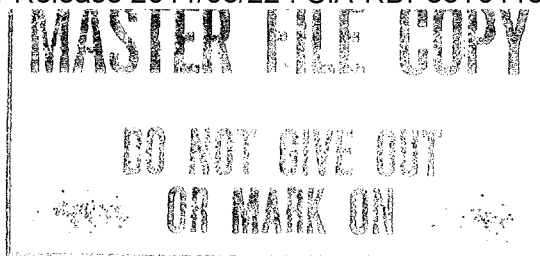




Intelligence



25X1



Latin America Review



25X1

18 May 1984

~~Secret~~

ALA LAR 84-009
18 May 1984

Copy 390

Page Denied

25X1

Latin America Review

25X1

18 May 1984

	<i>Page</i>	
Articles		
Argentina: Alfonsin's Peronist Opposition	1	25X1
		25X1
Under the pressure of President Alfonsin's labor and economic initiatives, which threaten the Peronists' traditional power base, the disparate movement has achieved sufficient unity to defeat important government-sponsored legislation.		25X1
Latin America: Impact of Higher Lending Rates	7	25X1
		25X1
The recent increase in the US interest rate, which will result in considerably higher payments for Latin debtors, is drawing harsh criticism from hemispheric leaders and will place new strains on already troubled financial rescue programs.		25X1
South America: Economic Problems and the Armed Forces	9	25X1
		25X1
series of articles that examine in depth the impact of economic austerity measures on the armed forces of Brazil, Peru, and Chile, all of which are feeling the pinch of scarce resources.	25X1	25X1
Cuba: Trying To Exploit the Huambo Incident	11	25X1
		25X1
Havana's media treatment of the recent bombing of a Cuban workers' habitation in Angola indicates the leadership is trying to deflect domestic criticism of its international involvement and focus resentment on the United States.		25X1
Cuba: Limited Success in Energy Conservation	13	25X1
		25X1
During the past two years, Havana has implemented several energy conservation measures to take advantage of a lucrative incentive offered by the USSR, but only a portion of the significant drop in oil consumption is the result of more efficient use.		25X1

SecretALA LAR 84-009
18 May 1984

[Redacted]

25X1

Nicaragua: Exaggerating Insurgent Economic Damage [Redacted] 15

[Redacted]

25X1

25X1

In an effort to shift blame away from their own mishandling of the economy, Sandinista leaders have used the highly unrealistic "official" exchange rate to inflate the US dollar cost of damage inflicted by insurgent activities. [Redacted]

25X1

Paraguay: Stroessner May Plan To Step Down [Redacted] 17

[Redacted]

25X1

25X1

Senior Paraguayan officials, believed to be speaking with presidential approval, have let the US Embassy know that Stroessner will not seek another term in 1988 because of his age—he is in his early seventies—and growing health problems. [Redacted]

25X1

Briefs

Venezuela: Emergency Powers [Redacted] 19

25X1

Peru: Pressures on Economic Policy [Redacted]

25X1

Jamaica: New Bauxite Agreement [Redacted]

25X1

St. Vincent: Election Prospects [Redacted]

25X1

Cuba Chronology: April 1984 21

[Redacted]

25X1

Articles have been coordinated as appropriate with other offices within CIA. Comments and queries regarding this publication may be directed to the Chief, Production Staff, Office of African and Latin American Analysis, [Redacted]

25X1

25X1

25X1

Articles

Argentina: Alfonsin's Peronist Opposition

25X1

Peronist political and labor leaders have yet to begin to revitalize and unify the disparate movement in the wake of their defeat in last October's general elections. Nonetheless, a modicum of unity—however fragile—has been achieved as a result of President Alfonsin's labor and economic initiatives, which threaten the Peronists' traditional power base. The Peronists succeeded in defeating important legislation and in forcing the Radical government to accommodate their interests. Although the Peronists have become increasingly adversarial, they will probably, in our view, reach an understanding on economic issues, at least for the short term, with the Alfonsin government.

While the Peronists have made important gains, centrifugal forces within the movement remain strong, leaving uncertain the party's ability to oppose the government effectively over the long term. To a considerable extent, their fortunes will depend on how well Alfonsin deals with Argentina's pressing economic problems, and how he performs on a range of other issues that have thus far served as opposition rallying points.

Postelection Blues

The electoral defeat in October deepened existing internal rifts among the Peronists, with leaders of both the political and labor wings blaming each other for the loss. Reformers, mostly political moderates, lobbied for a thorough housecleaning and reorganization to recapture traditional working-class support. similar calls were heard within the labor movement.

Two key second-echelon labor bosses wanted to restructure the union movement and exclude followers of old-line labor chief Lorenzo Miguel, whose well-known ties to the military were blamed for the Peronists' failure to win.

