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THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with President Fernando Collor de Mello of Brazil (U)

PARTICIPANTS:

The President
 Lawrence Eagleburger, Deputy Assistant Secretary of State
 Nicholas Brady, Secretary of Treasury
 Robert M. Gates, Assistant to the President and Deputy for National Security Affairs
 D. Allan Bromley, Assistant to the President for Science and Technology
 Andrew Card, Assistant to the President and Deputy Special Assistant to the Chief of Staff
 Bernard W. Aronson, Assistant Secretary of State for Inter-American Affairs
 Hollis McLaughlin, Assistant Secretary of the Treasury for Policy Management
 David Mulford, Undersecretary of the Treasury for International Affairs
 William T. Pryce, Senior Director for Latin American Affairs, NSC
 Marcel Bouquet, Interpreter

Fernando Collor de Mello, President
 José Francisco Rezek, Minister of Foreign Affairs
 Zelra Cardoso de Mello, Minister of Economy
 Ozires Silva, Minister of Infrastructure
 Marcos Antonio de Salvo Coimbra, Chief of Staff
 Jose Goldemberg, Secretary of Science and Technology
 Jose Lutzenberger, Secretary of Environment
 Marcilio Marques Moreira, Brazilian Ambassador to the United States
 Ibrahim Eris, President of the Central Bank
 Jorio Dauster, Chief Debt Negotiator
 Agenor Francisco Homen de Carvalho, Chief of Military Cabinet of the Presidency

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DATE, TIME December 3, 1990, 9:45 - 10:30 p.m.
AND PLACE: Planalto Palace, Brasilia, Brazil

President Collor: [During photo opportunity] I would like to say that our conversations with President Bush have been very positive. (C)

The President: [During photo opportunity] They asked about Argentina and I told them I have no intentions of changing my plans. (C)

President Collor: I want to greet President Bush and wish you the very best for your visit. It is with great enthusiasm and great hope that we meet here and I hope that we can treat in a positive way the subjects we will be discussing. According to what we have agreed this morning, I will call on Minister Dauster to present in five minutes the position on debt and emphasize what we intend to normalize, but that in this process we need the understanding of the United States government. (C)

Minister Dauster: We are now in a delicate moment. With negotiations on structure, there needs to be a linking between our payments on arrears and future payments on the total stock of debt. What Brazil looks for is an overall solution to total debt. We worry about a solution which would imply a major drawdown on our reserves without seeing what the total resources for Brazil would be. The arrears at the end of this year will be eight billion. But the total long-term, commercial bank debt is 50 billion. We can't take care of eight billion without considering the total stock of debt. We have a proposal by the banks for a 2.5 billion down payment on arrears. There is also 700 million in interest due in the first quarter of 1991. That would mean a 3.1 billion cash payment for the banks. Since the remainder would be exchanged with the banks, this would require additional payments in 1991 at the time of commitment. The negative cash flow could be over four billion dollars. We need an indication of how we would treat the stock of the debt before we make a payment on our arrears. We need to base payment on reaching agreement on a term sheet. We don't need a detailed agreement, but we need an indication of what is contemplated. Even last week in New York, Brazil moved ahead. We agreed to make a payment to the banks of 1.2 billion on our outstanding arrears as of the end of the year -- a very significant amount. We would also exchange for bonds the balance of our arrears. A crucial problem, however, is linkage between payment and a broad understanding on our medium-term needs. We don't want to sign an agreement where Brazil, in the future, could not honor its commitments as has happened in the past. (C)

President Collor: If you would agree we could go on to make our presentations in all of the subjects and then go back to discussions at the end, or we could discuss each subject as it comes up. (C)

President Bush: It's better to do it all at once or we will get bogged down. There will be follow-up discussion with Secretary Brady and Deputy Secretary Eagleburger, and I will make comments here at the end. (S)

President Collor: The Secretary of Environment will speak. (S)

Secretary Lutzenberger: I am very glad that the time of mutual recrimination is over and to see how we now plan together for common goals. Here in Brazil the government has fundamentally changed its attitude. It wants to preserve what can be preserved of the rain forest, which is about 90%. Four hundred thousand square kilometers have already ^{been} destroyed and we must concentrate on that area because the people who live in that area can now survive only by slash and burn. We need to give them a new way to do it. We need to work together. Brazil has the political will. We can find the money, but the problem is to find capable people. The example must come from the first world. As long as Europe and others use chemical fertilizers which give big productions in the short-term, but which cause economical problems in the long run, we are going to have problems. We also have to worry about the atmosphere. We have embarked on a dangerous course. Many things are happening now. Climatic irregularities are happening every year. We had a symposium completed on the atmosphere. But we may soon be able to form an institute. We hope the United States will help back us. (S)

President Collor: Secretary Goldemberg. (U)

