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# WITHDRAWAL SHEET

## Ronald Reagan Library

**Collection Name** BAILEY, NORMAN: FILES

**Withdrawer**

KML 8/30/2011

**File Folder** SOUTH AMERICAN POLICY (MARCH-MAY 1982)

**FOIA**

M10-353/1

**Box Number** 2

DENNISON

2

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
117567	PAPER	RE VENEZUELA <i>R 5/18/2015 M353/1</i>	8	3/9/1982	B1
117568	MEMO	NORMAN BAILEY TO WILLIAM CLARK RE FALKLANDS <i>R 5/18/2015 M353/1</i>	1	4/6/1982	B1
117570	MEMO	NORMAN BAILEY TO MICHAEL WHEELER RE ISSUES LUNCHEON <i>R 5/18/2015 M353/1</i>	1	4/14/1982	B1
117572	MEMO	NORMAN BAILEY TO WILLIAM CLARK RE VIOLATIONS <i>R 5/18/2015 M353/1</i>	1	5/6/1982	B1
117575	PAPER	RE ARGENTINA (ATTACHMENT TO DOC 117572)	1	ND	B1
117577	MEMO	NORMAN BAILEY TO WILLIAM CLARK RE FALKLANDS <i>R 5/18/2015 M353/1</i>	1	5/5/1982	B1
117578	PAPER	RE FALKLANDS <i>D 5/18/2015 M353/1</i>	2	ND	B1
117579	PAPER	RE FALKLAND ISLANDS CRISIS <i>R 5/18/2015 M353/1</i>	2	5/5/1982	B1

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117581	MEMO	NORMAN BAILEY TO ROGER FONTAINE RE LOCATION <i>R 5/18/2015 M353/1</i>	1	5/26/1982	B1

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BUREAU OF  
INTELLIGENCE  
AND RESEARCH

ASSESSMENTS  
AND  
RESEARCH

*So Am*

(U) VENEZUELA: THE DEMOCRATIC SYSTEM  
AT A CROSSROADS<sup>1/</sup>

Key Judgments

Expert opinion on Venezuela presents a disturbing picture of potential economic deterioration and political decline by the 1990s. Venezuela's democracy is at an important crossroads:

--The ability of the political system to achieve effective compromise and to contain conflict, both within and among the traditional political parties, is deteriorating. A new generation of political leadership is emerging, but it most likely will not have the confidence or clout of the "founding fathers" to control the existing system.

--Venezuela's economy will remain vulnerable regardless of the level of oil revenues. Expectations raised by oil wealth will be frustrated as the standard of living of the average Venezuelan stagnates or declines. High inflation (15-20 percent), increased unemployment, and lower productivity are likely in the short term. Unused to serious

<sup>1/</sup> (U) This report is drawn from papers prepared for a recent INR conference and from the discussion which followed the papers' presentation. The conclusions, therefore, are those of the individual academic experts and do not necessarily represent the views or policies of the Department of State. The academic participants were Franklin Tugwell (Pomona College), Robert Bond (Woodrow Wilson Center for Scholars), David Myers (Pennsylvania State University), Daniel Levine (University of Michigan), and Terry Karl (Harvard University). Copies of the individual papers can be obtained from Kenneth Roberts, INR/LAR, 632-1252.

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NLR 1353/1-117567

BY *RW* NARA DATE *5/18/15*

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RDS-3 3/9/02 (Bellocchi, N.)

Report 337-AR  
March 9, 1982

growth problems that endure for more than a brief period, Venezuelans will blame the political parties for poor economic management of the post-boom period. The intra- and inter-party disputes will exacerbate this discontent while they increase the difficulties of successful management.

If the leadership issue is satisfactorily resolved and the economy achieves some modest growth, the nation should evolve toward a stable, "responsible democracy" (the experts rate the probability for this scenario at 30 percent). If, on the other hand, leadership problems are not satisfactorily resolved and sluggish economic conditions prevail, the system will evolve toward "zero-sum democracy" (55 percent probability). This would be an environment in which the system remained democratic, but politics would be much more chaotic and conflict prone.

Finally, after 10-15 years of zero-sum democracy, sluggish or contracting economic growth, increased internal conflict, and general erosion of the two-party system, it is conceivable that a "political decomposition-military intervention" scenario would emerge (15 percent probability). After a period of economic chaos, the military would probably intervene to restore order. Instability in the Middle East presents the continuing possibility of a fourth scenario which postulates a new oil bonanza, the third in 10 years. Based on recent experience, however, the main effect of that development would be some postponement of the hard decisions and conditions implicit in the other scenarios.

\* \* \* \* \*

Emerging Crises: Political Leadership and Economic Management

Venezuela arrived at its present state through an unusual combination of economic resources (oil) and a particular set of political structures and orientations:

- The strong position that political parties occupy in Venezuelan society today is founded on their ability to provide structure, direction, and loyalty for the social groups that have emerged since the 1930s and 1940s.
- This capability has been reinforced by the availability of resources to reward followers.
- The whole package has been preserved since 1958 by elite agreement to contain conflict and to support democracy against opposition from both the right and left.
- The economy basically depends on a system of subsidies that distorts efficient economic decisionmaking but, by providing short-term, tangible benefits, coopts most potential forces for changes; e.g., private entrepreneurs, the labor movement, political parties, and the urban poor.

The problem in Venezuela is a sense that these foundations, both separately and in their interaction, are decaying. Ironically, this threat to the system derives from its success in meeting the challenges of the past. The economy simply produced more than could be absorbed productively. Hence, the state expanded precipitously, developed a tendency to live off its capital, and avoided difficult decisions that could have ensured future growth. The institutionalization of the two-party system reduced incentives for compromise and coalition.