25X1

The Peronists took only tentative steps toward reform in the weeks following the elections, however. In early November, Miguel was forced to resign his position as party vice president, although he retained his union posts. At about the same time, moderate Peronists resurrected the Peronist National Council—dormant since the mid-1970s—to supervise the party in the postelection period and serve as a focal point for dealing with the new government. Although the group produced a highly critical analysis of their electoral performance in early January and made recommendations for reforms, none were undertaken.

25X1

By mid-January calls for far-reaching reforms had faded. Beyond problems posed by internal divisions and mutual recriminations, much of the impetus for reform was lost when former President and titular party chief Isabel Peron appointed a committee of rightwing politicians loyal to her to oversee relations with the new government. This undercut the moderates, and further dampened their zeal for reform. Without Peron's backing, reformers have been unable to force out any of those they believed responsible for the electoral defeat, and the party leadership structure has remained essentially unchanged.

25X1

25X1

25X1

25X1

25X1

25X1



Peronist labor demonstrations

NA Photo Service ©

mandates in government-supervised union elections, which Alfonsin hoped would lead to the ouster of the old-line Peronists and the election of a more moderate and cooperative leadership. Entrenched Peronist trade unionists, who had the most to lose from the bill, took the lead in opposing it, and, according to US Embassy sources, when congressional debates began in January, the two rival factions of the Peronist-dominated General Workers Confederation (CGT) ended an eight-year rift to work for the bill's defeat.

The opposition of the union bosses, however, generated little worker support.

many second-echelon union chiefs favored a housecleaning and stood to gain from new elections. The rank and file, many of whom had voted for Alfonsin, also favored replacing the labor hierarchy. As a result, demonstrations and a nationwide bus strike in early February called by union leaders to protest the bill were unsuccessful, according to press and US Embassy reports.

Alfonsin's failure to deal effectively with the troubled economy in the first months of his administration considerably strengthened the unions' hand against the government. His inability to curb inflation—as promised—provided labor leaders with ammunition to convince workers that their interests would best be defended by the existing union leadership. As a result, in early March they began assaulting Alfonsin's wage policy, in spite of substantial gains in real wages as calculated by the US Embassy and Argentine economists, and characterized his overall economic program as largely a continuation of the military regime's policies. In addition, as Argentina approached the 31 March deadline for payment to US banks of interest arrearages on the foreign debt, the Peronists stepped up public criticisms of Alfonsin's negotiating position. They argued that he was inclined to cave into bankers' demands even at the risk of slowing economic recovery.

As important, the unions were able to pressure moderate Peronist congressmen and senators to oppose the union bill, according to US Embassy

Party moderates, who wanted to avoid further alienating the electorate, met frequently with administration officials and publicly assured them of their intention to protect Argentina's fragile democracy. Peronists also assumed a number of key posts in the new government, including that of a key adviser on military matters.

Challenging the President

Alfonsin's labor union reform bill, however, accomplished what Peronist reformers had failed to do: bring at least temporary unity to the fractured leadership and give it a first rallying point. The legislation called for union bosses to renew their

reporting. Many Peronist legislators reportedly [] favored union reform as the key to revitalizing their own party, and they were willing to compromise with Alfonsin. On the day of the congressional vote in the lower house, however, union leaders packed the galleries with supporters. Although the bill was passed by the Radical majority on to the Senate where it was defeated, all the Peronists opposed it. This, according to the US Embassy, reflected both the unions' ability to intimidate moderate politicians and the moderates fear of forfeiting the party leadership to the party's right wing. [] 25X1

Peronist politicians also began challenging Alfonsin on other issues as well as a way to broaden party appeal. For example, in late March, they proposed a law governing Argentina's nuclear program—long a source of national pride—aimed at undercutting the administration's reported plans to reduce the nuclear budget and give up its "inalienable right" to conduct peaceful nuclear explosions. They also moved ahead of the administration in criticizing US policy in Central America, which Alfonsin had downplayed to heal relations with Washington. Moreover, the Peronists took the lead in criticizing the administration's performance in the Beagle Channel negotiations with Chile and in maneuvers to ease tensions with the United Kingdom on the Falklands issue. []

The Peronists' challenge has met with considerable success. Their gains, according to press and US Embassy reporting, include:

- Defeating the administration's labor bill in the Senate in mid-March, forcing Alfonsin to reintroduce it.

- Winning a role in foreign debt negotiations []

- Forcing the administration to back away from further concessions to gain a settlement to the Beagle Channel dispute with Chile.

