countries could try and take advantage to push radical positions. (S)

President Perez stated that Rockefeller was talking about a Hemispheric Congress rather than a Group of Eight meeting, perhaps something like the Punta del Este meeting in 1961.

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He agreed that any meeting would have to be well-prepared in order to avoid what the President is concerned about.

The President noted that a meeting would be bad if it ended in division or dispute. (S)

President Perez agreed with the President and added that a meeting would be important to highlight important issues in U.S.-Latin American relations and could serve as an exchange of ideas between leaders; it would be larger than the Group of Eight, perhaps including Caribbean leaders. It would serve as a point of departure for better U.S.-Latin American relations. (S)

The President emphasized he is most interested in a demonstrably closer relationship. He noted that most of his top advisors on Latin America were at the breakfast. (S)

President Perez said that perhaps a large meeting should be a project for the future. He stated that the Brady strategy changes the whole concept on how to resolve the debt problem, adding that now implementation is important. He described the requirement that debtor countries need to talk to various international and U.S. financial entities as a ping-pong game (in which they are being shuttled back and forth). (S)

Secretary Baker said that Perez's portrayal of the process is accurate; he noted that Treasury was now eager to engage the Venezuelans, who, as he noted he had said on the plane, have a capacity for significant debt reduction. (S)

Secretary Brady noted his agreement with Baker, saying the sooner Treasury sits down with the Venezuelans the better. He said Venezuela, given its performance and the rising oil prices, probably will be the first to take advantage of the Brady Plan. (S)

President Perez stated his agreement but emphasized that Venezuela is already two months behind schedule in interest payments. He said the arrearages are not a maneuver. He noted that in 30 days more, Venezuelan loans would be placed on a non-performance status. That would harm Venezuela's credit rating. It has been high for five years, as Venezuela has kept its payments current. (S)

The President asked Secretary Brady how to move forward. (S)

Secretary Brady noted the G-7 is meeting this weekend and the Interim Committee will meet Monday or Tuesday. Both meetings would be helpful to focus the issue; the IMF and IBRD now better understand their role on the debt issue. (S)

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The President asked Perez whether the case by case treatment gives Venezuela a problem. Perez responded that both a global framework and case-by-case solutions are necessary. In fact, case-by-case solutions are inevitable because of the difference in each debtor's problems. They should be pursued by those debtors who accept conditionality under a framework umbrella agreement. (S)

President Perez noted the urgency of the problem. Venezuela has not been confrontational, he stated, and in fact has agreed not to publicize the Rio Agreement among the Group of Eight Finance Ministers. Unfortunately, it had been leaked, he stated. Perez added that Venezuela was now using a modern language in talking with the United States, not the former language of imperialism. He noted that former Venezuelan President Caldera had recently mentioned a Marshall Plan for Latin America. (S)

The President noted the importance to the United States, and to the world in the context of rising interest rates, of the U.S. budget deficit. He noted that if he and the Congress can reach agreement on a plan which projects budget certainty it would have a positive effect on interest rates. He noted the United States is sympathetic to the problem of developing countries and did not want to imply we didn't have resources to work on the debt problem. He again emphasized that interest rates must come down. (S)

President Perez stated his understanding of the U.S. budget problem. He then mentioned the February 27 riots in Caracas which took 300 lives and caused great personal injury and property damage. He noted he had to use the Army to end this and asked rhetorically what would happen if riots erupted in Mexico City or Sao Paulo. Perez noted that the influence of television is increasing materialistic expectations. (S)

Secretary Baker noted that we all agree on the sense of urgency. He stated that a major middle-income country--like Venezuela or perhaps Mexico--should take advantage of the opportunity presented by the Brady proposal to work out a debt reduction package. No one country can resolve other countries' problems because they are so different--for example Alfonsin's and Garcia's. He noted that some tangible progress is needed now on the Brady proposal. He hoped we don't miss the opportunity because of too much dialogue. (S)

The President noted a U.S.-Venezuelan agreement on debt would set an example. Mexico is another possibility, he said. (S)

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President Perez again stated that he thought we should have a general framework and a case-by-case approach at the same time. He noted his great concern of the risk to Latin America if the debt problem is not resolved. He noted Peru could be the first to return to a military dictatorship, but it could happen to other countries also. With regard to Alan Garcia, he described him as impulsive and lacking in experience. Garcia had made many mistakes but had learned by them; he would grab a life raft if the United States threw it to him. Perez noted the situation is also dangerous in Brazil. (S)

Secretary Brady noted the issue is one of mathematics and that is why Venezuela should pursue a quick, case-by-case solution. (S)