Political Strains. The decay of traditional conflict regulation mechanisms that have held the party system together stems from disputes both within and between the two major parties rather than from the growth of new opposition groups or increased strength of the traditional opposition. The embitterment of relations between the two parties of "status"--Accion Democratica (AD) and the Partido Social Cristiano (COPEI)--has its recent origin in the Special Powers Act instigated by former President Carlos Andres Perez in 1974. This legislation gave him extraordinary powers to carry out a full-scale reform of the nation's oil-rich economy. He enacted far-reaching measures

affecting both the domestic economy and foreign investment, including price freezes, wage increases, and nationalizations.

The result was a new style of governing outside the traditional rules of consultation and accommodation that had regulated party disagreements in the past. New inter-party disputes are often exaggerated by deep and serious divisions within both AD and COPEI. The choice of presidential candidates for both parties may alleviate internal problems over succession in the short run, but this does little to resolve profound disagreements over program, leadership, and organization for the future.

The two major political parties soon must anoint a new generation of leaders for the first time since the establishment of modern Venezuelan democracy--a transition made more difficult by the founding generation's difficulty in providing guidance and by the economy's current slump. The late Romulo Betancourt had been able to control AD's divisions and disarray by the force of his personal prestige and astute handling of issues and personalities. It is unclear whether his successor, former President Perez, can achieve the same success.

Unlike AD, COPEI has a number of younger-generation aspirants to the leadership, but their ambitions are stymied, at least for the present, by the founding leader's (Rafael Caldera Rodriguez) unwillingness to step aside and his desire to be reelected President himself. In addition, President Luis Herrera Campins and ex-President Caldera are political adversaries. With the Calderistas controlling COPEI, Herrera's difficulties in governing are substantially increased.

It is unlikely that the Movimiento al Socialismo (MAS), the principal leftist party, will be able to take advantage of these deepening divisions to displace one of the two historically dominant parties. The ability of MAS to attract voters in the 1983 presidential and legislative elections will be undercut by two basic factors: disunity of the left itself and lingering suspicions that MAS is really a cleverly disguised communist party. As a result, MAS will be fortunate to exceed 10-20 percent of the vote.

In the foreign policy area, there also are indications that the AD-COPEI consensus of the past two decades is breaking down and that suspicion between the leaders of these two political parties is greater than at any time since the 1940s. Both AD and COPEI joined forces in 1980 when the military's dissatisfaction over President Herrera's Colombia-Venezuela border agreement threatened the 21-year-old democratic system. Such bipartisan unity, however, is not assured on Venezuela's commitment to recovering territory lost in the 19th century to British Guiana (now Guyana). AD's suspicion of the Herrera government on the

Guyana question is compounded by discomfort with the COPEI president's support for the Duarte government in El Salvador and a feeling that Venezuela is becoming increasingly subservient to Washington.

Economic Strains. Venezuela's economic prospects remain closely linked to petroleum earnings. Although demand is unpredictable, prices have declined since the 1979 increase and should either stabilize or decline somewhat further barring a major world event that affects energy supplies.

In addition to the limitations upon government spending imposed by this forecast, soaring internal energy consumption plus the enormous revenue requirements of Petroleos de Venezuela also limit funds available for either investment or consumption. Regardless of the levels of future oil revenues, the economy is vulnerable in the short run. Venezuela suffers from economic distortions stemming from limitations on absorptive capacity and provoked in part by massive government overspending and mismanagement.

The economy is currently overcoming a three-year recession, and full recovery will be slow. Most economic observers predict a 1-2 percent real increase in gross domestic product (GDP) annually over the coming five years, far below the traditionally high growth rate of about 7 percent. Certain economic indicators are particularly disturbing. In the midst of high expectations generated by oil wealth, GDP per capita will show almost no change, indicating stagnation or decline in the standard of living of the average Venezuelan.

Inflation should run between 15 and 20 percent annually, compared with the 1-2 percent annual levels of the 1960s and early 1970s. Agriculture and industry will expand slowly, unable to keep pace with population growth. Finally, private sector investment should remain low until at least six months to a year after the 1983 elections, generating little new employment.

The oil booms of 1973 and 1979 suggested that a rapid increase in oil income can aggravate pre-existing internal socioeconomic and political conflicts while it creates new ones. As tensions mount, the subsequent rapid economic expansion can tend to hide real obstacles by creating illusions of growth, prosperity, and progress. To the extent that current oil prices remain unstable and Venezuela survives on boom and bust cycles, the country probably can be expected to live on its capital assets without resolving serious problems in the economy, the state, and the party system. Yet the ability to rely upon the oil solution has limits. Short-term economic dislocations, a coming crunch in the accessibility of medium and light crudes, and political problems among the parties threaten the system's continued viability.



### Alternative Political Scenarios

Several possible scenarios can be predicted for Venezuela over the next 10-15 years. The possibility exists that events in the Middle East could cause yet another upsurge in petroleum prices within the next 2 or 3 years, but the result would be merely to delay confrontation of current problems. As the newest "oil bonanza" was spent, Venezuela would once again find itself in a position similar to that of today, with three basic scenarios in prospect:

Responsible Democracy (30 percent probability). In this scenario, there would be a general leveling of the growth process for a decade. The political elite would understand the long-term need to build a non-oil economy and increase productivity in the public sector, but it would recognize that the country would have to continue to rely on petroleum until at least the year 2000.