- Limiting the President's maneuvering room to ease tensions with the United Kingdom on the Falklands issue. 25X1

- Convincing Alfonsin that, to protect himself from charges by the Peronist left that he was supporting US policy, he must move ahead with plans to expand ties with Nicaragua and strongly back the Contadora initiative in Central America. [] 25X1

[] 25X1

As an added dividend, Peronist successes have strained the cohesion of Alfonsin's own Radical Party. The US Embassy reported in mid-March that the defeat of the labor bill in the Senate divided the party's left wing from moderates over how to meet the Peronist challenge. [] 25X1

[] 25X1

Alfonsin's Response

In trying to deal with his Peronist rivals, Alfonsin has changed directions. Since assuming office, he has nurtured the Radical Party's working-class organizations to challenge the Peronists' control of the unions. [] 25X1

[] 25X1

[] In early February, Alfonsin replaced military-appointed Peronist chiefs with his own supporters to oversee new internal elections. Later that month, he used his own labor supporters to break a transportation strike, and he threatened to use a modified version of his military predecessors' trade union law to force new elections. Moreover, Alfonsin has stepped up public charges that the Peronists are trying to destabilize Argentina's fragile democracy. [] 25X1

While seeking to demonstrate strength in confronting the Peronists, Alfonsin has also tried to avoid a complete break with them. [] 25X1

[] although the President would probably prefer to hold firm on labor reform, he [] 25X1

Secret

Key Peronist leaders
and former rivals (l to r) Saul
Ubalini, Lorenzo Miguel, and
Alberto Triacca



El Mundo ©

25X1

realizes that he has lost some of his initial support. Moreover, continuing budget debates and IMF negotiations, according to the US Embassy, have forced him to take steps to regain Peronist acquiescence, if not cooperation, in managing economic issues. To this end, Alfonsin:

- Met in mid-February with Peronist governors, who exercise considerable influence over their congressmen and senators, and promised them extensive financial assistance.
- Offered labor leaders in early March a role in economic policy making.
- Announced at about the same time that he would open a new dialogue with Peronist political bosses, and he has encouraged the return of Isabel Peron to serve as interlocutor.

Moreover, according to the US Embassy and other reporting, following the labor bill's defeat in mid-March, Alfonsin intensified his efforts to seek an accord with the Peronists. He arranged a meeting of his representatives with arch-rival Lorenzo Miguel to resolve differences. The President also appointed a politically neutral, highly respected labor leader as his personal representative to the unions to negotiate a new labor reform bill and reach a compromise on wage policy. Finally, in late April, the President replaced his left-of-center combative labor minister with a moderate, more able negotiator, thus signaling,

according to US Embassy sources, his intentions to make concessions to the Peronists on new union elections.

25X1

According to press reports, key Peronist leaders have agreed to meet with administration officials but, nonetheless, continue to exploit Alfonsin's vulnerability on economic issues. At the end of March, CGT leaders declared their intentions to form a national front which the US Embassy believes will be used to challenge government policies, and they have sought support from a wide range of groups. Labor bosses also made vague public threats to use force to prevent changes in wage policy, and political chiefs demanded a full congressional investigation into Economic Minister Grinspun's negotiations with the IMF. Finally, in mid-April, the Peronist National Council publicly broke with the government, ruling out cooperation in the formulation of economic policies.

25X1

25X1

Outlook

We expect the Peronists to continue vitriolic rhetorical attacks on the administration, as well as call for more strikes and demonstrations. Peronist leaders probably believe that focusing on the

Secret

government's shortfalls will deflect attention away from difficulties within the party. Moreover, it will help them create the impression of Peronism as a real alternative to Radicalism. []

25X1

Nevertheless, we believe that, while continuing to criticize the administration, most of the Peronist leadership is probably inclined toward an accommodation with Alfonsin, at least in the near term. We believe the Peronists calculate that:

- Alfonsin is ready to give the Peronists a larger role in formulating labor and economic policy.
- Argentina has little choice but to reach an accord with the IMF and the commercial bankers, and they do not want to block access to needed funds.
- They would be liable to counter charges of destabilizing Argentine democracy from Alfonsin, if they appeared obstructionist. []

25X1

Moreover, Peronist leaders also probably calculate that resurgent pressures for reform within the party may threaten current fragile unity and, therefore, their ability to seriously challenge Alfonsin over the longer term. Press reports in April, for example, indicated that moderates among Buenos Aires's provincial Peronist party chiefs continued to press for new internal elections, and that a serious split in the Peronists' largest local party has cast them considerable popular support. Also, Isabel Peron's return to Argentina, now scheduled for this month, to take control of the party will probably reopen old wounds. []

25X1

We agree with the US Embassy, however, that, even in the short term, Peronist labor leaders may be hard pressed to honor their part of any accord with the government. Many of the recent local strikes, for example, were not sanctioned by union leaders, suggesting that they may be unable to contain worker dissatisfaction, especially if Alfonsin fails to improve the economy. Moreover, we expect that, after union elections are scheduled, labor leaders themselves will probably intensify criticisms of government economic policy as they work to attract support. []

25X1

25X1

[]

Latin America: Impact of Higher Lending Rates

25X1

The increase in the US interest rate is drawing fire from Latin American leaders and will place new strains on the financial rescue programs.

