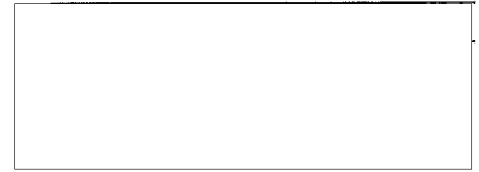




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# **Nicaragua: Coping With US Sanctions**



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**An Intelligence Assessment**

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# Nicaragua: Coping With US Sanctions



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**An Intelligence Assessment**

This paper was prepared by   
Office of African and Latin American Analysis, with  
contributions from   
 Office of Global Issues. It was  
coordinated with the Directorate of Operations.  
Comments and queries are welcome and may be  
directed to the Chief, Middle America-Caribbean  
Division, ALA 

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**Nicaragua:  
Coping With US Sanctions**



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**Key Judgments**

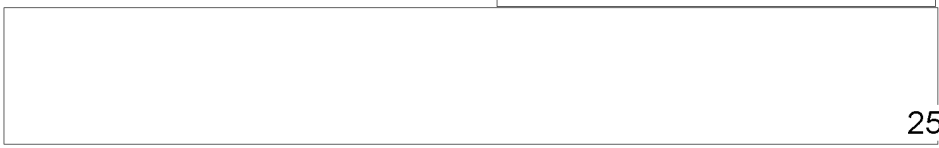
*Information available  
as of 31 March 1987  
was used in this report.*

Trade disruptions and the diversion of financial and managerial resources to circumvent US economic sanctions have put significant additional pressure on the already staggering Nicaraguan economy. The embargo has directly cost Managua about \$85 million in lower export earnings, more expensive imports, and new middlemen fees since sanctions were initiated, according to our analysis of [redacted] industry and trade statistics. [redacted]

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Nicaragua still has been unable to find new customers for much of its previous sales to the United States, and higher transportation costs have reduced net foreign exchange earnings for those commodity exports that the Sandinistas have been able to relocate. [redacted]

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Indirect costs have also been significant, though harder to quantify. Maneuvering around US sanctions requires exhaustive bureaucratic attention, limiting Managua's ability to respond to other issues. Meanwhile, shortages of US-produced spare parts, machinery, and agrochemicals have stunted production, adding to triple-digit inflation. [redacted]

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From the standpoint of remaining Sandinista vulnerabilities, a tightening of US economic sanctions could further reduce Managua's access to US goods, technology, and financing and increase, even at the margin, the cost to Moscow of maintaining the regime. Prohibiting US persons and third-country subsidiaries from supplying goods and services to the regime would further raise the costs of front company operations. Ending private economic aid or financial remittances from US persons would cut Managua's hard currency receipts from the West by as much as \$20 million per year. [redacted]

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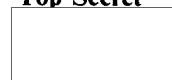
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**Nicaragua:  
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**Cost of Current Sanctions**

Even before US sanctions were announced on 1 May 1985, Nicaragua's economy was in a tailspin because of the Sandinistas' economic and financial mismanagement, their hostility to the private sector, and dislocations caused by the growing civil war. The direct and indirect costs of the US sanctions have contributed to the continuing deterioration of the economy.

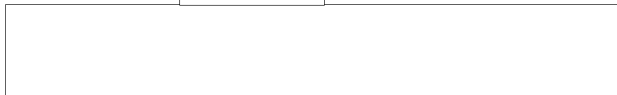


We calculate US sanctions directly cost Managua some \$85 million because of the loss of access to US markets, higher freight costs for exports and imports, and new middlemen fees to circumvent the embargo through February 1987.<sup>1</sup> Sandinista claims that the embargo cost \$165 million in direct losses through last year are, in our opinion, exaggerated to deflect blame from the regime for its general mismanagement of the economy.



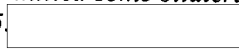
On the export side, we estimate that direct sanction-related losses have cost the Sandinistas \$52 million in net foreign exchange losses since the embargo was announced. Of this amount, \$20 million was lost during the last seven months of 1985, \$28 million during 1986, and the rest during the first two months of 1987. The impact is concentrated in a number of areas:

- We estimate that net hard currency earnings from beef exports fell some \$5 million in 1985 and \$9 million more in 1986 because of the embargo. Efforts to find alternate markets in Canada and elsewhere have been mostly unsuccessful, according to Embassy sources.