The petroleum industry would be allowed to receive needed investment funds but without political influence in selection and promotion of personnel. The two-party system would remain strong, adaptive, and flexible; AD and COPEI would be able to meet all third-party challenges, and MAS would remain a small, responsible party of the left. Both AD and COPEI would be able to manage successfully their current leadership crises and continue to recruit and train new leaders. Labor would continue to be strong but would not come to dominate either major party. The urban poor gradually would be organized into the two major parties, especially as essential social services were provided. The military would remain in the barracks, playing an important role only in matters of national defense. There would be cautious acceptance of foreign investment and technology.

In essence, responsible democracy would be characterized by political consensus and accommodation among the political party elite, with Venezuela entering the 1990s as a highly stable democracy.

Zero-Sum Democracy (55 percent probability). The political system would remain democratic, but politics would be much more chaotic and conflict prone. The political elite would fail to grasp the need for compromise and cooperation, and various social groups would engage in a struggle for power.

The party system would fragment, and new parties would emerge from AD and COPEI. MAS and other leftist parties would increase their percentage of the vote. The new multi-party system would make it difficult to pass needed legislation. Organized labor would gain in strength, perhaps eventually dominating one party. The urban poor and students would become increasingly vocal, and

isolated disturbances resulting in repression would occur. Crime would increase dramatically in urban areas, and the middle class would become disenchanted with the political system as inflation and slow growth eroded the economic gains of the previous decade. The military would voice its concern but would not intervene unless there were a complete breakdown of the system.

Price controls would remain in place, and no productivity gains would be made in the public sector. Unions would successfully push for ever-higher wage and benefit packages, and the private sector would cease all investment and move capital out of the country at increasing rates. The petroleum industry would become increasingly politicized; its capital would be raided by inefficient public sector enterprises; and oil production would drop. Corruption would remain high, and there would be a general disillusionment with politicians. Foreign participation in the economy would not be welcomed, and personalist political candidates would create an unhealthy investment climate by blaming the nation's economic woes on rapacious foreigners. In sum, there would be a downward spiral, with political and economic difficulties interacting to create increasing conflicts in the political system.

Political Decomposition-Military Intervention (15 percent probability). Zero-sum democracy would deteriorate drastically. The left would make electoral gains and could be on the verge of winning the presidency. AD and COPEI would be empty shells of their former selves.

Crime and endemic violence would become rampant, with food riots in the barrios. Petroleum production would drop dramatically. Public sector enterprises, many controlled by labor unions, would be economic disasters. An astronomical foreign debt would make the country unable to meet its international obligations. All investment would cease, and the private sector would be calling for a military coup. The middle classes would be traumatized, ready to accept a military solution to restore order.

The military would conclude that national security was threatened by political chaos, and there would be a number of "pre-coups" by military leaders attempting to take advantage of the situation. The military eventually would intervene to control the disorder. Such an intervention would most likely require high levels of repression.

### Prospects

Most observers see Venezuela at or approaching the zero-sum scenario at present. How long it can be sustained depends on the skill and integrity of those who manage the state-dominated

economy over the next decade. Although the zero-sum alternative could easily survive a decade or more, an important crisis period will begin sometime between 15 and 18 months into the administration that will be inaugurated in January 1984. Many business, military, and political elites view the Herrera government as a serious disappointment, but their disillusionment is not strong enough for them to reassess their commitment to the democratic system at present. However, if the subsequent government should prove equally unpopular--or even more so--Venezuelan elites would take a long hard look at non-democratic alternatives to the post-1958 system.

The military intervention option appears highly unlikely until at least mid-1985. Between 1985 and 1995, depending on how the zero-sum alternative evolves, the possibility of direct military intervention is considerably higher. The most likely immediate causes of military intervention would be extreme fragmentation in the party system, mismanagement of the economy to the point of precipitating economic crisis, and inept handling of an important foreign policy issue by the democratic political elites. Unless the AD and COPEI party organizations fall into total disarray, the military most likely will have to employ repressive techniques on a large scale against opponents of the takeover.

Prepared by Kenneth E. Roberts  
x21252

Approved by E. Raymond Platig  
x21342

NATIONAL SECURITY COUNCIL

April 6, 1982

~~CONFIDENTIAL~~

INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY *NB*

SUBJECT: Falkland Fallout

Should no diplomatic settlement of the penguin war be reached by the time the British fleet reaches Argentina, a British blockade of mainland Argentina makes more sense than trying to retake the Falklands by force, for two reasons -- lives would be saved, and in any case it's not clear that the British can retake the islands by direct assault.

Should the British opt for blockade, this action would have one major benefit for the U.S. -- it would prevent Argentine grain from getting to the USSR. Subsequent to final resolution of the dispute, Argentina might be more amenable to the formation of a feedgrain cartel.

cc: Roger Fontaine

~~CONFIDENTIAL~~

Review April 6, 1988

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NLRR M353/1 # 117568

BY RW DATE 5/18/10

MEMORANDUM

NATIONAL SECURITY COUNCIL

April 14, 1982

~~CONFIDENTIAL~~

INFORMATION

MEMORANDUM FOR MICHAEL O. WHEELER

FROM: NORMAN A. BAILEY *NB*

SUBJECT: Issues Luncheon

Falkland Islands Dispute

The British fleet continues to proceed towards the Falkland Islands. Both British and Argentine attitudes and positions appear to have hardened and a military clash would seem to be a distinct possibility. Neither the UN nor the OAS would appear to have any great possibility of intervening effectively in the dispute at this time. It is also possible that the large Argentine debt to foreign banks and governments will go into default in the near future. Despite the offer by the Argentines to place payments due to British entities in escrow, it is possible that a British bank may call a default. Additionally, should hostilities actually break out, Argentina will run out of its foreign exchange reserves very quickly.