Argentine President Alfonsin publicly denounced the move and prompted government leaders in Mexico, Brazil, Venezuela, Colombia, and Ecuador to issue a joint statement decrying the increase. Argentine Congressmen—already unhappy with rising inflation—are claiming that the higher rate will prevent economic recovery and threatens social peace. The US Embassy in Brasilia reports the government has reacted with uncharacteristic harshness and believes the higher rate could nullify gains made in its adjustment program.

Western bankers are also voicing concern. the rate hike may strain relations between Brazil and its creditors. senior economist is warning that a cash flow crisis may occur as early as July.

Despite such predictions of a resurgence of cash problems, we believe the immediate impact on Latin American debtors will be minimal. Interest rates on commercial loans are adjusted only every three to six months, so that the recent hikes will not have a major effect until later in the year. Moreover, the current growth in many Latin American exports will blunt the initial increase in the debt service burden.

In time, however, the financial burden of the higher interest rate will grow, straining the financial rescue programs. According to the estimates of a respected financial journal, an increase of 1 percentage point in short-term interest rates adds some \$2 billion to Latin America's annual debt servicing requirements. Moreover, an increase in world interest rates could slow recovery of exports to the industrialized

Latin America: Annual Impact of a 1.5-Percentage-Point Increase in Interest Rates

25X1

Key Debtors	Projected Increase in Export Revenues (million US \$)	Countries' Estimate of Increased Interest Payments (million US \$)	Interest Hike as a Share of Exports (percent)
Argentina	300	600	200
Brazil	2,500	1,275	51
Chile	528	210	40
Mexico	772	1,200	155
Peru	100	90	90
Venezuela	200	450	225

25X1

25X1

25X1

25X1

25X1

countries, leading to cash-flow difficulties that could exceed the ability of creditors to cover larger payments deficits.

25X1

25X1

25X1

We believe Latin debtors will more closely coordinate their criticisms of rising world interest rates in the future, especially the adverse impact on their adjustment programs. Latin governments probably will issue a collective statement against the interest rate and trade policies of industrial countries before the London Economic Summit next month. They probably will also press private bankers harder in future debt negotiations for easier repayment terms to offset the impact of higher rates on their debt servicing capability and efforts to engineer domestic recovery.

25X1

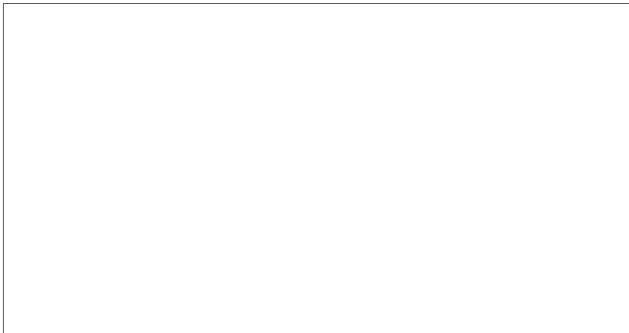
25X1

25X1

Secret

South America: Economic Problems and the Armed Forces

25X1



- Dwindling stocks of fuel and ammunition.
- Inadequate training.
- Reduced equipment purchases, especially from foreign sources.

As a result, combat readiness has deteriorated, and Brazil's armed forces have had to emphasize improvements—such as the expansion of troop strength—that do not involve significant hard currency costs. In addition, Brazil's need to boost exports has caused local defense industries to look to foreign markets, particularly in the Middle East. As military industrial cooperation with the United States increases, the secrecy, export orientation, and clientele of the Brazilian arms industry could pose technology transfer problems for the United States.

25X1

Peru's ¹ civilian government is struggling with how to impose fiscal discipline without antagonizing a politically powerful military establishment that is unaccustomed to limits on its arms expenditures. Military leaders have already seen spending guidelines delay some arms purchases, limit the expansion of counterinsurgency capabilities, and slow the development of domestic arms industries. We believe the military eventually could fear that its ability to suppress domestic insurgents and maintain its superiority over armed forces in Chile and Ecuador is being jeopardized.

25X1

Adverse economic conditions have strengthened the armed forces' commitment to return power to civilians by 1985. The military hopes to avoid further damage to its prestige by ceding responsibility for resolving the country's economic woes. In addition, the high command appears eager to concentrate on professional matters and leave government to civilian politicians.

25X1

25X1

If the military gets nervous, the government will come under considerable pressure from military leaders to violate this year's IMF-directed budget guidelines. Moreover, concerns by the armed forces over President Belaunde's declining popularity, recent leftist electoral gains, increasing strikes and civil disorder, and perceived administration restrictions on military autonomy in counterinsurgency operations have increased the possibility that the military will intervene to replace the current government.

