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### The Director of Central Intelligence Washington, D.C. 20505

National Intelligence Council

NIC 01132-85 1 March 1985

MEMOR ANDIIM	FOR:	Director	of	Central	Intelligence
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Deputy Director of Central Intelligence

FROM:

Acting National Intelligence Officer for Economics

SUBJECT:

Sudan: SIG-IEP Consideration of Release of AID Funds

- 1. Following up on the previous memoranda to you on this subject by Fred Wettering, NIO/AF, the SIG-IEP chaired by Treasury Secretary Baker on 28 February reviewed the issue of release of limited AID funds to Sudan in the context of the forthcoming visit to Sudan of Vice President Bush.
- 2. Mr. McFarlane summarized a paper which he had circulated to the participating agencies arguing that the U.S. should release funds for urgently needed fertilizer and pesticides for this year's crop (\$15 million) and funds for petroleum (\$20 million initially). David Mulford, Assistant Treasury Secretary for International Affairs, argued that the United States should avoid any actions which might undercut negotiations between the IMF and Sudan which could lead to more significant economic reform, particularly in light of the serious repayment arrearages which Sudan has with the IMF.
- 3. It was concluded that the \$15 million for fertilizer and pesticides should be released as a gesture of humanitarian support for President Nimeiri, and also because of the foreign exchange earning potential of the spring planting. On the other hand it was concluded that the petroleum funds should not now be released, although the possibility of release of those funds in the near future will be kept under review. AID will also seek to advance some food aid so that the Vice President might mention that item. On the whole, it was thought that the Vice President should be attempting to reinforce the need for significant economic policy reforms.

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SUBJECT: Sudan: SIG-IEP Consideration of Release of AID Funds

4. I unde	rstand that	after the med	eting the Vi	lce Presi	dent indicated
to Treasury Se	cretary Bake	r that it was	s necessary	for the	US to be more
					Thus, the NSC
and the Vice P	resident's o	ffice will be	e working on	n the fin	al package.

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SUBJECT: Sudan: SIG-IEP Considerations of Release of AID Funds

Acting NIO/Econ

4 March 1985

NIC 01132-85

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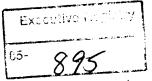
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The Director of Central Intelligence
Washington, D. C. 20505



27 FEB 1985

MEMORANDUM FOR:

The Assistant to the President for

National Security Affairs

SUBJECT:

US Policy Toward Sudan

Your memorandum of 27 February concisely summarizes the relevant elements of recent intelligence and analysis on the problems facing Sudan. The argument for addressing these problems by amending our current policy freezing ESF funding is logical and leads to the ineluctable conclusion that some change is warranted. The policy recommendations appear on target and I support them.

7s/ William J. Casey
William J. Casey

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The Director of Central Intelligence Washington, D.C. 20505

National Intelligence Council

NIC #01067-85 27 February 1985

MEMORANDUM FOR: Director of Central Intelligence

FROM:

Frederick L. Wettering

National Intelligence Officer for Africa

SUBJECT:

US Policy Toward Sudan

- 1. As I reported to you previously, as the result of an Interagency Group meeting on 22 Pebruary, the NSC is proposing amendment in the current US policy of withholding disbursement of \$189 million in ESF funds to Sudan in order to force further economic policy reforms.
- 2. The consensus of the IG was that Sudan has recently made some significant policy reforms, albeit not the full list required by the IMF. Given the political and economic problems of President Nimeiri, the fact that he has made some reforms, and the danger that continued full withholding of these funds ran the risk of pushing Nimeiri into foolhardy actions, damaging our relationship, and doing some real economic damage by their absence (such as threatening the planting of the cotton crop), the IG felt that some of the monies should be disbursed to economically sensible projects and to hearten the Sudanese for making some reforms. A full disbursement would not take place in order to provide continuing incentives for further changes. Treasury alone did not share in this consensus.
- 3. Mr. McFarlane and the NSC Staff are attempting to resolve this via this paper, but anticipate a continuing Treasury objection. If such an objection is received, the matter will be presented to the President for decision.

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SUBJECT:	US	Policy	/ Toward	Sudan
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To 19: Please prepare response for DCI signature. 0900 time necessary to meet NSC 1200 requirement due to DCI presence on Hill 1000-1200.