~~CONFIDENTIAL~~  
Review April 14, 1988

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NLRR M353/1 #117570  
BY AW NARA DATE 5/18/15



April 29, 1982

*So Am.*

## MAJORITY OF EDUCATED BRAZILIANS HAVE FAVORABLE VIEW OF U.S.; FEWER DESIRE STRONG U.S. LEADERSHIP

This report is based on a USICA survey of 1200 educated Brazilians in Rio de Janeiro, Sao Paulo, Brasilia, and Salvador (Bahia), conducted in December, 1981 - January, 1982 by the Brazilian research firm, IBOPE.

### Majorities Appraise U.S. and Japan Favorably

Educated urban Brazilians were asked their overall opinion of the U.S., Japan and the USSR, with these results:

- o A large majority (70%) have a favorable opinion of Japan.
- o A smaller majority (58%) have a favorable opinion of the U.S.
- o Far fewer (24%) hold a favorable view of the USSR.

### Educated Brazilians are Divided on Desirability of Strong Leadership by U.S.

Nearly half (45%) consider strong U.S. leadership in world affairs desirable for Brazilian interests, but about as many (49%) do not. Strong Soviet leadership in world affairs is favored only by a small minority (12%).

### Predominant Opinion Sees U.S. and USSR Equal Militarily

Half (50%) the educated urban Brazilians consider the U.S. and USSR more or less equal in overall military strength. Those who consider the U.S. ahead are roughly equal in number (18%) to those who think the USSR ahead (20%).

Asked about five years hence, four in ten (39%) expect the two to be equal militarily, 21 percent say the U.S. will be stronger, and 15 percent the Soviet Union. However, a quarter express no opinion.

Economic Issues, and the U.S.-USSR Arms Race, Are the Leading International Concerns

From a list of ten choices, educated Brazilians generally pick economic issues as the most serious international problems, with the U.S.-USSR arms race also high on their list of concerns:

Economic differences between rich and poor countries	37%
Arms race between the U.S. and USSR	32
Foreign debt	32
International oil prices	23
Influence of multinational corporations	17
Developed country trade barriers	16
International terrorism	14
Tension between the U.S. and USSR	13
Intervention in other countries by the U.S.	8
Intervention in other countries by USSR	6

Drafted by:  
Joseph D. Straubhaar (PGM/RAR)  
724-9036

N-4/29/82

~~CONFIDENTIAL~~

sub 13

MEMORANDUM

3169

117572

NATIONAL SECURITY COUNCIL

May 6, 1982

~~CONFIDENTIAL~~ with  
~~TOP SECRET~~/CODEWORD ATTACHMENT

INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY *MB*

SUBJECT: European Violations of the EC Argentine  
Sanctions

I draw your attention to the attached intelligence item (Tab I) detailing wholesale European violations of the EC sanctions involving arms shipments to Argentina. The lessons to be drawn from this with reference to anything they agree to with reference to the Soviet Union are obvious. The European Parliament itself has detailed similar wholesale violation of the post-Afghanistan sanctions.

cc: Richard Pipes  
Gus Weiss

Attachment  
Tab I Intelligence Item

~~CONFIDENTIAL~~ with  
~~TOP SECRET~~/CODEWORD ATTACHMENT  
Review May 6, 1988

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NLR M35311 #117572

BY RW NARA DATE 5/18/15

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## Brazil

Data are not seasonally adjusted unless noted; see "Explanatory notes";  
% changes are compounded annual rates unless noted

So Am.

