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DIRECTORATE OF INTELLI	
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JANUARY 1985*	
CENTRAL AMERICAN MONTHLY DOLL	
CENTRAL AMERICAN MONTHLY REPO	JRT #18
PERSPECTIVE	
INDIBETIAE	
Managua last month launched a major uerrillas and intends to step up the precents. Indications include public and pandinista officials, troop and weapons descreased patrolling	ssure in the next few rivate statements by eployments, and
President Ortega stated early in the efense has top priority for 1985 and will ne budget-	month that national l consume 40 percent of
-compared with 25 percent	nt last year.
Central American Monthly Report #17, whose cember 1984, was inadvertently dated Jan 16. This memorandum was prepared by the Cond South Branches, ALA. It was coordinated to Chief, Middle America-Carical addressed to Chief, Middle America-Carical Carical South States of Chief, Middle America-Carical Carical Carical South States of Chief, Middle America Carical Carical Carical South States of Chief, Middle America Carical Carical Carical South States of Chief, Middle America Carical Carical Carical South States of Chief, Middle America Carical Carical Carical South States of Chief, Middle America Carical Carical Carical South States of Chief, Middle Carical Carical Carical Carical South States of Chief, Middle Carical	Central America North ted with the Directorate vailable as of
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	id-January confirmed that two BM-21s were located me 12 miles south of the Honduran border, but
none have been de threat to the can	mp.
	Rebel forces also have stepped up inista patrols and attacks on transportation,
communications, insurgents conti	inista patrols and attacks on transportation, and electrical power targets. In addition, the nue their sabotage of government economic d their efforts to disrupt the current
communications, insurgents continuity and installations and	inista patrols and attacks on transportation, and electrical power targets. In addition, the nue their sabotage of government economic d their efforts to disrupt the current
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The other installation is a new high frequency/directional finding site (HF/DF), which brings the total of HF/DF sites to four countrywide. This new site will further enhance Nicaragua's ability to monitor and locate rebel radios as well as to intercept both civil and military communications in Honduras and El Salvador.

<u>Political</u>

President Ortega announced no new policy initiatives in his inaugural address on 10 January, and the moderate tone was pitched to appeal to foreigners. Some West European observers interpreted the renewal of the amnesty program as a sign of flexibility, but Ortega did not announce any relaxation of political restrictions. He made few changes in the cabinet, and the relative balance among leadership factions appears the same. Fidel Castro was the only chief of state to attend the inauguration, reflecting foreign disillusionment with the Sandinistas.

Practically all non-Sandinista political parties signed a document on 11 January, calling for renewal of a "national dialogue," but the Sandinistas sought to deflect the initiative by focusing attention on the National Assembly. The Independent Liberals and a few dissident Conservatives provided the only opposition to the regime in the Assembly's first sessions, but both groups have told the US Embassy that they eventually will walk out. Meanwhile, former presidential candidate Arturo Cruz and insurgent leaders were discussing drawing up a statement of political principles that both internal and external opposition leaders could endorse.

Catholic Church leaders held another round of talks with the Sandinistas, but Church-state relations remain fragile and could easily be strained further. In late January, the Church announced slightly tougher sanctions against priests serving in government positions but stopped short of permanently defrocking them.

Meanwhile, Miskito insurgent leader Brooklyn Rivera refused to attend scheduled talks with the government after he was injured in an Army attack while visiting Indian villages in southeastern Nicaragua. Rivera has faced opposition within his own ranks to the talks,