**Sanctions Background**

*The United States announced limited economic sanctions against Nicaragua on 1 May 1985. Included in the sanctions were the embargo of most direct trade relations and the termination of Nicaraguan air and maritime service to the United States. Unlike previous US sanctions against China, North Korea, Cuba, Vietnam, and Cambodia, the sanctions did not call for an asset freeze, travel limitations, or prohibitions against doing business with Nicaragua either on a personal contract basis or through third-country subsidiaries. The sanctions became effective on 7 May 1985 and, to avoid disruptions in contracted production and shipping schedules, allowed an extended phase-in period that permitted some bilateral trade during the rest of 1985.*



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*Current sanctions do not restrict imports or exports of publications and gifts to or from Nicaragua, nor do they limit the commercial export of medicines or supplies intended strictly for medical purposes. Moreover, the export to Nicaragua of nondonated goods for humanitarian, educational, or religious purposes can be authorized on a case-by-case basis. Using these exceptions, Nicaragua legally and directly obtained \$3 million worth of US products during 1986, according to official US trade data. Of this, approximately half were in the form of charitable and relief donations; one-fourth were medical supplies; and most of the balance were news publications or education-related items. US trade data show that Nicaraguans shipped \$900,000 worth of publications and gifts to the United States in 1986.*

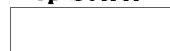


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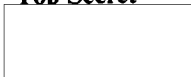


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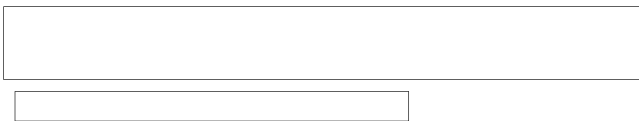
- We estimate that loss of the US *sugar* market cost Managua about \$7 million in 1985 and another \$4 million in 1986. Since the Sandinistas lost the US sugar quota, they have had to sell largely on the glutted world market at less than one-third the subsidized US price.
- We estimate that net foreign exchange earnings from *banana* exports fell by some \$3 million in 1985 and \$8 million in 1986. While new sales to West European customers took up some of the slack, [redacted] higher transportation costs and product deterioration during the longer shipping time have sharply cut profit margins.
- Net foreign exchange losses from lower passenger and cargo revenue and higher prices for maintenance and spare parts cost Aeronica—the state airline—about \$2 million in 1985 and another \$3 million in 1986, according to official Nicaraguan estimates [redacted]. The Sandinistas have been able to limit Aeronica losses somewhat by selling Nicaraguan tours out of US travel agencies and rescheduling some flights through Mexico, Honduras, and Costa Rica.
- Despite some success in redirecting *seafood* and *tobacco* exports, we estimate that sanctions cut their net foreign exchange earning by \$3 million in 1985 and \$4 million in 1986. [redacted]

On the import side, we estimate direct foreign exchange expenses from higher prices and new middlemen fees to regain access to priority US-sanctioned goods have cost the Sandinistas about \$33 million, including \$14 million in 1985, \$16 million in 1986, and \$3 million during the first two months of this year. [redacted] the Sandinistas are only gradually reducing their dependency on US goods. [redacted] while the Sandinistas have found some new suppliers for much of the foodstuffs and raw materials formerly provided by US sources, they have not done nearly as well replacing imports of US-built machinery, agrochemicals, and spare parts. While costs of regaining access to priority US-sanctioned goods varies considerably, [redacted] an average additional 25-percent

**Table 1** Million US \$  
**Nicaragua: Direct Costs of Sanctions**

	1985 <sup>a</sup>	1986	1987 <sup>b</sup>
<b>Total export and import losses</b>	<b>34</b>	<b>44</b>	<b>7</b>
Export losses	20	28	4
Beef	5	9	NA
Sugar	7	4	NA
Bananas	3	8	NA
Aeronica	2	3	NA
Seafood	2	3	NA
Tobacco	1	1	NA
Import losses	14	16	3
Machinery and chemicals	10	12	NA
Other	4	4	NA

<sup>a</sup> Embargo phased in beginning 7 May 1985; costs are estimated net foreign exchange losses.  
<sup>b</sup> Through February 1987.