Brazil's ² four-year recession has taken its toll on the military. Budget cuts and reduced foreign exchange allocations have meant:

Chile's ³ domestic political crisis and the depressed economy are eclipsing the armed forces' traditional concerns about the military balance with rival forces of its neighbors, particularly Peru and Argentina. The armed forces, who prefer a purely military role, have been strained in recent years by their political role in supporting President Pinochet and the ruling military junta. The development of broad, active opposition to the regime has aggravated that strain, and the armed forces face critical choices in the coming months.

25X1

25X1

25X1

Secret

ALA LAR 84-009
18 May 1984

Secret

In contrast with some Latin American democratic governments that feel compelled to accede to demands by politically powerful militaries for new weapons, Pinochet has used his dual government/military leadership role to tightly control defense expenditures, in part to comply with guidelines on government spending under Chile's IMF-supported economic adjustment program. Selected weapons purchases continue, but the determination to maintain fiscal discipline—combined with the continuing international arms embargo against Chile—will limit Santiago's ability to modernize its arsenal and we believe will degrade operational effectiveness.

25X1

25X1

Secret

Cuba: Trying To Exploit the Huambo Incident

25X1

Antigovernment guerrillas detonated a bomb in Huambo, Angola, near a building housing Cuban "internationalist" workers on 19 April, destroying the building and causing many casualties. The Cuban media ignored the incident until six days later when the party's daily newspaper, in an unprecedented display of candor about casualties in Angola, announced that the blast had killed 14 Cuban civilians and wounded 66 others. The unusual decision to go public with the casualty list, undoubtedly made by President Castro himself, bolsters our belief that Cuban losses overseas have become a major public concern and that the Castro regime realizes the subject can no longer be swept under the rug.

Havana probably had several aims, the most important of which was preventing a recurrence of the public dismay in many parts of Cuba in the days immediately after the invasion of Grenada last October. The initial confusion over what was going on, fed by news stories about fierce fighting, led many Cubans to believe that the entire Cuban contingent there had been wiped out. The Grenada experience sensitized the Cuban public to the human cost of Cuba's overseas activities.

The announcement of the Huambo casualties also was intended to deflect popular criticism from the Cuban leadership and focus it on the regime's main enemy, Washington. During the Grenada invasion, significant public hostility in Cuba was directed not so much at the invading forces as at Havana for not withdrawing the civilians when it became clear an invasion was imminent and for ordering a fight to the death. At the time, a group of Cubans reportedly tried to hold a demonstration in Havana calling for the withdrawal of all Cubans from Grenada and Nicaragua, but it was dispersed quickly by authorities. Havana wanted no repetition of such activities and saw the United States as a convenient scapegoat, accusing it of responsibility for the Huambo incident.

Moreover, Havana wanted to dispel any impression that it had suffered a military defeat in Angola. The armed forces are still smarting from the blow to their image wrought by the Grenada experience and want no further diminution of their prestige, especially when there is persistent talk in the international press of a possible withdrawal from Angola. Havana's announcement was careful to note that all of the Cuban casualties were civilian workers in construction, education, and public health, thus helping the Castro regime to portray the incident as an atrocity rather than a military defeat.

25X1

In addition, Havana probably hoped that giving publicity to the bombing would help to maintain a warlike atmosphere in Cuba and generate popular support for the military preparations the leadership believes are necessary if the United States is to be deterred from intervention. Judging from statements by the Cuban leaders, Havana assesses the US threat to be greater now than at any time since 1962 and believes its best defense lies in convincing Washington that an invasion would cost too many casualties to justify.

25X1

In taking its case against the United States to international public opinion through the media and by means of a protest to the United Nations, Havana appears to believe it has an opportunity to detract from whatever international prestige may accrue to the United States as a result of Washington's longstanding effort to bring peace to southern Africa. Havana does not want openly to oppose negotiations that seem to be improving chances for a peaceful settlement in the region, but neither does it want Washington to get credit if the talks prove successful. By attributing the Huambo disaster to the CIA, it hopes to equate the United States with violence. In fact, many in the Cuban leadership may have convinced themselves that the United States did indeed engineer the attack.

25X1

25X1

25X1

Many Cubans probably will accept the government's explanation of the bombing as a US plot, but they nevertheless are likely to question the need for risking noncombatants on a mission that has no apparent connection to Cuba's vital interests. Whatever increased antipathy toward the United States is aroused probably will be matched by a heightened fear of volunteering for service abroad. Cuban workers, with Grenada and Huambo on their minds, are likely to avoid projects in countries harboring active insurgencies.

25X1

The Castro regime's sensitivity to the Huambo incident is certain to be reflected in increased security measures wherever large numbers of Cubans are stationed abroad. Havana probably sees groups of Cubans housed together as particularly vulnerable and requiring special protection. Security was tightened in some Cuban enclaves abroad after the Grenada intervention last October, and new restrictions are likely to cause alarm among Cubans on internationalist duty. Havana, however, cannot afford another incident in which it must justify further casualties to the people at home.