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Economic

Nicaragua took advantage of Castro's visit early in the month to dedicate a new, Cuban-built sugar refinery. The plant, Havana's largest economic aid project ever undertaken, is not scheduled to begin production until mid-year at the earliest and will not be fully operational until 1987. Over the past two	
years, Cuba has provided 600 workers and \$100 million in grants and credits for the project, which also has received assistance from Libya, East Germany,	25 X 1
Sweden, France, the Netherlands, and Canada.	25 X 1
Nicaraguan exports are down markedly. The largest export cropscoffee and cottonwill be at least 25 percent below the Sandinistas' target this year.	25 X 1
Insurgents have hit government plantations, and private growers have been affected by inadequate official prices, labor scarcity, fertilizer and pesticide shortages, and equipment problems.	25X1
gold production also is	25 X 1
off by more than half from 1980-1983 levels. The decline reportedly is due to insurgent destruction of equipment and the government's failure to develop new fields.	25X1
On the financial front, Nicaragua has new trade and aid deals with Algeria and Libya. Algiers reportedly is giving the Sandinistas \$23 million worth of crude oil for resalea near doubling in aid levels from all of last year. Libya signed a \$15 million barter agreement accepting Nicaraguan coffee, cotton, sesame, and bananas for a crude oil delivery last November.	25 X 1 25 X 1
After six months of delays, Nicaraguan officials finally discussed debt arrearages with international bankers at the end of the month. The bankers agreed to give the Nicaraguans more time to work out arrangements to restart token payments on past due interest, possibly using a repayment formula tied to Nicaraguan export levels.	
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EL SALVADOR

Military

The Salvadoran military intensified its already aggressive efforts against guerrilla strongholds in January, launching

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	operations in northern Morazan, San Miguel, and the Guazapa area, as well as in northern Chalatenango. Key actions included sweeps	
	by five elite US-trained battalions, supported by air and	
	artillerv. north of the Torola River and in the Guazapa Volcano area, In addition, the 4th	
	Brigade in Chalatenango, led by Colonel Sigfredo Ochoa, moved into querrilla-controlled areas and established civilian defense	
	teams to deny the insurgents free movement after the troops	
	leave. Meanwhile, the effectiveness of the two C-47 gunships recently supplied by the US was illustrated at San Bartolo	
	Ichanmico in mid-month, as the military repelled a large rebel force. Air Force Chief Bustillo claimed he was unaware of US	
	Congressional restrictions against simultaneous use of both	
	gunships.	
	Insurgent activity remains focused largely on economic warfare. The guerrillas sabotaged the power grid, continued	
	attacks on the coffee industry, and attempted a nationwide	
	transportation stoppage in January. Although the rebels publicly claimed to have ended the traffic disruption by month's end, we	
	expect renewed strikes against transport in February.	
	Despite these plans, the guerrillas apparently continue to	
	experience significant logistical and other problems.	
	growing insurgent difficulties,	
	including breakdowns in leadership and morale.	
	the Salvadoran armed forces were increasingly effective and could exploit guerrilla problems, thus precluding	
	any chance of a short-term guerrilla victory. These indications of querrilla weakness were reinforced by insurgent efforts	
	through Salvadoran Church and Mexican intermediaries to secure	
	secret discussions with government emissaries. According to the US Embassy, the guerrillas apparently hoped these talks would	_
	avert further erosion of their credibility in Western Europe.	

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	Economic	
	The US Embassy in El Salvador reports that guerrilla damage to the infrastructure increased in 1984 to more than \$21 million, up from \$19 million in 1983. If indirect costs are added, such as loss of property of other public and private sector institutions, the toll is said to climb rapidly. Moreover,	

The US Embassy in El Salvador reports that guerrilla damage to the infrastructure increased in 1984 to more than \$21 million, up from \$19 million in 1983. If indirect costs are added, such as loss of property of other public and private sector institutions, the toll is said to climb rapidly. Moreover, according to US Embassy analysis, budget outlays in 1984 for defense and public security--23 percent of the total expenditures as compared with 14.4 percent in 1980--have strained the Salvadoran budget and squeezed out spending for education, health, and public works. Direct cumulative damage to the economy as a result of the internal fighting since 1979 is estimated at over \$1 billion.

Political

January saw a reduction of tensions between President Duarte and the military, aided, we believe, by a postponement of the third round of peace talks with the guerrillas until after the March elections. As a result, the political parties began concentrating on the campaign, highlighted by the announcement of a coalition between the moderate rightist National Conciliation Party and Roberto D'Aubuisson's extremist National Republican Alliance. The two parties have done little active campaigning thus far, according to the US Embassy, because the legality of their coalition remains in doubt until the Supreme Court rules on the electoral law. Consequently, the rightist-dominated Elections Council voted to move the balloting from 17 March to 31 March, thus allowing the parties ample time to campaign after the court decision.