	Method of measurement	1980	1981	81/Q1	81/Q2	81/Q3	81/Q4	82/Q1	Data	Latest	Latest	Year to date	
									through	month	3 months	Latest	Year ago
INTERNATIONAL FINANCIAL DATA													
Market exchange rate (cruzeiro)	Cr\$/US\$,eop	65.50	127.80	76.53	91.40	108.64	127.80	148.21	82Mar	148.21	..	..	76.53y
International reserves (excl. gold)	US\$MM,eop	5769	6602	5506	5201	5458	6602	..	82Jan	6402	..	..	5539y
Gold	MM ounces,eop	1.88	2.20	1.95	2.02	2.08	2.20	..	82Feb	2.24	..	..	1.91y
New international bonds and credits	US\$MM	4507	5811	1557	1039	1479	1736	1113	82Apr	206	614	1319	1668
Export volume	% ch.,py	22.6	..	27.6	15.3	27.8	..	..	81Nov	22.4	29.3	24.5	16.9
Import volume	% ch.,py	-6.5	..	-1.6	-10.7	-8.9	..	..	81Nov	-7.6	-16.5	-9.1	-8.6
Exports (US\$)	% ch.,py	32.1	15.2	25.8	11.8	17.5	9.3	-4.7	82Mar	1.1	-4.7	-4.7	25.8
Imports FOB (US\$)	% ch.,py	27.8	-4.1	2.6	-3.3	-7.9	-6.7	-14.5	82Mar	-9.5	-14.5	-14.5	2.6
Exports	US\$MM	20132	23192	5180	5675	6118	6267	4937	82Mar	1774	4937	4937	5180
Manufactures and semi-processed	US\$MM	11376	14057	2993	3268	3754	4046	..	82Feb	908	3636	2291	2010
Coffee	US\$MM	2773	1731	508	482	352	416	..	82Feb	112	395	263	357
Imports FOB	US\$MM	-22961	-22021	-5606	-5565	-5594	-5284	-4792	82Mar	-1705	-4792	-4792	-5606
Crude oil & refined products	US\$MM	-9844	..	-2772	-2641	-2769	..	..	81Nov	-875	-2769	-9991	-9104
Trade balance FOB	US\$MM	-2829	1170	-426	110	525	983	145	82Mar	69	145	145	-426
Net services and transfers	US\$MM	-10058	..	-2444	-3097	..	..	..	81/Q2	-3097	-3097	-5541	-4835
Investment income	US\$MM	-7032	..	-1972	-2478	..	..	..	81/Q2	-2478	-2478	-4450	-3381
Current account	US\$MM	-12887	..	-2870	-2987	..	..	..	81/Q2	-2987	-2987	-5857	-6862
External borrowing (net)	US\$MM	8231	..	1478	2104	..	..	..	81/Q2	2104	2104	3582	2875
Long term (gross)	US\$MM	11070	..	2769	4508	..	..	..	81/Q2	4508	4508	7277	4414
Short term (net)	US\$MM	2182	..	301	-643	..	..	..	81/Q2	-643	-643	-342	1172
ECONOMIC GROWTH													
GDP (real)	% ch.,py	8.0	-3.5	..	..	..	..	..	1981	..	..	-3.5	8.0
Industry	% ch.,py	8.0	-10.0	..	..	..	..	..	1981	..	..	-10.0	8.0
Agriculture	% ch.,py	6.8	8.0	..	..	..	..	..	1981	..	..	8.0	6.8
Industrial production	% ch.,pp	7.8	-1.0	-17.6	2.7	-1.4	-3.3	..	82Feb	-11.8	-8.6	-2.0	-3.9c
PRICES AND COSTS													
General price index	% ch.,py,dec	110.2	95.2	117.4	119.4	110.2	99.1	92.6	82Mar	91.5	92.6	..	..
Consumer prices	% ch.,py,dec	95.3	91.2	97.2	102.3	104.8	95.5	95.1	82Mar	96.3	95.1	..	..
Wholesale prices of manufactures	% ch.,py,dec	114.2	99.7	120.5	118.2	108.3	101.6	..	82Feb	94.3	97.0	..	..
Monetary correction (ORTN)	% ch.,py,dec	50.8	95.6	53.6	64.4	77.6	91.3	96.3	82May	90.8	92.5	..	..
Export prices (US\$)	% ch.,py	11.8	..	0.6	-6.9	-9.6	..	..	81Nov	-12.7	-15.4	-7.5	13.3
Import prices (US\$)	% ch.,py	40.5	..	4.1	8.2	1.6	..	..	81Nov	4.6	5.7	5.7	43.2
Terms of trade	1978=100	69.9	..	67.8	60.4	60.1	..	..	81Nov	57.0	57.0	61.4	70.1
MONETARY AND FISCAL DATA													
Money supply (M1) SA	% ch.,py,eop	71.4	73.1	59.1	56.7	60.4	73.1	..	82Feb	73.9	..	..	..
Total liabilities of fin. system	% ch.,py,eop	68.4	140.5	71.0	91.3	120.2	140.5	..	81Dec	140.5	..	..	..
Domestic credit to private sector	% ch.,py,eop	74.2	105.0	70.3	78.8	94.4	105.0	..	82Jan	109.8	..	..	..
Gov't. surplus or deficit(-)	% of expend.	0.2	0.5	4.2	-1.2	7.1	-2.5	..	82Feb	45.3	5.0	18.2	1.4

SUMMARY TABLE OF ECONOMIC STATISTICS  
FROM ECONOMISTS' DEPT.

Brazil

				Brazil		
				1980	1981	1982
1	**	NOMINAL GDP	US\$BIL	248.5	283.9	284.8
3	1- 3	REAL GDP	%CH.	8.0	-3.5	2.0
4	4- 6	GDP DEFLATOR	%CH.	94.5	109.1	97.5
5	7- 9	CPI (DEC-DEC)	%CH.	95.3	91.2	92.5
6	10-12	AVG. EXCHANGE RATE (UNITS/\$)	%CH.	95.6	76.7	109.8
11	13-15	MERCHANDISE EXPORTS	US\$MM	20132.	23293.	25500.
12	16-18	MERCHANDISE IMPORTS	US\$MM	-22955.	-22086.	-23600.
13	**	TRADE BALANCE	US\$MM	-2823.	1207.	1900.
14	19-21	SERVICE EXPORTS	US\$MM	3140.	3800.	4697.
15	22-24	SERVICE IMPORTS	US\$MM	-13358.	-17469.	-17450.
16	25-27	INTEREST(TOTAL DEBT)	US\$MM	-7457.	-10139.	-9755.
17	28-30	INTEREST(PUB.& GTD.DEBT)	US\$MM	-4000.	-5000.	-5600.
18	31-33	PRIVATE TRANSFERS	US\$MM	155.	200.	150.
20	34-36	GOVERNMENT TRANSFERS	US\$MM	0.	0.	0.
21	**	C.ACCT.INC.OFF.TRANS.	US\$MM	-12886.	-12262.	-10703.
22	37-39	OTHER FGN.OFFICIAL CAPITAL	US\$MM	1277.	1314.	1300.
23	40-42	PRIVATE DIRECT INVESTMENT	US\$MM	1511.	2160.	2375.
24	43-45	AMORT.ON TOTAL LT DEBT	US\$MM	-5705.	-7709.	-7500.
25	46-48	AMORT.ON PUB.& GTD.LT DEBT	US\$MM	-3800.	-4400.	-1200.
26	**	USE OF OFFICIAL RESERVES	US\$MM	3197.	-833.	-1000.
27	**	GROSS COMM.BORR.REQ.(GCBR)	US\$MM	13606.	17330.	15528.
28	49-51	OFFICIAL RESERVES YR-END	US\$MM	5759.	6602.	7602.
29	52-54	TOTAL DEBT YR-END	US\$MM	60492.	72045.	81570.
30	55-57	TOTAL LT DEBT YR-END	US\$MM	53847.	63989.	72834.
31	58-60	BIS BANK DEBT TOTAL YR-END	US\$MM	45656.	53599.	60345.