Executive Secretary 27 Feb 85 STAT

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THE WHITE HOUSE

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WASHINGTON

February 27, 1985

MEMORANDUM FOR THE VICE PRESIDENT

THE SECRETARY OF STATE

THE SECRETARY OF THE TREASURY

THE SECRETARY OF DEFENSE

THE DIRECTOR, OFFICE OF MANAGEMENT

AND BUDGET

THE DIRECTOR OF CENTRAL INTELLIGENCE

THE ADMINISTRATOR, AGENCY FOR

INTERNATIONAL DEVELOPMENT

SUBJECT:

U.S. Policy toward Sudan (S)

### Introduction

The Vice President will visit Sudan March 4-6. In addition to reviewing U.S. famine relief efforts and refugee programs, he will meet with President Nimeiri and other Sudanese leaders. Given the recent disturbing economic and political trends in Sudan which threaten important U.S. interests, and questions raised by Sudanese (and Egyptian) leaders concerning the status of frozen U.S. economic assistance, it is important that we reassess this and other pertinent issues before the Vice President's visit.

### Economic Situation

Sudan's economic situation has reached crisis proportions. Critical shortages of food and fuel, lack of foreign exchange, and inability to meet foreign financial obligations, among other problems, threaten the regime. Nimeiri and the IMF are still at an impasse over the financial arrears and the extent of necessary reforms, and the possibility of an IMF agreement in time to affect near-term political stability factors appears remote. In the absence of an IMF agreement, Nimeiri can be expected to pursue short-term economic "fixes" to avert complete collapse, especially if foreign donors continue to withhold financial support. Libya has offered to replace the suspended U.S. assistance and has publicly offered other financial incentives. While there is no immediate sign that Nimeiri is prepared to accept the Libyan offers, he has not closed the door and has sent emissaries to meet the Libyans. In the absence of a more modulated posture on our part, we run the risk of a turn toward Libya in the immediate aftermath of the Vice President's visit, with all of the attendant symbolic and strategic problems this would create. President Mubarak has privately urged the President to reverse the Sudan aid freeze, saying that this has created an impression that the U.S. is no longer supporting Nimeiri and Sudan and is opening the door for Qadhafi. Mubarak said he would discuss Sudan with the President during their meeting here in two weeks.

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### Current Threat

A recent (February 1985) Special National Intelligence Estimate on Sudan which addresses prospects for the Nimeiri regime states, "... President Nimeiri's chances for remaining in power through 1985 have diminished to even. His survival will depend mainly on his performance in meeting economic and political challenges, sustaining the perception by his opponents that he retains U.S. and Egyptian support, and, most important, retaining the loyalty of the military and security forces." Estimate concludes that Sudanese senior military officers are almost certain to play a major role in any successor government which would inherit all the current problems and which would be less friendly to the U.S. Less likely, but still possible, would be the emergence of a regime led by radical leftist officers, increasing the opportunities for Soviet and/or Libyan influence. (S)

### U.S. Policy

We have enjoyed a very cooperative relationship with Sudan for over a decade on a range of issues--political, humanitarian, and geo-strategic -- of high importance to U.S. policy in Sudan, and more broadly, the Horn and Gulf areas. On defense issues, Sudan continues to support our BRIGHT STAR exercises, including the one planned for this summer. Our valuable prepositioning facility has been expanded, and the Army and Air Force have indicated a need to expand it further by adding equipment and buildings to facilitate potential bare base support for 9,300 persons. The Sudanese have continued to lend strong support to the prepositioning agreement, which ultimately depends on stable and friendly political and economic relations with Sudan.

It is in the interest of the U.S. to promote our continuing influence as the political situation evolves, while applying realistic use of U.S. reverage and pressures to bring about reform. These objectives broadly serve U.S. policy toward Sudan as spelled out in NSDD-57 (September '82) which states, inter alia, that the U.S. must continue to give high priority to security and economic assistance for Sudan in order to enable it to defend itself against subversion from Libya and Soviet-backed Ethiopia; to enhance military cooperation with Sudan, including military exercises and military access agreement; and to strongly encourage continued economic reform.