In spite of the recent legislative collaboration between moderate rightists and extremists in passing bills undermining Christian Democratic programs, various reporting suggests that some moderates are opposed to the coalition and remain amenable to counteroffers by Duarte. The Christian Democrats have the funds and ministerial positions the Conciliation party wants, but their traditional short-sightedness has been reflected in an unwillingness to make concessions, thereby helping solidify the coalition.

Nevertheless, we believe most moderate rightists are

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uncomfortable with D'Aubuisson, whom they view as irrational and
whose lack of political acumen they disdain.
The moderates' longstanding reservations over D'Aubuisson's radical tactics are being echoed by some of his own party members.
his image is hampering efforts to broaden his party's base of support. A high party official also recently
confided to US Embassy officials that contributions are drying up because of D'Aubuisson's failure to intensify organizational and
fundraising efforts.
The most serious indication of the increasing unease with D'Aubuisson within the party
probably reflects a growing belief
among key party players that D'Aubuisson's liabilities are rapidly outweighing his assets as a charismatic campaigner.
Nevertheless, the likelihood that the Christian Democrats will be able to capitalize on such dissension remains
questionable. Their traditional tendency to see themselves as being under siege has been reinforced by rightist cooperation
during the past few weeks. As a result, Christian Democratic leadersas evidenced by Duarte's recent public statements
chastising the moderate rightappear increasingly inclined toward a strategy of confrontation.
PANAMA
Political/Economic
Tensions continued to grow in January as the three-month-old

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Tensions continued to grow in January as the three-month-old fiscal and liquidity crisis lingered with no resolution in sight. President Barletta has displayed none of the political skills necessary to build public consensus on the need for increasing taxes while reducing government expenditures. By submitting an unbalanced budget--in violation of the Constitution--the President is trying to put the onus for fiscal measures on the legislature, but the Assembly is demanding that

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		nditures into line.	
		ve provided a rallyi: s, and opposition an	
groups seized th	e current US-Panaman	ian joint <u>exercises</u>	
the ongoing expa	nsion of the Defense	Forces.	
	GUATEMAL	A	
Political			
		ial difficulties con ghtist coalition led	
National Liberat	ion Movement and may	have set the scene	for
violent reprisal	S.		
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		officials, Sandoval a is providing covert	
to the frontrunn	ing National Centris	t Union,	
pushing the party		al claims the govern porting its enemies.	
charges made by	Sandoval, who has a	history of alleged de	eath
squad involvement	t, appear unfounded, o be maintaining its	and at this point the	ne
	_	-	
Rightist dia	ssension is likely to centrist parties o	o strengthen the elecarticularly the Natio	ctoral
Centrist Union.	ouncilor participy p	arcicularly the Natio	, ,
	independent nolli:	ng data taken late la	ast waar
showed Union lead	der Jorge Carpio as	a heavy favorite to	vin the
presidency. The	Union's recent allia	ance with two parties its established stre	S ,
urban areas. Nev	vertheless, the coal:	ition's momentum coul	ld be
slowed if disside factions.	ents follow through	on threats to form se	eparate
- GC CTOHD.			

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Military
For the first time in months, the guerrillas stopped the Army's momentum in January with concerted attacks against military units and the economic infrastructure, including the temporary seizure of a town important to the tourist trade. Of particular significance were four simultaneous insurgent strikes at mid-month in Peten, San Marcos, Izabal, and Quiche Departments.
Depar timents.
We believe a recent attack against the town of Santiago Atitlan in Solola Department was of potentially great economic significance. The US Embassy reports some 100 guerrillas attacked the local police station and government building and stole all municipal funds. This was the first major insurgent action in the Lake Atitlan vicinity in almost two years, and—if repeated—it could begin to affect the area's tourist industry, which is only beginning to recover from the aftereffects of guerrilla activity between 1979 and 1982.
The heavy casualties sustained by the Army in January-nearly 4-to-1 in favor of the insurgentswill further erode its morale. We believe delays in reacting to insurgent challenges, together with the recent heavy losses, could cause unrest among junior officers, who recently have complained of inadequate helicopter support for medical evacuation and resupply. Meanwhile, the senior staff apparently hopes it can assuage frontline officers by committing additional resources to key problem areas.