RECEIVED 13 MAY 82 17

TO CLARK

FROM BAILEY

DOCDATE 05 MAY 82

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*BAILEY*

KEYWORDS: FALKLAND ISLANDS

GREAT BRITAIN

ARGENTINA

*Am*

SUBJECT: RECOMS RE FALKLAND ISLANDS

ACTION: FOR DECISION

DUE:

STATUS C

FILES PA

FOR ACTION

FOR CONCURRENCE

FOR INFO

CLARK

COMMENTS

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National Security Council  
The White House

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	SEQUENCE TO	HAS SEEN	ACTION
John Poindexter	<u>1</u>	<u>[Signature]</u>	<u></u>
Bud McFarlane	<u>2</u>	<u>m</u>	<u>I</u>
Jacque Hill	<u></u>	<u></u>	<u></u>
Judge Clark	<u></u>	<u>HAS SEEN</u>	<u></u>
John Poindexter	<u></u>	<u></u>	<u></u>
Staff Secretary	<u>3</u>	<u></u>	<u>log</u>
Sit Room	<u></u>	<u></u>	<u></u>
<u></u>	<u></u>	<u></u>	<u></u>

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cc: VP Meese Baker Deaver

Other \_\_\_\_\_

COMMENTS

NSC/s  
Log in & out MTRM

NATIONAL SECURITY COUNCIL

May 5, 1982

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ACTION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY *NB*

SUBJECT: Falklands Crisis

Considering the immense damage we have already suffered from the Falklands crisis and the likelihood of continuing damage in the future to our relations not only with Argentina but with Latin America in general, I believe the time has come now that we have stated our position and the British have demonstrated their military capacity to urge the British to declare a cease-fire to declare that the question of eventual sovereignty over the islands is one to be negotiated and that although the wishes of the islanders will be taken into consideration, they will not be controlling with reference to the final settlement.

Roger Fontaine concurs.

RECOMMENDATION:

That you urge this course of action on Secretary Haig.

OK \_\_\_\_\_

No \_\_\_\_\_

*not for now*  
*[Signature]*

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BY *[Signature]* NARA DATE 6/23/15

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The above documents were not referred for declassification review at time of processing

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May 5, 1982

F.I.

117579

BY RW NLRR M353/1 #117579  
NARA DATE 5/18/15

Falkland Islands Crisis

There is no argument that the overriding US interest is to end the conflict. The US interest in the terms of sovereignty, long-term disposition of the islands, etc., is minimal.

- The question is what the US can do to terminate the conflict.

- Even a relatively successful military operation by the British would not avoid long-term damage to the UK.

- Cost of continued military operation will eat into economic recovery in the UK.

- Cost of losses will eat into British defense role in NATO.

- Psychological reaction at home will reduce chances of conservative re-election.

- Prolonged conflict will lead to broad anti-defense reaction in Britain (comparable to the Vietnam reaction in the US). The British objective in the war will appear increasingly silly to British opinion. (Only 58 percent of British opinion last week agreed to sinking Argentine ships.)

- The longer the war continues, the more likely a major adverse change in the Argentine government.

- The reaction throughout Latin America is bound to be increasingly damaging to US interests, providing openings for Cuba and the Soviets. President Reagan's objective for Latin American Accord will be unobtainable.

- What can be done? The facts are that it would be easier for the US and more effective to put more pressure on the UK than on Argentina (although pressure on Argentina should probably be continued as well). The fundamental fact in this conflict is that the UK cannot have permanent victory: in the end UK has to negotiate to give the Falklands away. This is not denied by the British government and fully absorbed by British opinion. The US Government could use its means of influence, public and private, to bring this fundamental fact into full view; that is to say, to make more acceptable a quick turnover of sovereignty, since a delayed turnover will purchase very little in political symbolism and may cost immensely in terms of this conflict.

- An opportunity today is the Irish cease-fire resolution in the UN. We should get behind it, in which case it would have massive support. It probably can be combined with

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a reiteration of Resolution 502, which would help the British. To further help the British, we might get the EEC and Japan to join us in promising to maintain the economic sanctions until Argentina goes along with UN proposed arbitration or transition arrangements. But the essential thing today is the cease-fire.

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MEMORANDUM

NATIONAL SECURITY COUNCIL

May 22, 1982

~~CONFIDENTIAL~~

INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY *NAB*

SUBJECT: Meeting with U.S.-Argentine Business Council, 4:45 p.m., May 24, 1982

You will be meeting with members of the U.S.-Argentine Business Council on Monday, May 24, 1982 in the Situation Room at 4:45 p.m. (A list of meeting participants is at Tab I.) Suggested talking points follow:

-- As we are all aware, the Falklands crisis has done great damage to our relations not only with Argentina but with most of the countries of South America. When the crisis is finally over, whatever the result, we must all do what we can to try to repair the damage. The government, of course, must do its part, but the efforts of the private sector are equally important. Therefore, I welcome this opportunity to discuss with you what we can do in this regard.