The consequences of a hostile Sudan are directly related to the interests of Egypt and Saudi Arabia. Radicalization or chaos in Sudan would create new dangers for both countries. Sudan could serve as a launching pad for intrigues against Egypt, and Saudi Arabia would find its oil exports through the Red Sea increasingly vulnerable to a Sudanese-based threat. In such an

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event, Egypt, in particular, but perhaps Saudi Arabia as well, might be forced to intervene directly in Sudan, in which case the U.S. would be called on to assist through indirect support. Finally, maintenance of a moderate, pro-West regime in Khartoum is essential to deterring and countering attacks and destabilizing efforts by Libya against its neighbors, especially Chad, and to contain and reduce Soviet Bloc presence and influence in Ethiopia. (S)

### Economic Next Steps

The question is whether partial release of aid funds, against partial reforms, will help in the process of structural reform and eventual international support for Sudan, or will only encourage Nimeiri to believe that he will continue to be rescued by the U.S. and possibly Saudi Arabia even if he does not take the more far-reaching reforms. Given the reforms the Sudanese have recently taken, and which they will be presenting to the IMF and ourselves in the next few days, we believe we should undertake a partial release to show good faith and as an incentive to further reform. Reforms thus far undertaken will not fulfill all of the recommendations of the IMF, but will meet the specific conditions of the petroleum initiative and will go some way toward meeting IMF demands on exchange rate management. (S)

The Sudanese need to know by February 28 whether we release funds for the petroleum initiative (\$40 million from frozen FY84 funds), in order for them to use the \$20 million for this purpose from Saudi Arabia; otherwise, they will simply have to draw down the Saudi money for petroleum outside this valuable initiative. The GOS will also point to urgently needed funds for fertilizer and pesticides in order to plant the cotton crop, Sudan's largest export earner. It makes sound economic sense (as well as political) to assist a country to produce its main export crop, thereby reducing its dependence on the U.S. for famine-related assistance. By releasing the first portion of our petroleum funds (\$20 million), together with the \$20 million from the Saudis, the petroleum sector will be put on a sound footing. This will incidentally solve a political problem for Nimerri in assuring a steady and reasonably priced supply of petroleum products into Sudan. The structure of the petroleum facility also enhances the role of the private sector in Sudan and gives us a chance to demonstrate to Nimeiri that the private sector can be an ally, not an enemy, of his objectives for development of the economy.

In addition to our release of frozen funds for fertilizer and pesticides, we should also urge the IBRD to do the same, if the Sudanese in their presentation indicate that (a) the exchange rate will be reviewed and adjusted quarterly, (b) that steps are being taken to control the budget deficit, and (c) that the private sector is not being starved for credit by advances to the public sector. (S)

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The release of petroleum, fertilizer, and pesticide monies will reduce the immediate pressure on the GOS, but not the crisis. Even if the GOS package of reforms is acceptable as a basis for a new IMF standby, there is a yawning financial gap, estimated at between \$400 and \$450 million, which must be closed before the standby can be concluded and a Paris Club rescheduling initiated. The most plausible option is to seek more generous debt relief terms than were given Sudan in 1984. Excluding repayments to the IMF, with a rescheduling on the 1984 basis Sudan would still have to pay creditors \$590 million. Much of this gap could be filled by better debt-relief terms. Failing that, the U.S. and perhaps Saudi Arabia are the only possible sources of significant additional assistance. This would require a supplemental for Sudan, since existing ESF funds are very tight. Considering the U.S. budget deficit, a supplemental is not likely. (S)

Finally, to convince Nimeiri that we are not bailing him out, we must make clear that without an internationally accepted package of reforms, by this spring, debt rescheduling will become impossible and our own assistance will be blocked by the Brooke amendment, in any case. Thus, Nimeiri must see our partial release as an opportunity for him to continue what he has just barely started (after a year of inaction) in terms of serious economic readjustment. In taking these interim steps, we must indicate strongly to the Sudanese, including in the Vice President's meetings with Nimeiri, that we are indeed responding to steps taken by the GOS, but that we are far from being out of the economic crisis. (S)

### Other Donor Assistance--Egypt and Saudi Arabia

For Egypt, maintaining a friendly regime in Khartoum is a vital national interest, and explains Mubarak's frantic reaction to our reported suspension of assistance. Saudi Arabia also recognizes that an economic collapse could lead to Nimeiri's demise--something which the Saudis view as a serious potential threat to their own security. However, each has quite different views and leverage in dealing with Sudan, and through bilateral approaches we should seek to coordinate and maximize what each is best able to provide: Saudi Arabia, economic leverage, and Egypt, political advice. For instance, the Egyptian leadership has tried to moderate Nimeiri's Islamization drive and to encourage a political solution in southern Sudan. We should encourage Egypt to keep the pressure on Nimeiri to make necessary political concessions and to refrain from advising Nimeiri against risking implementation of needed economic reforms. Saudis are interested in pressing Nimeiri to make better use of aid funds and have expressed strong interest in seeing the creation of the petroleum facility. The Saudis are supportive of IMF reforms, and a proposal that they join the U.S. in