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markup to obtain these goods through third-country US subsidiaries or by using front companies to procure the items in the United States. As a result:

- We estimate that because of embargo-circumvention surcharges the Sandinistas paid an extra \$10 million during the second half of 1985 to buy priority US-manufactured spare parts, machinery, and chemicals. [redacted] the Sandinistas were able to reduce their dependency on US goods somewhat in 1986, we estimate that Managua still paid an extra \$12 million to procure those critical supplies.
- We estimate that Managua paid an extra \$4 million in both 1985 and 1986 to retain access to raw materials and semifinished and consumer goods. [redacted]

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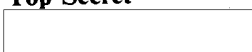
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While the Sandinistas have made some progress in reducing their reliance on imported US goods and services, we estimate that it will be years before they can work their way completely free of dependency on US supplies. [redacted] at least half of Nicaragua's existing capital stock (plants, factories, machinery, and equipment) is still dependent on US spare parts and equipment despite the longstanding Sandinista policy of cutting economic ties to the United States. By early 1985, six years into the revolution, new suppliers in the Soviet Bloc, Spain, and Italy had just begun to provide agricultural machinery to the Sandinistas. Even so, just after the embargo was announced, Sandinista planning officials publicly reported that US companies were providing 46 percent of all tractors; 90 percent of their seeds; the majority of the machinery used in milking plants, slaughterhouses, and chemical production plants; and all of their poultry incubation equipment, cotton harvesters, and light fumigation aircraft. By late February 1987, Ministry of Agriculture officials announced that, despite imports of Polish aircraft for crop dusting, its fleet of fumigation airplanes was still 77 percent US-made, and that no further replacements were expected anytime soon. [redacted]

We believe the economic impact of US sanctions goes far beyond the direct costs of hard currency losses, but the indirect costs to the economy are much more difficult to quantify. [redacted] the embargo has required substantial bureaucratic attention, which has further strained Managua's ability to address critical domestic economic issues and development projects. Moreover, where the Sandinistas have been able to find replacement imports for US goods in either the West or the Soviet Bloc and thus avoid the circumvention surcharge, [redacted] quality differentials have often resulted in adaptation problems and lower productivity. As it is, [redacted] the shortage of adequate replacement parts for US-made plants and machinery continues to stunt production in a wide range of activities. For example, the domestic commercial fishing fleet has been virtually disabled, although Managua has limited foreign exchange losses by leasing some of its fishing grounds to Cuba and to private fishermen in Costa Rica and Honduras. The Sandinistas have also

**Economy in Shambles**

*Even before the sanctions were announced, Nicaragua's economy was in a tailspin because of the Sandinistas' economic and financial mismanagement, their hostility to the private sector, and dislocations caused by the growing civil war.<sup>a</sup> Trade problems resulting from the US economic sanctions have compounded the decline. We estimate that real GDP fell by 5 percent per year in 1985 and 1986, and that overall economic activity is now one-third below prerevolution levels. Export losses caused by inappropriate economic policies and exacerbated by the trade embargo have driven Nicaragua's hard currency export earnings to less than half of 1984 levels and to just a fraction of the prerevolution amount. Meanwhile, inflation is soaring, having jumped from 50 percent in 1984 to 330 percent in 1985 and 660 percent in 1986, according to official Nicaraguan estimates.* [redacted]

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*The effect of the economic slide on the population is increasingly severe. Real wages and personal income are about one-half pre-1979 levels, according to IMF and official Nicaraguan figures, and recent food shortages are more serious than at any time since the revolution, according to government spokesmen. In these circumstances, a number of foreign correspondents report that many Nicaraguans have cut their diets to subsistence levels and that some are going hungry. In February, Managua announced that rations of rice and cooking oil would be cut in half for at least the next two months.* [redacted]

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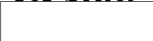
had to eliminate jobs in banana field operations and in government-owned meat-packing plants because of lower foreign trade demand, according to Embassy [redacted] reporting. In the aggregate, we believe

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these factors have played a substantial role in dampening economic activity, increasing consumer and producer shortages, and accelerating triple-digit inflation rates.