Attachments

- Tab I Participants
- Tab II Incoming Request

cc: Roger Fontaine  
Alfonso Sapia-Bosch

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Review May 22, 1988

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BY *AN* NARA DATE 5/18/15

25

Meeting with Judge Clark  
May 24, 1982

Russell E. Marks, Jr., Chairman, Executive Committee, Council  
of the Americas and President of the Americas Society

Samuel L. Hayden, President, Council of the Americas

John C. Duncan, Chairman Saint Jo Mineral Corporation

Glenn C. Bassett, Executive Vice President, Marine Midland Bank

Ralph A. Pfeiffer, Jr., Chairman and CEO of IMB Corporation

Norman A. Bailey

Roger Fontaine

Alfonso Sapia-Bosch

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Task 26  
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HONORABLE WILLIAM P CLARK  
NATIONAL SECURITY COUNCIL  
WHITE HOUSE  
WASHINGTON DC 20506

DEAR MR CLARK

THE COUNCIL OF THE AMERICAS HELD AN EXTRAORDINARY MEETING OF ITS EXECUTIVE AND ADVISORY BOARDS ON FRIDAY, MAY 14 TO DISCUSS THE U.S. POSITION ON THE TERRITORIAL DISPUTE BETWEEN ARGENTINA AND THE UNITED KINGDOM. GREAT CONCERN WAS EXPRESSED ABOUT THE POSSIBLE EFFECT ON OUR FUTURE RELATIONS NOT ONLY WITH ARGENTINA BUT ALSO WITH THE NATIONS OF THE AMERICAS.

THE COUNCIL'S BOARDS OPTED AGAINST A FORMAL, PUBLIC POSITION ON THE FALKLAND/MALVINAS SITUATION. HOWEVER, WE BELIEVE THAT THE U.S. GOVERNMENT SHOULD ACTIVELY PURSUE A PUBLIC CAMPAIGN TO CLARIFY ITS POSITION. WE CERTAINLY DEPLORE THE USE OF FORCE TO SOLVE SUCH PROBLEMS, BUT BELIEVE THAT THE STATE OF NEGOTIATION IS NOW AN INTERGOVERNMENTAL MATTER.

WE WOULD LIKE TO PROPOSE A ROLE FOR THE COUNCIL OF THE AMERICAS. FIRST, THERE IS CONCERN ABOUT THE RAMIFICATIONS OF ANY ADDITIONAL ECONOMIC SANCTIONS AGAINST ARGENTINA. DAMAGE CONTROL SEEMS TO BE IN ORDER. WE WOULD BE PLEASED TO DISCUSS EFFECTS THAT STRICTER SANCTIONS MAY HAVE ON BUSINESS AND COMMERCE BETWEEN THE UNITED STATES AND ARGENTINA, AS WELL AS POSSIBLE REACTIONS THROUGHOUT LATIN AMERICA.

SECOND, DAMAGE CONTROL WITH ALL LATIN AMERICAN NATIONS SEEMS TO BE IN ORDER. A PUBLIC CAMPAIGN TO FULLY EXPLAIN THE U.S. RATIONALE FOR ITS CURRENT POSITION COULD BE MOST HELPFUL FOR THE FUTURE OF OUR HEMISPHERIC RELATIONS.

THIRD, WHEN THIS CRISIS PASSES, ECONOMIC RECONSTRUCTION OF ARGENTINA WILL BE REQUIRED. WE HAVE SEVERAL SUGGESTIONS THAT ARE POSSIBLE AND WOULD BE PREPARED TO ORGANIZE A COUNCIL TASK FORCE TO DISCUSS THESE WITH YOU AND OTHER U.S. GOVERNMENT OFFICIALS.

FINALLY, WE ARE REACTIVATING OUR ARGENTINE-U.S. BUSINESS COUNCIL, TO BE CHAIRED BY WILLIAM R RHODES, SENIOR VICE PRESIDENT OF CITIBANK. THIS BILATERAL CORPORATE GROUP CAN BE VERY USEFUL IN FUTURE RELATIONS AFTER THE CRISIS IS SETTLED.

WE ARE REQUESTING A MEETING WITH YOU AS SOON AS POSSIBLE IN WASHINGTON PREFERABLY DURING THE WEEK OF MAY 17, SEVERAL SENIOR

MEMBERS OF OUR BOARD OF DIRECTORS ARE WILLING TO JOIN US. PLEASE LET ME KNOW ON (212)628-3200 WHEN SUCH A MEETING WOULD BE CONVENIENT SHOULD YOU AGREE TO SEE US.

SINCERELY

SAMUEL L. HAYDEN PRESIDENT COUNCIL OF THE AMERICAS

CC: NORMAN BAILEY

15:30 EST

MGMCOMP

## NATIONAL SECURITY COUNCIL

May 25, 1982

ACTION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY *NAB*

SUBJECT: Suggestion that Dick Stone be Sent to South America to Mend Fences

I had dinner last night with Clif White, who had a suggestion I felt worth passing on to you. He suggested that the President send Dick Stone to the principal South American capitals to do some fence-mending after the crisis period of the Falklands situation is over.

Roger *RY* Montaine and Alfonso *ASB* Sapia-Bosch concur.

RECOMMENDATION:

That you suggest this possibility to the President.