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disbursing pledged funds to Sudan would have to be argued either (1) from a proposition that Sudan has met IMF conditions, or (2) from the position of the seriousness of the threat to Nimeiri. If the Saudis are sufficiently persuaded that Nimeiri's situation is critical, they will assist in saving him, though they will not take off all pressure for reform. In such a case, it will be important that the Saudis understand why we think it essential to start some funds flowing, and that we are carrying our "fair" share of the assistance load. However, they are determined to maintain their own freedom of action, and are likely to resist any trilateral cooperation with us and the Egyptians. (S)

### Other Lesser Potential Donors

Although our European Allies and Japan do not have commensurate political and strategic interests in Sudan, we should explain to them why a moderate, stable regime in Sudan is vital to our mutual geo-political interests, and cite examples of Sudanese economic reform to generate their support for increased assistance programs. Thus, we recommend that Sudan be included as an agenda item for bilateral and multilateral donor meetings and discussions, and similarly, that we urge the IBRD and the IMF to accord Sudan a high priority in its discussions. These efforts should be made both in Washington and our embassies abroad, in order to signal the importance we attach to this issue. (S)

### Recommendations

In view of the Vice President's departure for Africa this weekend, you are requested to provide your comments on the foregoing approach, and specific recommendations below, to the NSC by noon, February 28. We recommend the following courses of action for the Vice President's visit:

- -- We release funds for the petroleum initiative (\$40 million from frozen FY84 funds, \$20 million in the first tranche).
- -- We release funds for urgently needed fertilizer and pesticides for this year's crop (\$15 million from frozen FY84 funds).
- -- We inform the Sudanese that selective release of the remaining FY84 and 85 funds will be made commensurate with continued movement on economic reform.
- -- We approach the Saudis to release their commitment to the petroleum initiative (\$20 million), and engage them in discussions on other potential assistance programs which promote structural economic reform and the role of the private sector.

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- -- We encourage the Egyptian leadership to continue attempts to moderate Sudanese internal policies and maintain pressure to implement economic reforms.
- -- That Sudan be an agenda item for discussion in donor meetings with our European Allies and the Japanese in order to generate their support for increased assistance.

Robert C. McFarlane

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The Director of Central Intelligence
Washington, D.C. 20505

NIC #01004-85 25 February 1985

National Intelligence Council

MEMORANDUM FOR:

Director of Central Intelligence

FROM:

Frederick L. Wettering

National Intelligence Officer for Africa

SUBJECT:

Sudan: Proposal to Release a Portion of the

AID Funds for Sudan Currently Frozen

- 1. The United States Government has frozen disbursement of \$189 million in grant ESF funds to Sudan since October 1984 in an attempt to force the Sudanese government to make economic reforms mandated by the IMF and come to a new standby arrangement with the IMF.
- 2. Since that time, the Sudanese have made some reforms, but not enough to satisfy the IMF. Our recent SNIE on Sudan saw the likelihood of a new Sudan-IMF arrangement this year as remote. Meanwhile, there are real economic necessities to disburse part of these funds (to set up a petroleum facility and provide fertilizer and pesticides to the next cotton crop). The surfacing in the world press last week of the US freeze has created a political imperative to do something or else face a badly shaken ally (President Nimeiri). Lack of action might well push Nimeiri into a rapprochement with Qadhafi, will make the forthcoming Vice Presidential visit an unpleasant one, and further hearten Nimeiri's enemies.
- 3. At a Restricted IG meeting on 22 February, State proposed that between \$55-\$80 million of the frozen funds be disbursed. State was supported by AID, NSC Staff, myself, the Vice President's office, and Defense. Only Treasury opposed this and forced the decision to a higher level. Treasury somewhat inflexibly argued that backing down on full IMF conditionality will create a precedent and damage our credibility with other governments which we want to force to terms with the IMF. The consensus view was that Treasury's position was dogmatic and unreasonable.
- 4. The game plan, as the NSC tells me, is that a formal proposal to release \$55-\$80 million of the ESF will be circulated tomorrow (26 February) to IG participants (including CIA) for comment. This is

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essentially a gambit to enable Bud McFarlane to call Jim Baker and try to twist his arm on this issue. Failing this, NSC tells me, the matter will be referred to the President. Both NSC and I expect the State proposal to be expeditiously approved one way or another given that the Vice President wants it and he begins his trip to Africa this weekend.

