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THE WHITE HOUSE
WASHINGTON

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MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with President Calderon of the Republic of Costa Rica (U)

PARTICIPANTS: The President
The Vice President
James A. Baker III, Secretary of State
John Robson, Acting Secretary of the 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 W. Aronson, Assistant Secretary of State for Inter-American Affairs
Luis Guinot, Jr., U.S. Ambassador to Costa Rica
William T. Pryce, Senior Director, Latin American Affairs, NSC (Notetaker)

Rafael Angel Calderon, President of the Republic of Costa Rica
Arnoldo Lopez, Second Vice President
Bernd Niehaus, Minister of Foreign Affairs
Thelmo Vargas, Minister of Finance
Roberto Rojas, Minister of Trade
Gonzalo Facio, Ambassador to the United States
Rodolfo Jimenez, Advisor to the President
Ricardo Adolfo Jimenez, Advisor to the President

DATE, TIME AND PLACE: October 10, 1991, 11:25am - 12:15pm DST
Cabinet Room

The President: Well, I think we can get started. I really want to do a very warm welcome back to the White House. We know that we are welcoming a good friend, both personally and from a country point of view. We start from a good base. The people of the United States and Costa Rica share common values. Part of my problem is that when I went down to that inauguration and went into the stadium, and was welcomed by all those people cheering and waving American flags, I was tremendously impressed at the warm feeling of Costa Rica for the United States. It is indelibly written and all of us here feel the same way, but it is a very personal feeling with me. But, listen, this leads me to let you know that we want to be part of the answer, not part of the problems. We have touched the surface of economic problems,

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I know what you have done, of the difficult economic decisions you have taken. When you do that, it's not popular at home. Nobody likes to do that. I congratulate you on the difficult decisions you have taken and on the decisions which may lie ahead. We are in no position to lecture your country or any country on the economy, we are down and have been dragging a few other countries down a little bit, but we are confident that we are out of the recession now and, realistically, things are getting better. The economy is better, but I still worry about it. We are pushing ahead. As our economy recovers, you will see more investment abroad including, especially, investment in the democracies. (C)

I noted your support for the Enterprise for the Americas and I know that we have talked to Ambassador Guinot regarding the steps which need to be taken for PL-480 assistance and all that will be needed for our support. (C)

We don't want the Enterprise for the Americas to be a slogan. We want it to be a reality. We are now negotiating a free trade agreement with Mexico, and we want to move on and have free trade agreements with others. I know there is interest in this. (C)

Here's the drill. We continue our conversation, stay here until about 12:15 p.m., then we'll go over to the White House for lunch. But it will be a working luncheon where we can continue to talk. I would like to hear from any Ministers about anything they would like to say. It will not be a formal luncheon. We will be prepared to talk about any questions. Well, welcome back and the floor is yours. (C)

President Calderon: Thank you for your warm welcome, and to let you know the great affection that the people of Costa Rica have for the people of the United States of America. There is great affection for President Bush in Costa Rica. As a matter of fact, I think there were more Bush-Quayle stickers in Costa Rica -- you would have won by an even wider margin in Costa Rica than you did here. I wanted to come here to thank all of you for the policies we have benefitted from -- from both you and the international organizations. The Enterprise for the Americas cannot be one more slogan. As I said in Houston, history is to be discussed in two stages, before and after the Enterprise for the Americas. We see that countries want to go forward if they have the ability, they don't want to just ask for money. We need to grow and develop. This is what the Enterprise for the Americas offers. Our commitment is to do the things that are necessary to qualify for the Enterprise for the Americas. We hope to follow Mexico on a free trade agreement. The Caribbean Basin Initiative was a very good program, but it's not the same as a free trade agreement, it's not as secure. Businessmen are not as secure because they know that you have a Treaty obligation to fulfill under a free trade agreement. We expect to begin talks with USTR and to set a date to work toward negotiations. We know that you are interested in intellectual property agreements. We are ready to negotiate one, as of now. On other issues, it would be difficult to have a free trade agreement with the whole region