25X1

25X1

Cuba: Limited Success in Energy Conservation []

25X1

Havana has implemented several energy conservation measures during the past two years in response to a lucrative incentive offered by the USSR.

Consumption of oil—which produces nearly four-fifths of Cuba's total energy—dropped significantly during the period, but only a portion of the decline was the result of more efficient use. []

The Cuban Government has long urged the public to conserve costly raw materials, particularly oil. Such exhortations rose appreciably in late 1981 after an agreement apparently was reached with the USSR whereby Cuba received hard currency for the oil it saved from its protocol allotment. The Castro government sought to alleviate its severe foreign exchange shortages by taking maximum advantage of the program. Television and billboard slogans encouraged conservation, gasoline rations were reduced, and bonuses were awarded to workers at enterprises that lowered oil consumption. Havana even forced savings by turning off electricity at firms that used more than their allotment. In addition, a National Energy Commission was created last year to develop and manage energy policies. []

As a result, oil consumption apparently has dropped significantly. Actual Soviet oil deliveries to Cuba were only about 170,000 b/d last year, down from nearly 200,000 b/d in 1982 and 215,000 b/d in 1981.² Cuban statistics indicate that the incentive plan brought Havana over \$200 million in 1982 and nearly \$600 million last year. []

¹ Although Cuba produces some oil itself, the only significant domestic source of energy is bagasse—a byproduct of sugarcane milling. It accounts for an estimated 20 percent of total energy consumption. []

² Most of Cuba's oil imports come from the USSR, but some are furnished by Venezuela under a swap arrangement whereby Moscow delivers an equal amount of oil to one of Caracas' customers in Western Europe. The deliveries from Venezuela are included in these totals. []

Domestic production of oil increased during the period, but not nearly enough to cover the 20 percent decline in deliveries during the past two years.

According to Cuban data, extraction more than doubled to almost 11,000 b/d in 1982 and rose an additional 35 percent last year. However, this still represents only a small portion—8 percent—of total oil use. []

25X1

Havana may have used its oil reserves to make up for part of the lower deliveries. According to imagery analysis, the island has a storage capacity of about 15.5 million barrels, but it is not possible to determine the actual amount stored in the tanks at any given time. Nevertheless, we believe that Havana's fears of a US naval blockade preclude it from drawing on its petroleum reserves for a sustained period. Moreover, even if the oil storage tanks are now full, they would be totally depleted by 1985 just to bring annual consumption in 1984 up to the 1981 level. []

25X1

25X1

Cuban statistics and our analysis of the island's hard currency needs through 1985—when the incentive plan expires—indicate that Havana will continue to rely on the special arrangement as a source of funds. Thus, we do not expect oil deliveries to return to the 1981 level during this period, even though they may rise slightly over last year's level. []

25X1

25X1

Effect of Lower Consumption

We have no evidence that the fall of petroleum imports in 1982 and 1983 has resulted in shortages. Conservation efforts probably helped to fill the gap, and slower economic activity during the period also played a part. The lack of foreign exchange for imports for industry and transportation—which account for over 70 percent of total oil use—probably depressed demand in these sectors. []

25X1

25X1

25X1

25X1

25X1

The lower rate of oil imports is likely to be felt more this year and next as demand moderately increases. A new Soviet-funded nickel plant is scheduled to come on line during this period, and this alone will increase total oil demand by about 5 percent. In addition, thermoelectric power plants scheduled to open could raise needs by an additional 3 to 5 percent.

25X1

The government likely will endeavor to protect export industries, particularly those that earn hard currency. Most of the sugar industry's energy requirements are satisfied by bagasse, and tobacco harvesting and processing also uses only minimal amounts of petroleum. The export industries most dependent on oil are nickel and seafood. Moreover, all exports depend on the cargo transportation sector, a heavy petroleum user.

25X1

Based on the regime's past practices, we expect consumers will bear the brunt of any oil shortages. This would be accomplished through brownouts of homes and of industries that produce for domestic consumption as well as through reductions in public transportation. Such measures probably would result in a moderate reduction in economic activity, living standards, and labor productivity, while increasing worker absenteeism.

25X1

25X1

**Nicaragua: Exaggerating Insurgent
Economic Damage**

25X1

In public speeches excoriating US policy toward Nicaragua, Junta Coordinator Daniel Ortega and other Sandinista leaders periodically have announced the costs—both in cordobas and in US dollars—that they claim the anti-Sandinista insurgents have inflicted on the economy. We have insufficient evidence to confirm or refute specific items on the balance sheet, but, even if Ortega's cordoba figures are accurate, he grossly overstated the value of the Nicaraguan currency.

In an address to the Council of State on 4 May, for example, Ortega claimed that the insurgents had caused 1.28 billion cordobas' worth of physical damage in 1983, equivalent—he claimed—to US \$128 million. Ortega, however, used an unrealistic exchange rate—the “official” one of 10 cordobas to the dollar.