Fred Wettering

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SUBJECT: Sudan: Proposal to Release a Portion of the AID Funds for Sudan Currently Frozen

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#### THE WHITE HOUSE

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MEMORANDUM FOR PRINCETON LYNAM
Deputy Assistant Secretary of State

for African Affairs

Executive Registry 85- 819

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ROBERT H. PELLETREAU
Deputy Assistant Secretaty of State
for Near Eastern and South Asian Affairs

MOEL ROCH
Principal Deputy Assistant Secretary of Defense
for African Affairs

ALTOW G. REEL, JR.
Associate Director, National Security and
International Affairs, OMB

MARK L. EDELMAN
Acting Assistant Administrator, Bureau for Africa
Agency for International Development

JAMES CONROW
Deputy Assistant Secretary of the Treasury
for Developing Nations

FREDERICK WETTERING
Mational Intelligence Officer, CIA

SUBJECT:

U.S. Policy Toward Sudan (U)

The forthcoming visit to Sudan of the Vice-President, President Mubarak's personal request for renewed U.S. assistance to Sudan, and U.S. humanitarian interests lead us to conclude that an immediate reassessment of our economic assistance posture toward Sudan is required. (S)

At the direction of Robert C. McFarlane, you are invited to a restricted meeting to discuss the U.S. aid posture and our broader strategy toward the Sudan on Friday, February 22, at 3:30 p.m. in Room 374 Old Executive Office Building. Appagenda is attached, along with a draft issues paper. (S)

Donald Gregg
Assistant to the Vice President
for National Security Affairs

Donald R. Fortier Deputy Assistant to the President for National Security Affairs

