

THE WHITE HOUSE  
WASHINGTON

**MEMCON**

MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with President Rafael Leonardo Callejas of Honduras (Ø)

PARTICIPANTS: The President  
The Vice President  
Nicholas F. Brady, Secretary of Treasury  
John H. Sununu, Chief of Staff  
Brent Scowcroft, Assistant to the President for National Security Affairs  
Robert M. Gates, Assistant to the President and Deputy for National Security Affairs  
Bernard Aronson, Assistant Secretary of State for Inter-American Affairs  
Cresencio S. Arcos, Ambassador to Honduras  
William T. Pryce, Senior Director for Latin American Affairs, NSC (Notetaker)  
Barbara Phillips, Interpreter

Rafael Leonardo Callejas, President  
Mario Carias Zapata, Foreign Minister  
Jorge Ramon Hernandez Alcerro, Ambassador to the United States  
Rodolfo Irias Nava, President of the National Congress  
Carlos Montoya, Member of Congress (Majority Leader)  
General Arnulfo Cantarero Lopez, Commander in Chief of the Honduran Armed Forces  
Gilberto Goldstein, Presidential Chief of Staff  
Ricardo Maduro, President of the Central Bank

DATE, TIME AND PLACE: April 17, 1990, 11:15 - 12:00 p.m. EST  
The Cabinet Room

The President: I waived my covenant against speaking to the press during photo opportunities to speak about Lithuania. The Soviets have threatened to curtail natural gas shipments. These are pretty strong measures. People can't cook without natural gas. They looked like they were together and ready to talk yesterday and now appear not to be. We recognize that there are numerous, and complicated problems involved in our talks with the

Soviets, including disarmament, START, trade, and regional issues like Nicaragua. They are all affected by our conversations with Gorbachev. Some people want us to say "stop everything for Lithuania." But that is not what we need to do. We are trying to do things with adherence to principle in a way that will be helpful. (Ø)

President Callejas: There's a lot at stake. (U)

The President: Very much. We get hit at from all angles, but need to take actions which will be good in the long run. But I didn't mean to bore you with our problems. (Ø)

Welcome! I thought we would start by letting you say whatever is on your mind, and then when we have discussed that, I have a few points. But I want to start by saying that from our viewpoint, the relationship between our two countries is a very good one. We view you as a friend and we also welcome you as the new President of Honduras. (U)

President Callejas: Thank you. We appreciate all the efforts you and your government have made regarding our institutional loans -- there have been problems for Honduras. Your Administration has pushed hard on our most serious short-term problem -- a bridge loan. But I'll come to that later. (Ø)

We do have important areas of opportunity in Central America. For the first time we have five elected presidents. If the selection process in Nicaragua is finalized, we have the possibility of five democratic governments in Central America. We have never had such a unique opportunity as we have now. We will have elections in Guatemala and will have either the Christian Democrats or the Central Union in power. Both represent democracy. Once a Nicaraguan political solution is given, we will have a unique opportunity to accomplish things politically. (Ø)

But the main problem is Honduras' economic situation. We have built a solid political system, but now we must develop a strong economy. I hope the polls will keep up approval of the way we are ready to take difficult measures, and that the political costs are manageable. We hope that the difficult times will be over quickly. We have been trying to work on a bridge loan. What is necessary is a bridge loan before the month of June. We can't see any possible prospects for our country without establishing credibility. Our program is not feasible without a bridge loan. (Ø)

The important point is that the bridge loan has to be constituted quickly. It is hard to ask for more when you get such strong support, but I understand that it is the American tradition to give 110 percent. If we can't get the loan in a very short time, we will, not be able to follow through with our trade program. Our currency will move. If the program is not sustained we will

go to the bad side -- committed to a difficult program, but not able to come through on the positive side. (Ø)

There are many other programs which will suffer. The Central American Development Program, CBI -- nothing will be possible if we don't get a short-term bridge loan. This specific point will make or break the Government. It is the only way to generate positive exchange flows, to achieve increased exports, to attract foreign investment. Our commitment to the program needs 110 percent support from your government. (Ø)

The President: You will be meeting with Brady. He is here, and you will have a separate meeting. We are impressed by the early approach you have taken on making a pledge and commitment to a sound structural adjustment program. We are working with the international financial institutions and other countries to construct a program to clear your arrears. We have worked with Spain and Mexico and Taiwan, and, of course, Japan. I have asked Treasury to do all we can to be helpful. (Ø)