Nicaragua has three exchange rates, two of which—the “official” and “parallel”—are set at artificially low levels by the government. Government entities buy imports at the “official” rate, while the costlier commercial or “parallel” rate of 28 to 1 is used for officially sanctioned private transactions. With its net international reserves already in the red, Managua is honoring only the most essential transactions at these exchange rates. The pent-up demand for dollars, however, has created a flourishing black market, on which the exchange rate rose rapidly last year, and currently is about 140 to 1.

For 1983, we believe the “true” equilibrium exchange rate—balancing the demand for and supply of dollars—most likely ranged between 28 and 80 to 1. If Ortega's cordoba figures are converted on this basis, the dollar cost of alleged insurgent damage would range between \$16 million and \$46 million.

In addition to overstating the value of the cordoba, the Sandinistas have in at least one instance inflated the extent of damage. In totaling the costs arising from the mining of Nicaragua's harbors, for example, Ortega included \$2.8 million for damage to foreign ships, but this probably was paid by the ships' foreign owners.

25X1

Calculation of the costs of a large-scale military action is extremely difficult, especially when the estimators are far from the scene, only fragmentary information is available, and the local economy would be shrinking even if no insurgency existed. Nevertheless, simply recalculating the Sandinistas' own damage claims tracks with our independent judgment that the economic impact of the insurgency has been fairly limited. The Sandinistas exaggerate the dollar costs to deflect domestic criticism over their sagging economy and to rally international support to their cause.

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Paraguay: Stroessner May Plan To Step Down [REDACTED]

25X1

Since late April, two senior Paraguayan officials, believed to be speaking with presidential approval, have told US Embassy officials that President Stroessner would not seek another term in 1988. His age—he would be nearly 76 at the start of the campaign—and growing health problems were cited as reasons.

Stroessner reportedly wants to visit the United States, perhaps under the pretext of attending the Olympics this summer, to receive a thorough medical examination. [REDACTED]

[REDACTED] the President was planning to take steps to quell widely circulating rumors of his ill health, but that he was also making plans for a possible prolonged absence from Paraguay.

The US Embassy reports there are no indications that Stroessner is ill, [REDACTED]

[REDACTED] His decision to tell the United States of his plans may be designed to reduce human rights pressure in the wake of his recent closure of a major opposition newspaper.

The rumors of Stroessner's ill health have sparked a new round of quiet maneuvering among senior military commanders as well as potential successors within the ruling Colorado Party and opposition political groups. Because the President apparently has made no plans for his succession, any prolonged absence on his part will heighten restiveness among the contenders. The President's grip on power remains firm, however, and we do not expect the potential heirs to risk any overt moves until Stroessner clearly signals his intentions.

[REDACTED]



President Stroessner [REDACTED]

Liaison ©

25X1

25X1

25X1

25X6

25X6

25X1

Secret

Latin America Briefs

Venezuela

Emergency Powers

25X1

Venezuelan President Lusinchi is seeking to expedite his economic program by pushing for an "enabling law" that would allow him to bypass Congress and issue measures by presidential decree. We believe that in requesting this legislation, which would grant him power extended to only two of his predecessors, Lusinchi is trying to prevent opposition parties from delaying congressional action and to deny them a podium for criticizing his government's austerity measures as municipal elections approach on 27 May. Because of the ruling party's solid majority in Congress, the law is virtually certain to be enacted soon and will remain in effect for one year. It will enable Lusinchi to implement measures to subsidize the food costs of lower income groups, increase employment in the private sector, and attempt to decrease government expenditures by 10 percent.

25X1

Peru

Pressures on Economic Policy

25X1

The Belaunde government recently reached agreement with the IMF, but we believe its commitment to the revised austerity program will be severely tested this year. In late April, the IMF approved \$340 million in compensatory financing and standby credit after Lima agreed to painful belt-tightening measures, including sharp cuts in government spending and large tax increases. Together with a mandated relaxation of price controls and higher import surtaxes, last year's triple-digit inflation rate is likely to be pushed higher, further eroding living standards and raising social tensions.

25X1

The US Embassy reports that Peru met first-quarter IMF criteria, but we agree with foreign creditors that the program could easily come apart because the strains of inflation and economic recession are stirring social unrest. Prices rose 30 percent in the first four months, and public employees are already demanding wage increases. According to the US Embassy, a threatened nationwide labor strike would further press Belaunde to ease austerity. Moreover, when the IMF-approved program is presented to the Peruvian congress, we anticipate harsh criticism in view of the Belaunde government's weak political position and the approaching election year.