While the embargo has hurt the Sandinistas, Nicaraguan private-sector spokesmen report that the added impact of sanctions has been relatively small on their already restricted operations. According to US Embassy reporting, most businessmen agree with a 1985 *La Prensa* article that stated that the private sector had already been "embargoed for the past five years by the Sandinistas" because the Sandinistas were monopolizing foreign trade and tightly controlling all domestic credit and foreign exchange allocations. Before the embargo, private-sector leaders said that they had access to US goods only through black-market activities, usually involving direct contacts with friends and relatives in the United States or neighboring countries. Since the embargo, some businessmen report that improvements in the black market have increased their access to US goods purchased through third countries.

**Counterembargo Strategy**

Managua has publicly announced a two-phased counterembargo strategy. In the short term the Sandinistas call for trade diversification to replace lost US markets. Over the longer haul the regime plans to break remaining US economic linkages by streamlining industry and agriculture and accelerating the replacement of all US-origin plants, factories, and technologies. To date, in part because of the chaotic economic situation, virtually all of the emphasis has been placed on finding immediate trade solutions.

publicly Managua emphasizes legal efforts to develop new international trade partners, including US subsidiaries located in third countries,



**Search for New Trade Partners**

Managua's search for new Western outlets to replace former US customers has been largely unsuccessful. Since the embargo, total exports to Western nations other than the United States have fallen one-fifth, according to international trade statistics. After nearly two years, the regime has not been able to find stable new markets for its beef, seafood, and tobacco. For example, Canadians have been reluctant to expand purchases of beef because of poor quality, according to Embassy reporting. Efforts to find new markets for seafood have suffered because of virtually prohibitive transportation costs.

Although Nicaragua has sold more bananas to Western Europe, the volume of total banana exports remains substantially depressed from presanctions levels, according to Nicaraguan trade statistics. Since the embargo, international trade statistics show that among non-Soviet or non-East European countries only Belgium, Switzerland, and the Netherlands have increased their purchases from Nicaragua by significant amounts. Even so, higher Swiss and Dutch imports resulted from increased coffee purchases, and thus had little effect on the impact of the embargo because Managua had sold only small amounts of coffee to the United States in the period before the embargo. Of all Western markets, only increased banana sales to the Belgians appear to have given the Sandinistas much relief from the effects of the sanctions.

While international trade statistics show that Nicaraguan imports from the West have also fallen substantially since the embargo was announced, Nicaraguan purchases from some non-US Western suppliers have helped ease the void caused by the embargo. According to the US Embassy, and trade statistics, the Sandinistas have been able to obtain a small amount of spare parts for US vehicles and equipment from suppliers in Spain and the United Kingdom. Managua has also purchased some replacement chemicals and consumer goods from Switzerland, Belgium, France, and the Netherlands.

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**Table 2**  
**Nicaragua: Destination of Exports**

Million US \$

	1984	1985	1986 <sup>a</sup>	Key Commodities
<b>Total</b>	<b>385</b>	<b>297</b>	<b>267</b>	
<b>Non-CEMA</b>	<b>355</b>	<b>279</b>	<b>238</b>	
Japan	105	60	45	Cotton, coffee
United States	69	50	1	Bananas, meat, seafood, sugar
France	40	22	30	Cotton, coffee
Canada	39	21	20	Seafood, meat, coffee
West Germany	33	34	38	Cotton, coffee
Costa Rica	16	13	8	Manufactures, raw materials
Guatemala	13	12	10	Cotton, manufactures, raw materials
Netherlands	9	10	24	Coffee
Switzerland	6	8	20	Coffee
Belgium	4	5	17	Bananas, coffee
Libya	0	6	5	Coffee, bananas
Taiwan	0	9	5	Cotton
Other non-CEMA	21	29	15	
<b>CEMA</b>	<b>30</b>	<b>18</b>	<b>29</b>	
Cuba	12	8	5	Manufactures, raw materials
East Germany	9	4	8	Coffee, cotton
USSR	1	0	10	Coffee, sugar, cotton
Bulgaria	4	3	3	Cotton
Czechoslovakia	4	3	3	

<sup>a</sup> Estimates based on IMF and UN trade tapes and Embassy reporting.