I hate to say it, but have to say that our overall AID resources are less than we would like. We are being pounded on all sides, and now have problems with overall ceilings. We will do all we can to help. (Ø)

I can't argue with your assessment. We will do all we can do. (Ø)

President Callejas: You have been doing quite a lot. (U)

Mr. Maduro: I would like to add that the Treasury Department has been most helpful in playing a key role in helping put the package together. Time is critical. If we can't put a concluded package in June, things will be very difficult. Someone has to take a very direct role because we need to put in place a number of commitments. That is why it has been so helpful to have Treasury working along with us. We are very grateful. We hope they will accompany us to the end of the bridge. (Ø)

The President: What is the size of the bridge? (Ø)

Mr. Maduro: Two hundred, forty-seven million. It comes from the three IFI's, Treasury's fifty-seven million, forty million from Honduras from ESF. Pending are Mexico, Spain, and Taiwan. Taiwan is being helpful. I will be talking about a six-month bridge. This will give us the ability to get larger flows from the IFI's for '90 and '91. It is the only way to get a long-term agreement. This year we will have negative growth and inflation of 25 percent. (Ø)

The President: Does any one want to say anything else before we move on? (U)

Secretary Baker: Mr. President, you have covered it fully. We want to be as helpful as we can. We want to get the loan in place as soon as possible. Bernie do you want to add anything?  
(Ø)

Assistant Secretary Aronson: We need to send a signal that we are coming through. (Ø)

President Callejas: To give you an idea of our program, we have cut the deficit to \$10.6 million which is five percent of the GNP and have increased fiscal taxes by seven percent of the GNP. We have liberated the currency -- not devalued from the traditional 2-1 rate, but dealing with the country's exchange rate is like poking a beehive -- you know the bees are in there, but you don't know how many or what they are going to do. We hope to balance the budget by 1993. We want to leave office with as close to a balance as we can. We have been able to sell our program -- at a high political cost but no social upheavals. There was one soldier killed yesterday. (Ø)

There is no doubt that aside from the assistance we are seeking directly, there are other programs which could be helpful. On the CBI and its extension, we worry that what has been considered seems to be smaller rather than broader. We hope that the CBI can be modified to be more positive on trade and tariffs. Take clothing and sugar for example. We know that these create difficulties for you but they are important to us. The effect of the reduction in sugar and coffee prices is substantially greater than U.S. aid. We hope that we can have trade instead of aid. We know that you have worked very hard on coffee and we are very thankful. We know that sugar has problems for you. (Ø)

Central America is still primarily an agricultural economy. Any effect that the CBI can have on sugar would be very helpful. An increase of two million hundred weight in sugar exports would mean 20,000 jobs. (Ø)

We are reducing our defense budget by 20 percent by 1992. We are willing to pursue Central American integration and a close integration of currencies, and an increase in our trade. We should be your 9th or 10th trade partner as a region. Any increase would be another benefit of the CBI. (Ø)

The President: When we were at Cartegena, President Barco made the point clearly that if we could make a way for increased trade, that would help on narcotics. We are taking a broad look at trade policy. There are political problems -- especially on sugar. I agree that increased trade is the best way to help each other. I don't know when the review will be through and what we will be able to do when it is. We will try to do as much as we can. (Ø)

President Callejas: The region also has deficits. To give you an idea of our situation of owing \$270 million in arrears,

Nicaragua is over \$300 million in debt to us and Central America. We could be helped if we had a way to clear up these inter-regional debts. We supply Nicaragua with electrical energy, but they don't pay. But we have to continue to supply the energy. We should try to see how we can pay each other. Nicaragua will find itself with a more difficult problem than we have. We are telling Nicaragua that they owe us enough money to cover 25 percent of our bridge loan. Money for Nicaragua would help them and us. I think that the area of economic integration will quickly come alive. The possibilities are there. In the area of integration, the idea of a Central American common market is ripe. (Ø)

The President: Who would be in? (Ø)

President Callejas: The five Central American countries and Panama. When Guatemala has relations with Belize, they would be asked to join too. We have invited Panama to our next regional economic meeting so that we can move to closer economic integration with them. (Ø)