25X1

Jamaica

New Bauxite Agreement

25X1

Jamaica and the four US and Canadian aluminum companies operating on the island have agreed on a new five-year tax regime to replace the agreement that

Secret

ALA LAR 84-009
18 May 1984

ended last December. The new measures include production incentives, a slight reduction in the levy charged on the sales of aluminum, and an increase in the royalties paid per ton of bauxite. The companies also have agreed to maintain investment at the 1983 level over the next five years and to make monthly rather than quarterly payments to the government, which should help smooth Jamaica's chronic cash flow problems. Jamaican officials estimate that the new tax schedule, together with the strengthening of world demand for aluminum, will help boost bauxite production almost 20 percent to 9 million metric tons this year, adding as much as \$10 million in new government revenues. []

25X1

The government's optimism for the bauxite sector, however, may be quickly shattered. Bauxite workers and management have been waiting to see how the tax discussions and recent currency devaluations work out before beginning negotiations on a new contract. The quickening pace of inflation and the probability that opposition leader Michael Manley will head the labor delegation could politicize and prolong the negotiations. []

25X1

St. Vincent**Election Prospects** []

25X1

[] Prime Minister Cato will call for general elections in late June or early July, nearly one year earlier than required by the Constitution. Cato apparently hopes to secure another term for his St. Vincent Labor Party before announcing unpopular budget measures in July. Voter turnout will probably be low because of widespread dissatisfaction with Cato's party, but the lack of a unified opposition should allow him to win a third consecutive term.

25X1

[]

Opposition parties have abandoned their efforts to reach some measure of unity. Since the last elections in 1979, their parliamentary representation has resembled a game of musical chairs, with members from each of the represented parties having served as leader of the opposition for a brief period of time. Although the New Democratic Movement is the best organized and strongest of the opposition parties, it is based in the associated Grenadine Islands and has little following on St. Vincent. Without the cooperation of parties on the main island, the New Democratic Movement's chances of success are limited. The remaining opposition parties, poorly organized and plagued by internal squabbles, are unlikely to make a significant showing at the polls []

25X1

25X1

Cuba Chronology

April 1984

-
- 1 April** Foreign Minister Malmierca arrives in Paris where he discusses the situation in Central America and southern Africa with French Foreign Minister Claude Cheysson.
- Cuba's UNCTAD delegate Carlos Lechuga denounces US aggression in Central America and the Caribbean, alleging this precludes successful economic negotiations.
- 2 April** The USSR's Petroleum Industry Minister Nikolay Mal'tsev and Cuba's Minister of Basic Industry Marcos Portal sign a cooperation protocol in oil production in Moscow.
- 3 April** Foreign Minister Malmierca tells French Prime Minister Mauroy that Fidel Castro would like to visit several European countries, but the current situation in Cuba and the region does not allow him to do so at present.
- 4 April** The Grenadian Government announces the police, in cooperation with the Caribbean Peacekeeping Force, have discovered a major arms cache in the now-vacated Cuban Embassy.
- During a speech in Pinar del Rio Province, Raul Castro says that Cuba, if attacked, will fight not only to its last drop of blood, but to the invaders' last drop as well.
- 9 April** Senior Pentagon officials say the Soviet helicopter carrier Leningrad is conducting operations with a Cuban frigate in the Gulf of Mexico and approached within 100 miles of the US coast on 7 April.
- 10 April** Guyana press reports that, during a visit to Havana by Manpower and Cooperatives Minister Kenneth Denny, a memorandum on collaboration in labor, social security, and cooperation was signed.
- A 28-year-old Cuban citizen is killed by police when he tries to seek asylum at the Venezuelan Embassy in Havana.
- 13 April** Venezuelan President Lusinchi asks Havana to explain the killing of a Cuban who tried to enter the Venezuelan Embassy in Havana on 10 April, the second such incident this year.

Secret**16 April**

Raul Castro presides over a military ceremony commemorating the 23rd anniversary of the Bay of Pigs.

Division General Raul Menendez Tomashevich condemns US policy in Central America during a speech commemorating the 23rd anniversary of the Bay of Pigs.

18 April

Prensa Latina reports Foreign Minister Malmierca's statement that Cuba probably would be willing to help sweep mines from Nicaraguan harbors, if invited.

The Deputy Prime Minister of Antigua, Lester Bird, says he was able to persuade the cabinet that talks with Cuba should be held to discuss sporting and cultural relations.

22 April

Life expectancy in Cuba now exceeds 73 years, the infant mortality rate last year was 16.8 percent, and there was a marked reduction of infectious diseases, according to Abelardo Ramirez.

The Union for the Total Independence of Angola claims responsibility for a bomb attack in Huambo on 19 April that killed two Soviet military officials and 37 Cubans and wounded about 100.

24 April

After meeting with Venezuelan President Lusinchi, US Special Envoy Shlaudeman rejects broadening of the Contadora peace process to bring in Cuba.

25 April

Granma accuses the United States and its South African allies of responsibility for last week's bomb explosion in Huambo.

This chronology is Unclassified.

Secret

Secret