OK \_\_\_\_\_ No \_\_\_\_\_

*AS-B note: I concur but I would like to see visits of this type be a part of a broader framework.*

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MEMORANDUM

NATIONAL SECURITY COUNCIL

May 26, 1982

~~CONFIDENTIAL~~

MEMORANDUM FOR ROGER FONTAINE

FROM: NORMAN A. BAILEY *nb*  
SUBJECT: Location of Eden Pastora

I had lunch today with Edmondo Gerli Gonzalez, private sector leader, and Hans J. Bucher Chevez, advisor to the Costa Rican government. It was indicated to me that there was substantial disagreement within the Costa Rican government on the expulsion of Eden Pastora from Costa Rica. It was also indicated to me that if proper cover was provided as well as financial support it is highly likely that Eden Pastora would be readmitted to Costa Rica and therefore could operate out of both Costa Rica and Honduras.

If you are interested in following up this project, please let me know whether you want me to do so or whether you will do so yourself, in which case I will give you the appropriate addresses and phone numbers.

cc: A. Sapia-Bosch

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Review May 26, 1988

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BY *RW* NARA DATE 5/19/15

Bailey

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~~7/7~~

National Security Council  
The White House

Package # 37

MAY 27 1961

	SEQUENCE TO	HAS SEEN	ACTION
John Poindexter	<u>1</u>		
Bud McFarlane		<u>m</u>	
Jacque Hill	<u>2</u>	<u>g</u>	
Judge Clark	<u>3</u>	<u>✓</u>	<u>B</u>
John Poindexter			
Staff Secretary	<u>4</u>		
Sit Room			

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Other \_\_\_\_\_

COMMENTS

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2/10



NATIONAL SECURITY COUNCIL

May 27, 1982

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ACTION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY *NB*

SUBJECT: Coup Plotting in Argentina

Further to my memo of May 25 on this subject (Tab I), Al Sapia-Bosch suggests that Mr. Roper's informants (he knows Mr. Roper and says he is a responsible person) should be interviewed somewhere outside the U.S.

RECOMMENDATION:

That you indicate if you wish us to pursue this option.

OK            No           

Attachment

Tab I My Memo of May 25

cc: Roger Fontaine  
Alfonso Sapia-Bosch

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National Security Council  
The White House

1-13

Package # \_\_\_\_\_

20 MAY 65 2 51 42

	SEQUENCE TO	HAS SEEN	ACTION
John Poindexter	<u>1</u>		
Bud McFarlane		<u>M</u>	
Jacque Hill			
Judge Clark			
John Poindexter			
Staff Secretary			
Sit Room			
_____	_____	_____	_____

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Other \_\_\_\_\_

COMMENTS

*By to  
S.B.  
comment*

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1. ROBERT McFARLANE/THE SITUATION ROOM/THE WHITE HOUSE

TO/LOCATION/TIME OF RECEIPT

1. RADM JOHN POINDEXTER FOR JUDGE CLARK/SANTA BARBARA

2.     

3.     

4.     

INFORMATION ADDRESSEES/LOCATION/TIME OF RECEIPT

1.     

2.     

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## NATIONAL SECURITY COUNCIL

May 25, 1982

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INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY *NB*  
SUBJECT: Report of Coup Plotting in Argentina

I was called yesterday by Christopher Roper, Editor of the Latin American Newsletter of London. He told me that he had reports from anti-government Peronist elements who were, however, also anti-Soviet, that a coup was being plotted in Argentina against the Galtieri government by army officers at the level of Colonel and pro-Soviet Peronist leaders. The object of the plot would be to install an anti-U.S. and pro-Soviet government in Buenos Aires which would be able to propagate its views in the rest of South America, building on the resentment over U.S. policy during the Falklands crisis. He stated that he had contacted Luigi Einaudi at State (ARA) because his contacts wished to come to Washington and speak with Administration officials about the plot, but they had visa problems. I contacted Einaudi who indicated that the information had been passed on but that State was opposed to issuing visas to these people because of possible reaction of the current Argentine regime. Should we wish to contact Mr. Roper again, I have his number in London.

cc: R. Fontaine  
A. Sapia-Bosch

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NATIONAL SECURITY COUNCIL

May 27, 1982

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ACTION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY *NB*

SUBJECT: Coup Plotting in Argentina

Further to my memo of May 25 on this subject (Tab I), Al Sapia-Bosch suggests that Mr. Roper's informants (he knows Mr. Roper and says he is a responsible person) should be interviewed somewhere outside the U.S.

RECOMMENDATION:

That you indicate if you wish us to pursue this option.

OK \_\_\_\_\_ No \_\_\_\_\_

Attachment

Tab I My Memo of May 25

cc: Roger Fontaine  
Alfonso Sapia-Bosch

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Chow 7/2

MEMORANDUM

NATIONAL SECURITY COUNCIL

May 25, 1982

8/30/11

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INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY *MB*

SUBJECT: Report of Coup Plotting in Argentina

I was called yesterday by Christopher Roper, Editor of the Latin American Newsletter of London. He told me that he had reports from anti-government Peronist elements who were, however, also anti-Soviet, that a coup was being plotted in Argentina against the Galtieri government by army officers at the level of Colonel and pro-Soviet Peronist leaders. The object of the plot would be to install an anti-U.S. and pro-Soviet government in Buenos Aires which would be able to propagate its views in the rest of South America, building on the resentment over U.S. policy during the Falklands crisis. He stated that he had contacted Luigi Einaudi at State (ARA) because his contacts wished to come to Washington and speak with Administration officials about the plot, but they had visa problems. I contacted Einaudi who indicated that the information had been passed on but that State was opposed to issuing visas to these people because of possible reaction of the current Argentine regime. Should we wish to contact Mr. Roper again, I have his number in London.

cc: R. Fontaine  
A. Sapia-Bosch

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