Secretary Goldemberg: The policy of the new government is one of modernizing the country and introducing competent people who are prepared. Science Adviser Bromley knows the capability of our people. But lack of economic resources has isolated Brazil from Europe. What we have to do now is to modernize industry in a number of ways. It is important to modernize or we won't have productivity. A minor example is supercomputers and their need for our aircraft industry which lead to negativism. There was a question of Brazil's credibility. Much progress has been made in the nuclear era. President Collor has solved the problem. We have seen the action taken by President Collor in agreement with Argentina. We did it because this is the way Brazil thinks they should go. We have reached the stage where we are considered bona fide in our Administration. A problem we have concerns access to new technology. We want to go ahead economically and to do it in a way to protect the environment. We don't want to repeat mistakes of the past. If we set up a steel mill, we should not copy Pittsburgh, but do it on a 1990 model. These are basically the problems. I am aware that the United States transfers technology not by actions of the government. But I think that much can be done as it give directions to industry. I will discuss this with Science Adviser Bromley. But we would like joint ventures. This is where the U.S. Government can help by encouraging companies to open their technology. Also the international institutions. You could encourage them to support

multinational banks to finance projects so that we can leap frog and not repeat the mistakes of the past. (S)

President Collor: And now, Foreign Minister Rezek. (S)

Foreign Minister Rezek: Secretary Brady and Eagleburger will talk about GATT. From the Foreign Ministry point of view, we share basic positions. We have a few points to discuss on peripheral aspects. It is important that we share views on the main problem, which is agriculture. We are worried about rebalancing a new point put in by the Europeans, because our interests would be jeopardized. I think we can establish a joint position with the United States in Brussels. (S)

For many years we have been trying to start economic integration with a small group of countries with the same economic base. We know that this could be successful, in a short time, in expanding trade. We know it is complementary -- it can be complementary with the United States desire to expand free trade. This project of economic integration is destined to be successful. We are happy with the U.S. attitude toward free trade. (S)

As for the situation in Argentina, we have had a positive influence. We think it will soon be worked out. (S)

On the Gulf, we share your position of the need for the triumph of international law. Brazil is experiencing economic suffering because of the rise in oil prices and we are concerned about legal points. We must preserve respect for international law. We must have a reliable international system. We have been very supportive of all the decisions taken by the Security Council. We hope the U.N. will now be effective. We welcome your last statement of your position and your desire for peaceful a resolution to the problem. We worry about the United Nations. We think that it is necessary to show that the United Nations Security Council is a reliable organ which can deal effectively with these problems. Under the leadership of your government, there seems to be goodwill to solve the problem. (S)

The President: Would you like me to comment? (U)

Why don't I make a little comment on the last presentation. (S)

Let me start with the last point. In the first place, we have noted -- and we very much appreciate -- Brazil's steadfast support in the United Nations. (S)

Saddam is trying to make it look like it is Iraq and the Arab world against the United States. It is no such thing. So Brazil's leadership in making clear that the whole world is against what Saddam has done is very important. (S)

On the United Nations, I think efforts have often not been effective in the past. If we are successful now, under the new circumstances, we have the chance of creating a new situation

which would be called a new world order. I would hate to be working on the Iraq situation if the Soviet Union were acting like it used to. But with the new Soviet attitude, I believe that the situation is manageable. It is a wonderful step ahead for the United Nations to be able to work as it was intended to do. We must not stop short of complete implementation of the U.N. resolutions and Kuwait. (S)

On Argentina, the events there will not deter me from going. This appears to be an uprising of some fifty officers which President Menem is dealing with. I think we have announced that we are going ahead. (S)

On GATT, I am worried that we don't seem to be reaching agreement with the Europeans. We are working on it. I wish I could say we have an agreement. (S)

At Kohl's moment of victory, I didn't have the courage to say at that moment, "Hey, what about GATT?" I did say that I wanted to talk about it early on. I made a brief call saying "Helmut, congratulations on your overwhelming victory; and I would like to talk with you soon about the Persian Gulf and GATT. Congratulations and good-bye." (S)

On Science and Technology, I did talk about supercomputers. We want to go ahead. We salute what you have done on proliferation. We are in no position to lecture on nuclear use. We can't use some of our facilities. The Environmental Protection Agency has shut them down. You mentioned an environmental joint venture. We want to cooperate. (S)

On debt, Secretary Brady will discuss this in detail. I mentioned the talks to the head of City Bank. Of course, we want the banks to go the last mile with you. I'll be anxious to see how things go. We worry about a stand still where there would be a shortage of trade financing and this will hurt development. In the longer-run, we think Brazil will be able to handle the question. The quicker you solve the problem of capital flight, the better off you will be. Nick will be prepared to discuss this in any detail you want. (S)

On environment, Dr. Bromley is doing a good job in helping on the scientific side. We have just signed the most comprehensive clean air bill in history. The costs to the U.S. are staggering. Nobody wants to build another Pittsburgh. The last thing I want people to think is that we are intervening in Brazil's internal affairs. You have made wonderful progress in the rain forests. I don't want people to think we are lecturing you on rain forest. (S)

President Collor: Did you want to have Dr. Bromley add anything? (S)

Dr. Bromley: As President Bush has said, we very much appreciate what the Government is doing in the field of environment. (S)

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The President: I want to thank you and your staff for all the help you have given. They can look further at questions. I hope our staff can have joint meetings where we can make progress.
(S)

I understand we now must face the press. (U)

-- End of Conversation --

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