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all at once, because all countries are not the same and are not in the same stage of readiness. There are some who want to go ahead rapidly, like us. Others, it will take longer. We would hope that the Mexican-Canadian-U.S. Trade Agreement would be open, so that other countries could simply be added to it. This would be simpler for you, and simpler for us. We hope to be the first ones to join the agreement after Mexico. We want to go first because we are the purest democracy. You understand the problems involved in approving the agreement, because you have problems with Congress also, and you have to take Congress into account. In the dealings there have to be certain compromises. That is why we haven't made more progress already in qualifying for the Enterprise for the Americas. (C)

Secretary Baker: Regarding the free trade agreement with Canada and Mexico, some supporters of the Treaty who have expressed worry about extending the Agreement beyond just the North American Free Trade Agreement partners now negotiating, because of the difficulty in getting such an agreement through Congress. We will have a difficult time with the North American Free Trade Agreement by itself. We would like to engage with you on discussions and, at the proper time, it would be okay to move forward, but we need to be careful. I should mention, that we consider the North American Free Trade Agreement will be a liberalizing factor not only for the countries involved, but for the rest of the hemisphere also. We need to explain this better to you and to others. We recognize your desire to negotiate an agreement. We see significant difficulties in free trade, but we do want to move forward, and we need to contemplate the possibility of allowing other countries to accede to the agreement but, it is complicated. So we need to see how we can engage with you and with others on this subject. (C)

The President: The goal is a free trade area in the entire hemisphere. (U)

President Calderon: That is the objective. We need to see how we can move forward. You are the greatest democracy in America and we know of the difficulties that a democracy has in dealing with Congress and the public. (C)

We are prepared to reduce tariffs by half in 1992. We have already made a proposal to the Central American governments which covers all tariffs with a small exception involving where the reductions would be 20% for six products by 1993. This is a small exception. We are moving steadily to greater liberalization. There are difficulties in doing this, and we need to make adjustments, there are constant pressures. To give you one example: since prices on some commodities are set by the government, it is difficult to increase them. In our government of one year and four months, we have seen rice go up 70%, milk 46%, water 206%, gas 75%, electrical energy 42%. None of this is politically easy. We are going to raise electricity cost prices again, but this costs us politically. We have not ranked people directly. (C)

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The President: John, (Robson) do you want to add anything on this? (U)

Acting Secretary Robson: The Enterprise for the Americas was, in a way, designed with Costa Rica in mind. Things have gone a great way down the road. The biggest thing has been making the investment reforms which have been required and getting agreement with the Inter-American Development Bank. We will be calling about future measures. It will be important what the Inter-American Development Bank will want, in order to implement the investment loan. (C)

President Calderon: We can fulfill all the Inter-American Development Bank requirements except the nationalization of the banks. We didn't nationalize the banks, the opposition did. The biggest thing the opposition did was to nationalize the banks and abolish the army. It would be very difficult to be able to change either of those. I don't know what would be similar with the democrats here, but it's like a fundamental tenant of party policy and very difficult to change. It would be as though someone were to tell me that we have to change the social security system which our party, under my Father, established. So you need to understand how difficult that is, how impossible this change would be. (C)

Secretary Baker: I understand about the difficulties this would cause. In the question of trade liberalization, I would think that step could be taken more easily if it is taken as part of a free trade agreement. (C)

The question is, that they are placing additional requirements on us. I was talking about trade restriction liberalizations and how it would relate to a free trade agreement. (C)

President Calderon: I understand that clearly. What Acting Secretary Robson was saying is the requirement which was placed on us by the Inter-American Development Bank. (C)

The President: I understand. (U)

Secretary Baker: I understand. (U)

Minister of Trade Rojas: We have been discussing a bilateral investment treaty. Something we can talk about later. (U)

President Calderon: Perhaps this afternoon we can set a date to meet to give the whole thing a big step forward. (U)

Regarding our difficult political situation. We are going to have a big effort to get the inflation rate down. We have a 38-40% rate. We can solve this with the help of Treasury. We need Treasury to face the Central Bank dollar denominated bonds, besides the local economy. We don't want the U.S. Government to buy them. I am sending our Minister of Treasury to Taiwan to talk to Mr. Lee, to see if we can get them to buy the bonds. If Japan and China could buy 60,000,000 dollars of Costa Rican