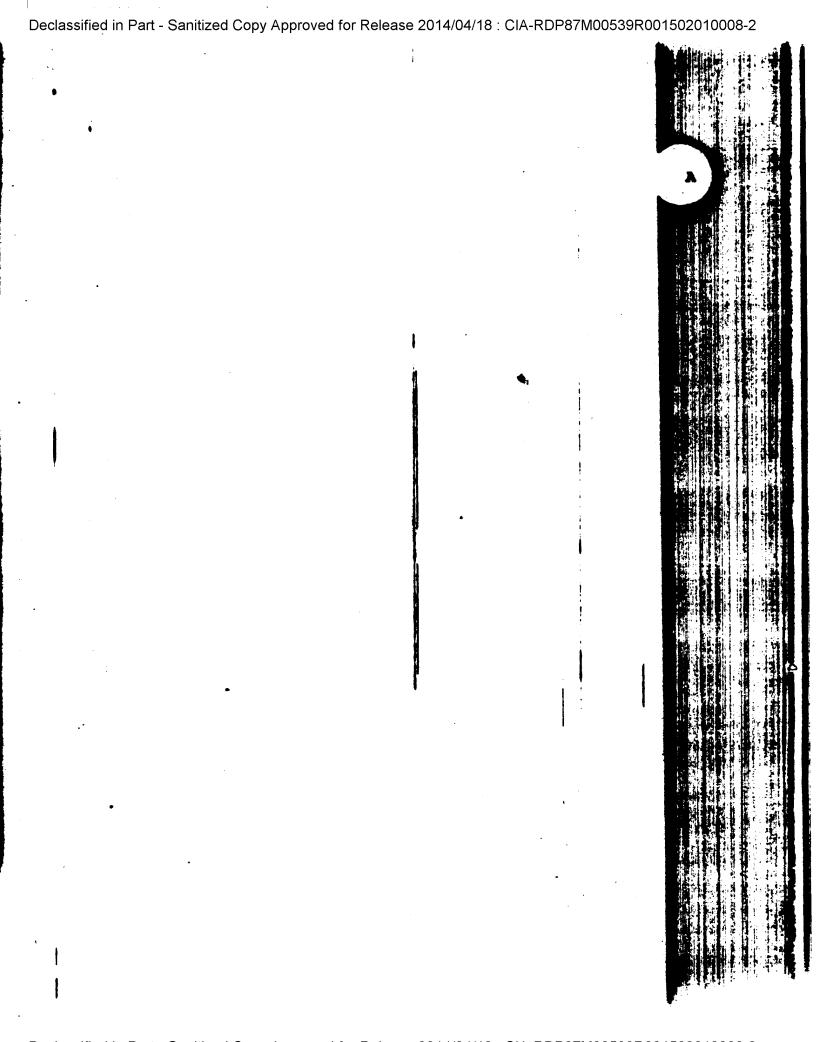
Attachments -

Tab A Agenda

Tab B WSC Background Paper

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#### AGENDA

### U.S. Assistance Posture Toward Sudan

I. Introduction

Don Portier

Fred Wettering

- II. Intelligence Summary
  - Nimeiri's prospects
  - The southern insurgency

III. Political Summary

- Current U.S. policy
- U.S.-Egyptian cooperation
- Saudi assistance

Princeton Lyman Robert Pelletreau

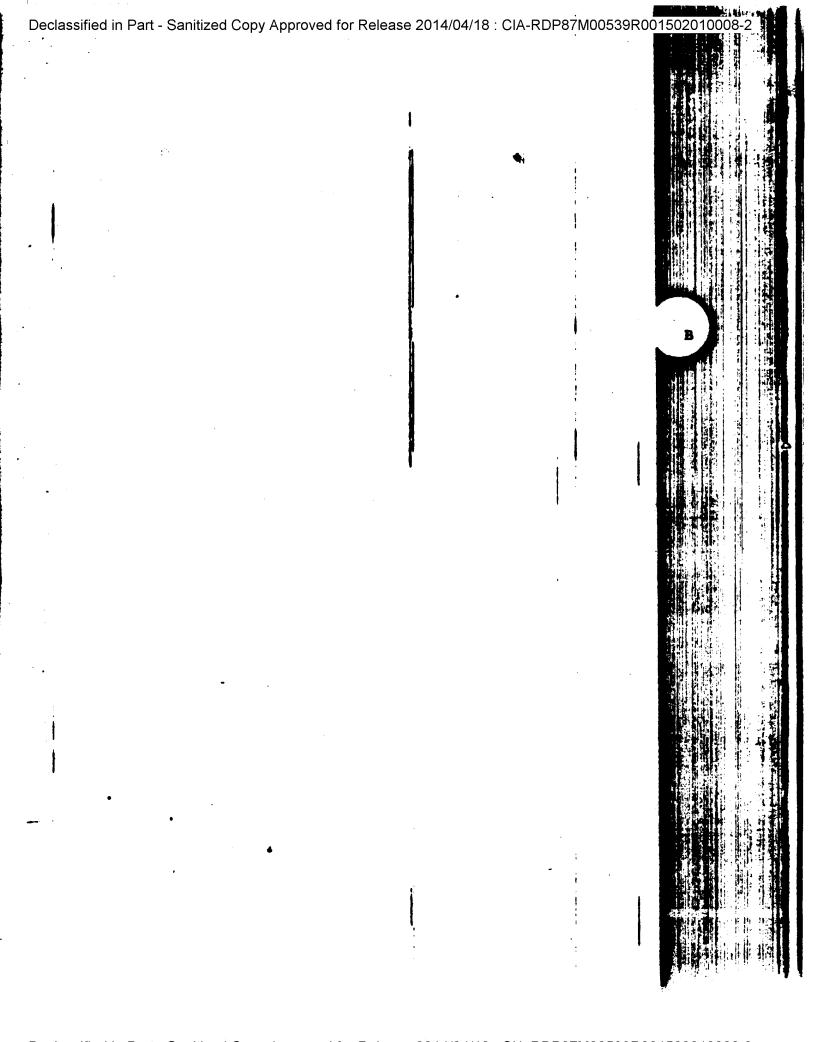
- IV. Economic Summary
  - Reforms
  - Prospects
- V. U.S. Options
- VI. Conclusion

James Conrow Mark Edelman

**All** -

Don Fortier Don Gregg

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### ISSUES CONCERNING THE SUDAN

The Vice President will be visiting Sudan, March 4-6, during which in addition to visiting refugee camps and looking into U.S. famine relief efforts, he will be meeting with President Nimeiri and other Sudanese leaders. Given the recent disturbing economic and political trends in Sudan, and questions raised concerning present economic assistance U.S. policies toward the Nimeiri regime, it is important that the various U.S. agencies adopt a common strategy toward Sudan in advance of the Vice President's visit.