Secretary Baker: I would add to our discussion of the problems of textiles that we would be glad to make improvements, but we went to the House on this and lost, and then we tried in the Senate and lost. We can't seem to overcome the political problems. There is not much hope for sugar. We need to keep trying on textiles, footwear and apparel. (Ø)

President Callejas: Perhaps at the next Presidential meeting we could make a request to the Administration and the Congress on this matter. (Ø)

The President: That would be helpful. Mexico is not part of this? (Ø)

President Callejas: No. They are much too big. There is a big gap between us and them. They are trying to be helpful in the payment of the debt. We get a strong discount when we pay our debt to them. Cement and tourism are big items. Costa Rica has had a favorable experience. (Ø)

We have had stronger support from you on our budget and ESF for '91. Eighty million, we would hope. (Ø)

Secretary Baker: On all categories of financial assistance for FY 1991, Honduras will be over the figures for '90? (Ø)

Assistant Secretary Aronson: All categories. (Ø)

Secretary Baker: This is what we have asked for, it may not be what we will get. (Ø)

The President: We will, of course, defend our request. (U)

President Callejas: We have a good relationship regarding the security situation. We are excited about a new idea on military exercises which has to do with the environment. We are creating "green battalions." My hope is that we will be able to have military elements from the U.S. which will be helpful in improving our environment. (Ø)

The President: Is the U.S. presence oppressive? To be frank, is it causing a political problem? (Ø)

President Callejas: No. My position in the campaign was that we would continue as long as there was a need and Honduran troops were being trained. The opposition was centered on discussions of the Contras. We are positive on that. The other view is out of the opposition agenda. Once the Contra issue is settled, they will attack the presence of U.S. troops. Yes, this will come out as an issue. We will try to manage it as best we can. No doubt this will be an issue. (Ø)

The President: But you will be meeting with Cheney on this? (Ø)

Foreign Minister Carias: We think that there should be reductions of troops, but we worry that there may be social problems which could be caused by economic problems. (Ø)

President Callejas: Military aid is vital. We have agreed to reduce ten percent. We have eliminated privileges. The effect of our economic adjustment program is heavy on defense. (Ø)

The President: Do you use your armed forces on narcotics or is this done by other forces? (Ø)

President Callejas: The army does all our work against narcotics. We have passed a law which sets up a drug program. We are setting up a specific program under the Attorney General to deal with drugs. We are working closely on the radar program against drugs. The army tends to be more involved. If there is a reduction of tensions we could reduce our army. There are one million weapons in Central America. We would reduce even though we caught a big shipment from Nicaragua to El Salvador. (Ø)

The President: They're still doing that? Do you think that this is known at the top, is it known to Ortega, or is the ministry doing it on its own?

President Callejas: I think that they are some how involved in it at the top although perhaps not aware of individual shipments. (Ø)

Foreign Minister Carias: With the Contra question settled then there will be opportunities. (Ø)

Secretary Baker: Is there anything to show whether the arms came from Nicaragua or directly from Cuba? (Ø)

General Cantanero: From Nicaragua. (Ø)

Ambassador Arcos: Our intelligence indicates that they came from Nicaragua. (Ø)

Secretary Baker: What about the indications that the Sandinistas have given weapons to small groups? (Ø)

President Callejas: We have a report that the Sandinistas have distributed 35,000 rifles. Yes, and Ortega said yes to Christiani when he brought the subject up, and said that he had political control of the FMLN. (Ø)

Secretary Brady: Do we have any idea of how long ago the arms came from Cuba? (Ø)

The President: We appreciate the help on the military situation and on narcotics. We realize that other countries feel that our demand is creating great problems for them. We have approached you about a radar. If that is possible, and money could be found, this would be helpful. (Ø)

President Callejas: We will discuss that. Perhaps the initial funding could come from the U.S government and we keep up the maintenance. We are so constricted by trying to reduce our expenditures. Perhaps the building of the road could be done by the U.S. and maintenance done by Hondurans. (Ø)

The President: I think we are due to continue work at lunch. We can bring along our unfulfilled agendas. I would like to get your views on how Cuba would some day fit into the InterAmerican system. I'd also like to know how you think Mrs. Chamorro is doing. (Ø)

\* The meeting then adjourned and all participants went into the Old Family Dining Room for lunch.