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government bonds, then we don't have to put pressure on our Treasury. Our request is to ask the United States to push Japan and China to buy bonds. (C)

The President: You will be negotiating on this? (U)

President Calderon: Yes, we are not looking for soft terms. We are thinking of a commercial rate for three or four years, so that the structural reforms will have time to work. (C)

Minister of Finance Vargas: International debt is a tremendous onus. We need help to rake the political pressures which we feel so that we can go public to the private sector. (C)

The President: What is the cut? (U)

Minister of Finance Vargas: We are cutting ten percent, in some cases 5%. The government employs one person in ten. Another step we are taking is in privatization. Twenty-five percent of our budget is for interest. (C)

Secretary Baker: That's less than our percentage. (U)

Minister of Finance Vargas: We have been improvising for investment. We have worked hard for reform, but we need two years where we don't have to push the local economy more. (C)

President Calderon: The feeling I have is that we must get help so that we can move forward. We have taken very difficult reforms. This is the first government to undertake this. This is the first government to attack special interests. For example, there are people who have retired on \$4,000 a month pension. I'm afraid that if we don't have help we will have difficulty in getting reforms, like changing this, through the Congress. So I am asking help from China and Japan. (C)

The President: Have you approached them? (U)

President Calderon: Mr. Vargas is going to Taiwan and he hopes to talk with their Vice Minister. (C)

Secretary Baker: Then, you need this to strengthen your balance of payment financing? (C)

President Calderon: On balance of payments, we are okay. Now we have three months reserve. (C)

The President: Is this in addition to World Bank loans? (C)

President Calderon: These are very simple things. I did my address [in Houston] in English. It is not for decision now. The decision needs to be made and be taken in a couple of years. (C)

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President Calderon: One other thing I wanted to mention although it's way ahead of time. We would like our Foreign Minister to be the next Secretary General of the OAS. There are many who feel that it is time that Central America should be entitled to have a representative as a Secretary General of the OAS. For Mr. Niehaus has the support of all the Central Americans, and of the Dominican Republic and of Belize. He has also received a favorable response from the Rio group. We hope for the support of the United States at the proper time. (C)

The President: Well, I don't want -- our position is not to take a position to early -- we don't want to put the Secretary General in a lame duck position by supporting somebody else. How long does the Secretary General have to go? (C)

Mr. Pryce: Over two years. (U)

The President: We consider that Mr. Niehaus would be a good candidate, let's leave it there for the time being. (C)

President Calderon: Thanks. On the question of drug trafficking -- we would like to be the first line of defense. We have a very strong program and we hope this will be of help to the United States. We understand that the United States has agreed to give assistance both in training and equipment to strengthen our programs. What we need is equipment. Frequently after you have used equipment for two and one-half years or so, you dispose of it. We could find great use for some of this equipment. We will make a request through normal channels to see what can be done. We, of course, are also concerned about drugs. I think it is important that the Costa Rican people know that we are trying very hard to reduce demand and are having considerable success. We have a big education program and the demand is going down. I got the feeling at Cartenaga that other countries were not clear about our commitment to reduce demand. I think it is important that people know that we are fighting on the supply side of the problem. For the first time, we have encouraging statistics. We will keep on that fight. We recognize that the supply side of the equation is important, so people won't say that if you reduce demand there would be no problem. I'm convinced that we can win this battle. Governor Martinez and others are working very hard on this. I am glad we are working together in training and we will see what we can do to comply with your request. This exchange is important if we want to work with you and to recognize that we are part of the problem. (C)

President Calderon: I will talk with Governor Martinez and suggest that he talk with our Interior Minister. (U)

Secretary Baker: We might be able to do something to our Bureau of Narcotics. (C)

The Vice President: We will also be talking on specific requests. We will hope to get a PL-480 loan in 1992 and we hope that the level will be at the same level that it was this year. We hope there will not be a lowering. (C)

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The President: Well, we don't have a specific answer on that. Now I think it's about time to move to the other side. We'll continue our discussion at lunch. I think we can talk about Haiti and any other subjects you would like to talk about. President Calderon and I will go back here for a few minutes and we'll see you over at the lunch. (U)

-- End of Conversation --

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