[Redacted]

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Growing trade relations with the Soviet Bloc have helped ease the impact of the embargo, but poor quality also has limited Managua's exports to the Bloc. Moreover, Communist suppliers manufacture only a small fraction of sanctioned US products. Nicaraguan exports to the Soviet Bloc actually fell after the embargo was announced because Bloc countries did not follow up initial 1984 sample commodity purchases with new orders. During the past year Managua has worked hard to reverse this, and new commodity sales to East Germany and the Soviet Union have allowed Nicaraguan exports to the Bloc to partially rebound. [Redacted]

[Redacted]

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[Redacted] the Soviet Bloc countries have shown little immediate interest in expanding purchases of the Nicaraguan beef, bananas, and seafood that have been most affected by the embargo. On the import side, the increase in Soviet Bloc shipments to Nicaragua has been mostly in the form of fuels, foods, and raw materials, little of which has directly replaced sanctioned US goods. Moreover, press [Redacted] sources indicate that Bloc suppliers are not able to directly replace most sanctioned US machinery, agrochemicals, spare parts, and luxury consumer goods.

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**Table 3**  
**Nicaragua: Sources of Imports**

*Million US \$*

	1984	1985	1986 <sup>a</sup>
<b>Total</b>	<b>800</b>	<b>842</b>	<b>930</b>
Non-CEMA	552	472	385
United States	112	42	3
Mexico	69	30	10
Guatemala	53	51	40
France	31	36	44
Spain	31	33	25
Costa Rica	28	25	25
Venezuela	27	24	20
Argentina	21	26	19
West Germany	18	16	20
Canada	18	14	19
Italy	14	16	16
Colombia	14	13	11
Brazil	14	7	8
Japan	13	24	10
Switzerland	11	19	21
Sweden	9	10	7
Panama	8	18	20
Netherlands	8	8	12
Taiwan	8	8	6
United Kingdom	6	8	9
El Salvador	5	5	5
Belgium	3	1	7
Peru	1	1	2
Other non-CEMA	30	37	26
CEMA	248	370	545
USSR	170	242	430
Cuba	34	44	30
Bulgaria	17	33	30
Czechoslovakia	17	21	20
East Germany	10	30	35

<sup>a</sup> Estimates based on IMF trade tapes and Embassy reporting.



In addition to direct search for new trade partners, Managua has used third countries as platforms to regain some access to US seafood and, to a lesser extent, coffee markets. [Redacted] the Sandinistas have used third countries to clean, bag, and ship shrimp and lobster caught

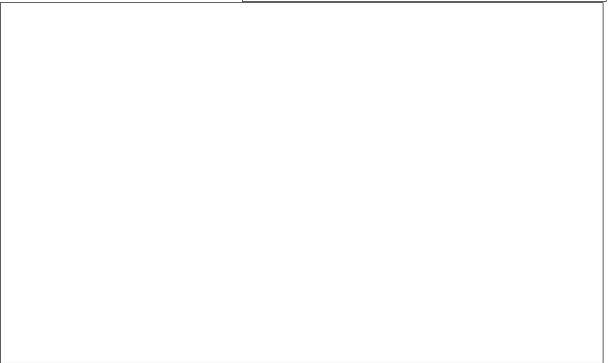
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in Nicaraguan waters to the United States. Others in the Caribbean and Europe have repackaged Nicaraguan coffee for resale at high prices in US specialty shops. [Redacted] a portion of the profits from such activities go back to the Sandinistas.