Secretary Rodriguez, Venezuela's Planning Secretary, noted that Japan and other current account surplus countries can also help. He said that strong U.S. leadership was needed for a global solution to the debt problem. He noted that Venezuelan talks with Treasury were coming close to a 50% debt reduction arrangement and Venezuela thinks it can do even better given the possible use of an oil facility. He noted two important concerns: a) that any solution be comprehensive, not permitting any banks a free ride; and b) the importance of a solution to performing countries. (S)

The President noted that we didn't want bank free-riding. (S)

Secretary Brady noted that we have to work with Congress which is strongly against a bank bailout. He added the best solution is not a grand one but a doable one. (S)

Secretary Baker agreed, adding the point that the non-U.S. creditors would not want a global meeting which did not include Indonesia, Poland, Nigeria and other non-Latin large debtors. (S)

The President moved the conversation to Central America, noting his Bipartisan Accord with the Congress and asking Perez for his thoughts about Sandinista sincerity. (S)

President Perez in a long response said the following: Venezuela has important interests that the Central American issue be resolved; Venezuela understands the difficulty with the issue; the Accord will provide more pressure than the Contras did; the Sandinistas understand the United States must have a role; and the Sandinistas have great economic problems. (S)

President Perez stated that he had told Nicaraguan President Ortega that this period (the beginning of the Bush Administration) was his opportunity, that he should not waste it. Ortega acknowledged that and has asked Perez' help. Perez said he would

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help but would not be fooled by the Sandinistas. President Perez said he had also discussed the situation with Presidents Arias, Cerezo and Azcona and those talks had led to the El Salvador Agreement. (S)

President Perez said he believed Ortega would comply with the agreement. He said Ortega had asked him to speak to President Bush, the internal opposition, and the Contras to get them to participate in the elections. Perez noted he had sent a commission of Venezuelan electoral experts to Nicaragua and they reported that they were favorably impressed by the electoral plans. President Perez said he would ask the Commission to come to Washington to talk to Mr. Aronson. He finished by saying he believes the Sandinistas are sincere and also that they are suffering divisions among their leadership. He stated that the divisions are similar to those during the fight to oust Somoza. (S)

President Perez also noted his belief that the Soviets are not willing to continue their assistance and that the Cubans are interested in a relaxation of tensions. President Perez noted a meeting he had had with Castro and Ortega in which, according to Perez, Castro convinced Ortega to accelerate the electoral process. He stated he told Ortega that neither he nor the United States would be fooled by partial measures such as the release of 1500 prisoners. (S)

The President noted that really free elections meant access to television, free political rallies, and outright criticism of the Sandinistas without repercussions. He asked Perez whether that would be possible. (S)

President Perez said he had mentioned the same concrete details to Ortega. Perez said he called Ortega (to chastise him) when Ortega denounced the Bipartisan Accord. He said he told Ortega that the Accord represented a new U.S. policy and Ortega should not ruin the opportunity. (S)

President Perez stated that continued pressure was needed on the Sandinistas but the Latin Americans should bring the pressure. The verification process would be useful. He noted Venezuela would send verifiers and that Colombia might also. (S)

President Perez noted his belief that we must take a calculated risk in going forward. He noted there are people on both sides who want to torpedo a solution. He said he is willing to spend the necessary time to work for a solution, even to arrange a secret meeting with Ortega if that was necessary, thereby avoiding protocol. (S)

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The President said he would think about Perez's idea and turned to El Salvador. (S)

The President stated he had talked to Duarte, who was sick and whose party had just lost the election. Duarte was very pessimistic about the situation in El Salvador. The President noted the United States Government position that Cristiani of ARENA had won a free election and that the United States accepted his statements about human rights and the rule of law and would support him. He noted his disagreement with those who called Cristiani a disguised D'Aubuisson. The President said that if human rights abuses or death squads return, the United States will act. He noted that Vice President Quayle had explained all of this clearly to all parties in El Salvador. (S)

President Perez noted he had talked to Duarte and had also found him depressed. He said his position is the same as that of President Bush and he was planning to make a statement upon his return to Caracas. He noted his favorable impression of Cristiani. He described a conversation he had with the FMLN leadership where they still believe they can win the war. He added that Humberto Ortega had told the FMLN that they could not win. (S)

Secretary Baker noted that the verification commission should also verify the Nicaragua-Salvador border to look for Sandinista supplies to the FMLN. (S)

President Perez said that, pragmatically, a change in the Sandinista regime would stop that supply. (S)

The President finished the meeting by noting that Perez should call him with ideas and that he hoped to be able to call Perez; that we must work together. (S)

President Perez finished by saying Venezuela has the same interests in the region as the United States. He reminded the President of an arrangement whereby he would help on Central America and the United States would help on the debt. He added that he believes that Castro is also ready to change and the Gorbachev visit will be an interesting one. (S)

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