Given the cooperative bilateral relations the U.S. has enjoyed with Sudan on a range of issues of importance to the U.S., and in consideration of Sudan's strategic importance to U.S. political objectives in the Horn and the Middle East, we believe that the Vice President should carry with him a fresh, positive U.S. approach. Such an approach is necessary to reaffirm our support to the Sudanese government at a critical time, while underscoring continued U.S. commitment to economic reform and the need for political moderation in Sudan as the basis for national unity and economic progress.

Official U.S. policy toward Sudan is to continue the high-priority accorded to security and economic assistance for Sudan in order to enable it to defend itself against subversion **from Libyan and Soviet-backed Ethiopia; to enhance military** cooperation with Sudan, including military exercises and 'a military access agreement; and to strongly encourage continued Sudanese economic reform as the only road to long-term economic solvency. Underlying our policy is the assumption that our support is necessary to support the government and people of Sudan, not necessarily the current leadership, in order to promote our continuing influence as the political situation evolves. In addition, the U.S. geo-strategic interest is directly related to the interests of Egypt and Saudi Arabia. Radicalization or chaos in Sudan would create new dangers for both countries. Sudan could serve as a launching pad for intrigues against Egypt, and Saudi Arabia would find its oil exports through the Red Sea increasingly vulnerable to a Sudanese-based threat. In such an event, Egypt, in particular, but perhaps Saudi Arabia as well, might be forced to intervene directly in Sudan, in which the U.S. would be called on to assist through indirect support. The passing of Sudan from a pro-West to an unfriendly or even a neutral country in the East vs West, Libya vs Arab moderates struggle must be actively countered through continued assistance and imaginative new approaches.

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A complicating factor is Libya's offer to Nimeiri to replace the suspended U.S. assistance amid reliable intelligence reports that emissaries of Qadhafi and Nimeiri have met several times to discuss a rapprochement. Though there are no immediate signs that Nimeiri is prepared to accept Qadhafi's offers, but continued civil unrest and economic hardships exacerbated by suspension of U.S. and other donor aid may cause Nimeiri to reconsider the Libyan offers. At a minimum, increased Libyan influence in Sudan would have a very negative impact on U.S. policy, objectives in the Horn and the Arab world. President Mubarak has privately urged the President to reverse the Sudan aid freeze, and this issue will almost certainly be a major agenda item during Mubarak's visit to the U.S. in early March.

U.S. policy responses to Sudan's economic crisis and economic mismanagement must be guided by a clear understanding and realfatic use of U.S. leverage to encourage the rationalization of Sudanese economic policies in concert with efforts to further U.S. regional, geo-strategic and humanitarian concerns. addition to promoting sound economic and fiscal policies, we should recognize that Sudanese cooperation in overcoming the effects of a devastating drought, friendly reception of upwards of a million non-Sudanese refugees in Sudan, cooperation in mounting cross-border feeding operations to denied areas of northern Ethiopia, and provision of timely assistance to the exfiltration of Falasha Jews from Ethiopia in the face of Arab and Ethiopian sensitivities has been crucial to alleviating immense human suffering, but has also detracted from their own priorities. This exceedingly helpful role on a range of humanitarian issues should be recognized and further encouraged through the use of positive economic incentives.

Elements of a new approach to Sudan could include:

- -- Measured ESF assistance linked to Sudanese economic reform measures, or desirable actions (such as the petroleum initiative), including recognition for reforms undertaken in response to Secretary Shultz' December 1984 letter.
- -- Joint consultations with other major donors and interested parties, such as the Egyptians, Saudis, and the British, with the view of adopting coordinated, integrated assistance programs. Lesser potential donors, such as the Japanese, should also be consulted.
- -- Diplomatic initiatives with mutual allies, such as Morocco, to counter Libyan appeals.
- -- Offer to discuss the southern insurgency problem, with the view of promoting reconciliation with the South and creating conditions favorable for the return of U.S. companies, such as Chevron, to develop major natural resources.

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