**Dealing With US Subsidiaries and Consultants**

The Sandinistas have regained access to a substantial portion of sanctioned goods and services by buying them from US subsidiaries in third countries and from US foreign trade brokers and consultants, as permitted by the 1985 sanctions. [Redacted] the Sandinistas have been able to meet much of their priority agrochemical needs by using commercial trade credits or commodity swaps from subsidiaries of US companies in Europe, Latin America, and Japan. [Redacted]



In addition to the goods provided by US subsidiaries, scores of US persons regularly provide a wide variety of services to the Sandinistas. According to recent press reporting, as many as 100 US citizens currently work full-time in Nicaragua for the Sandinistas while perhaps another 2,000 to 3,000 work part-time or as volunteers on government projects. According to Sandinista press and US Embassy reporting, US citizens regularly travel to Nicaragua to provide consultations on computer software and hardware systems and technical support for agriculture and industry. [Redacted]

[Redacted] US firms frequently provide financial, insurance, and shipping services for the Sandinistas. Specifically, industry sources have told the US Embassy that US ships have handled the bulk of Nicaraguan banana exports to Europe. [Redacted]

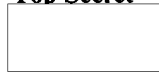
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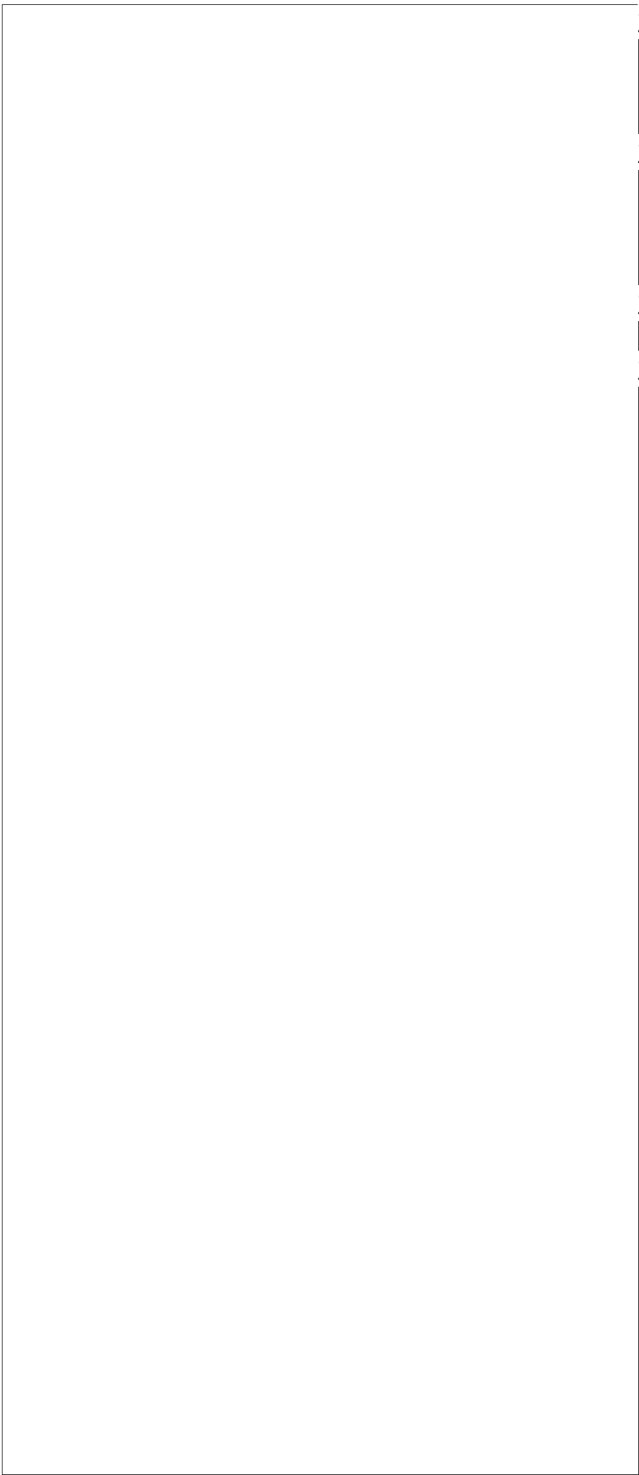
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bassy reports indicate that there has been no US  
direct private investment since the Sandinistas took  
power, and all but a few of the remaining US-owned  
businesses are fully staffed by Nicaraguan citizens.