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HONDURAS

Political

Senior military officers appear relieved that President Suazo seems to have abandoned, at least temporarily, his flirtation with seeking an unconstitutional extension of his concern about Suazo's maneuvering--including his manipulation of the opposition National Party--peaked in December, when the high command considered forcing him to resign. Subsequently, Armed Forces Chief Lopez asserted publicly that the military would not tolerate politicians seeking "immoderate power" and "causing divisions within the Honduran people." In January, however, Lopez publicly praised the President as a supporter of democracy, suggesting he believes Suazo has heeded the military's veiled Meanwhile, the US Embassy reports that Suazo forcefully declared his commitment to elections at two key public appearances late in the month. Nevertheless, we believe that Suazo, seeking to maintain his central role in Honduran politics by ensuring the victory of his Liberal Party successor in November, probably will continue manipulating his political opponents, an action that invites a renewal of tensions with the armed forces.

Economic

The largest banana firm in Honduras may divest its unprofitable operations, thereby generating labor unrest among its 13,000 union workers. Officials of Standard Fruit Company claimed in January that high production costs could lead its financially troubled US parent company to close local operations. According to the US Embassy, government and union officials underestimate the possibility of a pullout and have ignored numerous attempts by Standard Fruit to obtain relief. The government, according to US Embassy reporting, continues to oppose exchange rate reforms and fears special tax concessions to Standard Fruit would worsen the fiscal deficit and bring demands for similar treatment by other firms. A decision to abandon the Honduran operation would harm export earnings—bananas account for 30 percent—and probably spark additional union protests as the new owners tried restoring profitability through wage cuts.

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	COSTA RICA
Politica:	
Party's programmed generation support of Figueres his interpretable Arias's of the support of th	victory of Oscar Arias in the ruling National Liberation presidential primary late in the month represents a conal shift in leadership. Arias, who represents the "new on" of party leaders, won the nomination despite the given to his rival by ex-Presidents Oduber and. While each of these Old Guard leaders has indicated into to support the Party's candidate, we believe chances in the 1986 election will depend on whether is generated during the primary campaign can be healed
Economic	
between the dispersion of the	
	BELIZE
Politica	<u>1</u>
from the elements largely chairman Popular	mid-January resignation of some conservative leaders former ruling party has strengthened its pro-Cuban and may entice them to challenge the party's heretofore centrist course. The US Embassy reports that party Sylvestre's plans to form the new conservative People's Party were prompted by ex-Prime Minister Price's alleged to curb the growing influence of party leftists.
	DECTONAL DEACE NECOMIAMIONS
	REGIONAL PEACE NEGOTIATIONS
	Contadora Group last month decided to prepare a new the treaty to present to the five Central American

countries on 14-15 February. San Jose, however, has threatened to boycott the talks because of strained relations with Managua over a complicated asylum case and recent Sandinista incursions into Costa Rica's Caribbean coastal region. President Monge, criticized by the opposition and the press for not responding more firmly, now is taking a hard line. El Salvador has announced it also will not attend the Contadora meeting unless Nicaragua satisfies Costa Rica's demands on the asylum case. According to press reports, the Contadora Vice Foreign Ministers discussed the issue in Panama on 1 February but apparently failed to resolve the dispute.

Managua's tough attitude toward San Jose at this delicate stage of the Contadora process probably reflects the Sandinistas' belief that the recent Nicaraguan elections have strengthened their position and that Mexico will continue protecting Nicaragua's interests in the negotiations. The regime, however, may be willing to take a more moderate stance on contentious issues if Mexico so urges, in order to avoid a Costa Rican boycott of the negotiations. If the treaty differs little from the 7 September draft, Nicaragua may offer to sign it to score propaganda points while blaming the impasse on the US.