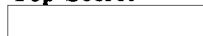
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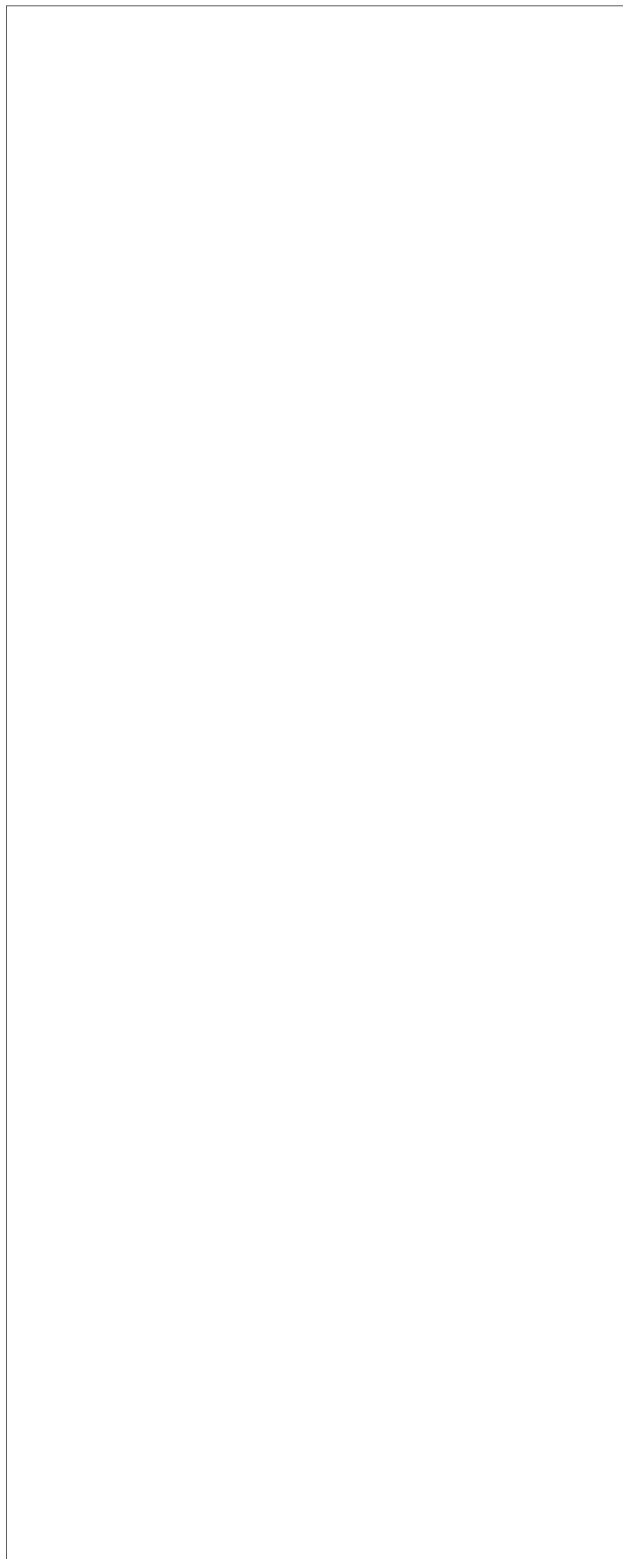
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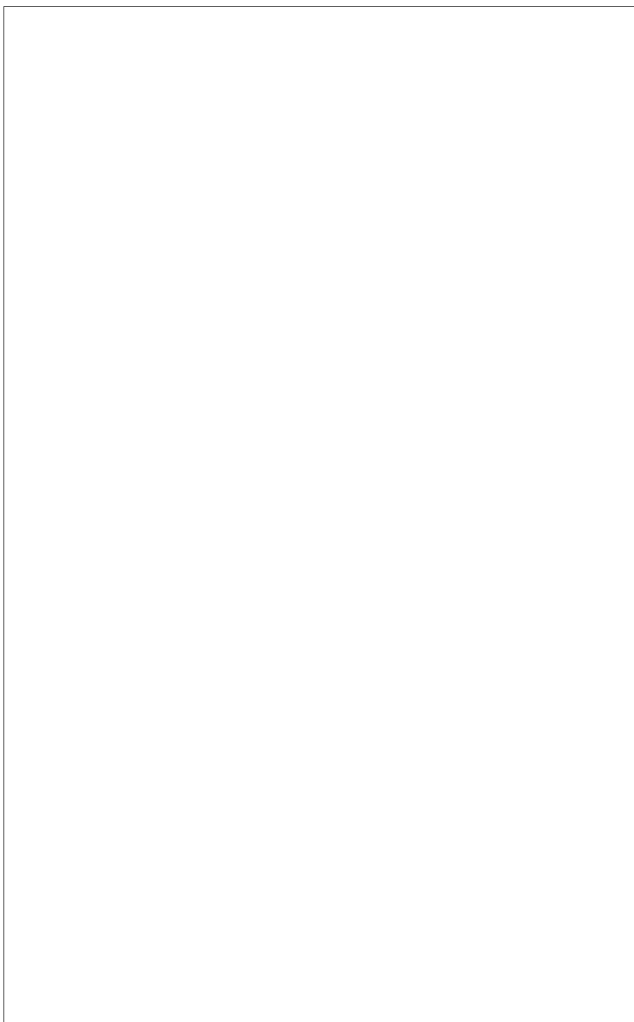