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	KEY NICARAGUAN TRAVELS/VISITS
30 Aug-21 Sep	Recent visa applications to the US Embassy in Managua indicate that Interior Minister and National Directorate member Borge visited the USSR 2-5 September during his trip to Libya, Ethiopia, Bulgaria, Poland, East Germany and Cuba. The Nicaraguan press did not report the trip, and Borge's unusual itinerary suggests he met with high-level Soviet leaders.
6-7 Jan	Nicaraguan Vice Foreign Minister Tinoco met Venezuelan President Lusinchi and Foreign Minister Morales Paul in Caracas to discuss Contadora matters.
10 Jan	Fidel Castro was the only foreign head of state to attend the Ortega inauguration, along with the foreign ministers from the Contadora states. Castro kept a moderate profile during his three-day visithis second to Nicaragua since 1979limiting his public appearances to the inauguration and a three-hour speech dedicating a Cuban-built sugar refinery.
15 January	Visiting Libyan Minister of Economy, Industry, and Commerce signed a \$15-million trade, agreement in Managua, bartering oil for agricultural products.
20-21 Jan	Nicaraguan Vice-Minister of the Interior and Sandinista Directorate member Carrion traveled to Bogota to demonstrate Sandinista willingness to continue dialogue with Miskito insurgent leader Rivera, despite Rivera's announced refusal to attend the meeting.
22 Jan	Nicaraguan Vice-Foreign Minister Talavera visited Honduras to explain provisions of

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	amnesty law, discuss Contadora issues, and propose a bilateral mixed commission.	25 X ′
23-25 Jan	Iranian Prime Minister Mousari concluded a trade and aid agreement during his three-day visit.	25X ²
22-24	West German Deputy Foreign Minister Moellemannthe highest FRG official to visit Managua in three yearsreportedly stressed the need for democratization but told Ortega he opposes US aid to the insurgents.	25X ²
30 Jan - 1 Feb	Mexican and Panamanian Vice Foreign Ministers traveled to Managua on 30 January in attempt to resolve the Nicaragua-Costa Rica dispute over asylum case. A second meeting in Panama on 1 February of the Vice-Ministry of Nicaragua, Costa Rica, and the Contadora group	05.

apparently was unsuccessful.

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COMING EVENTS IN CENTRAL AMERICA DURING FEBRUARY

6-12 February	Ireland, France, and Italy.	25X1
12-13 February	Tripartite talks on Guatemala-Belize border involving Guatemala, Belize, and the UK to be held in New York.	25X1
21 February	Guatemalan Chief of State Mejia begins three- day visit to Colombia, reciprocating President Betancur's stop in Guatemala last December.	
23 February	Guatemala Chief of State Mejia departs Colombia for Uruguay to attend President-elect Sanguinetti's inauguration on 6 March.	



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29 January

According to the Embassy, a Brazilian guerrilla who defected in El Salvador has said the FDR/FMLN had contacted him in Brazil, trained him for five months in Nicaragua-where he also fought against the Contras-and then arranged for his legal entry into El Salvador. The Brazilian served with an ERP unit as an instructor to Salvadoran guerrillas, but defected because most of the trainees were 12-14 years old. Most of his story was publicized at a 29 January press conference in San Salvador.

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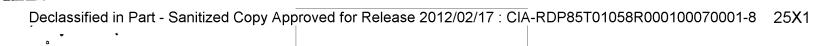
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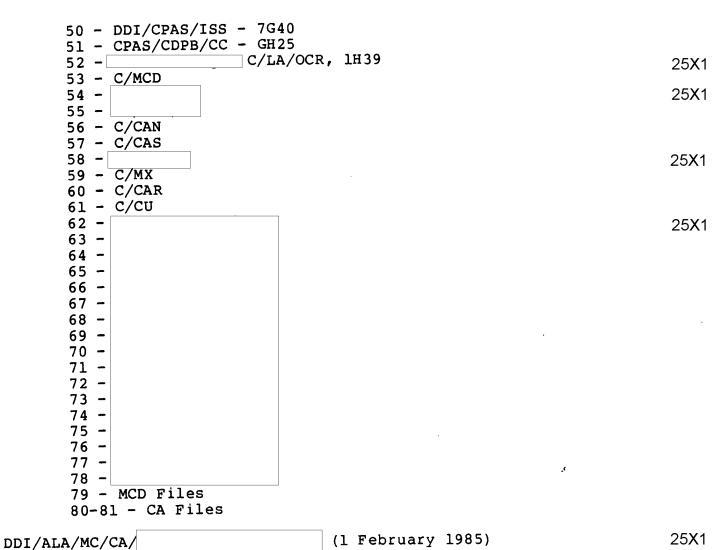
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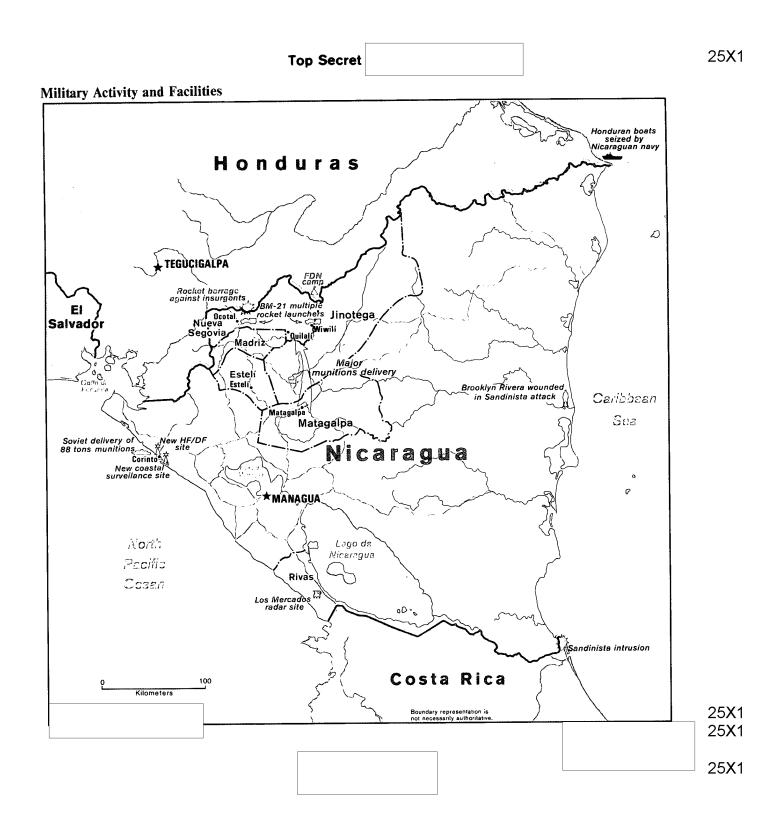
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Copy #1 & 2 - Mr. Robert C. McFarlane
      3 - Mr. Donald Gregg
      4 - Ambassador Shlaudeman
      5 - General Paul Gorman
      6 - HPSCI
      7 - SSCI
      8 - Lt. Gen. James A. Williams
      9 - Mr. Nestor D. Sanchez
     10 - Mr. Constantine Menges
     11 - Lt. Gen. Lincoln D. Faurer, USAF
     12 - Vice Admiral Arthur S. Moreau
     13 - Mr. Hugh Montgomery
     14 - Ambassador Langhorne A. Motley
     15 - Doug Mulholland
     16 - Dr. Darnell Whitt
     17 - DCI - 7D60
     18 - DDCI - 7D6011
     19 - Executive Director - 7D44
     20 - SA/DCI/IC - 7D60
     21 - Executive Registry - 7E12
     22 - DDI - 7E44
     23 - DDO - 7E26
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     24 - IAI
     25 - NIO/LA - 7E62
     26 - NIC/AG - 2G40
     27 - Daniel Childs, Controller - 7C21
     28 - C/DDI/PES - 7F24
     29 - D/OIA -
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     30 - Director, Legislative Liaison - 7D43
     31 - Legislative Liaison - 7B04
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     32 - DDI Rep CINCLANT
     33 - PDB Staff - 7F30
     34 & 35 - D/ALA - 3F45
     36 - C/DDO/LA - 3C3203
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