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**Increased Reliance on Foreign Financial Support**

Managua is relying on increased foreign support to finance purchases from new Western suppliers, US subsidiaries in third countries, and front companies. Immediately after the sanctions were announced, teams of Sandinistas, including delegations headed by President Daniel Ortega, and other top policymakers traveled through the Soviet Bloc, Canada, Western Europe, Latin America, and the radical Arab states asking for financial support to offset the embargo. The Sandinistas have also increasingly turned to private sources for additional hard currency funding.



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The Soviet Bloc has been most responsive. Within weeks of the announcement of the May 1985 sanctions, President Daniel Ortega had received a \$100 million supplemental boost of financial support from the Soviet Bloc. [redacted]

Managua's approaches to potential Western donors have not been as successful. During 1985 and 1986, while total financial support from the Bloc was increasing by more than \$100 million each year, official financial support from the West fell by an average \$70 million per year. Only Sweden and Norway have raised their contributions, with increases totaling about \$5 million in 1985-86. [redacted]

As official financial support from the West has declined, the Sandinistas are making a determined effort to attract more financial support from private, including US, sources. During the past two years we believe private donations from US citizens to Sandinista organizations has reached at least \$5 million each year, according to our analysis of Sandinista press reports and statements from spokesmen of US-based Sandinista support groups. To encourage larger private donations to the government, the Ministry of Foreign Cooperation, at the urging of private donors, has recently set up an office in Managua devoted solely to cutting redtape and developing relations with private donors. [redacted]

The Sandinistas benefit from private remittances through their control over foreign exchange. Within weeks of the embargo Managua set up the government-controlled Money Changing House in Managua as the sole legal channel for persons outside the country to remit cash to families and friends inside Nicaragua. Since the Money Changing House was

**Table 6** *Million US \$*  
**Nicaragua: Sources of Financial Support**

	1984	1985	1986 <sup>a</sup>
Soviet Bloc and Cuba	323	449	582
USSR	140	235	325
East Germany	73	108	149
Cuba	65	55	45
Bulgaria	23	32	21
Czechoslovakia	20	8	26
Other	2	11	16
OECD	90	86	77
Netherlands	21	16	15
Spain	15	12	10
Sweden	17	18	18
West Germany	5	6	3
Norway	6	5	10
Other	26	29	21
Multilateral	75	42	35
Private sources	11	10	10
Latin America	120	80	40
Mexico	80	36	8
Venezuela	8	2	0
Other	32	42	32
OPEC	39	31	21
Libya	12	12	18
Iran	27	1	3
Algeria	0	18	0
Other countries	11	10	20
<b>Total</b>	<b>669</b>	<b>708</b>	<b>785</b>

<sup>a</sup> Estimates based on Embassy reporting.

opened in May 1985, Embassy reports indicate that it has handled up to \$1 million per month in remittances. To encourage dollar remittances, Managua authorized a number of agents in New York, New Orleans, Houston, Chicago, and Los Angeles to facilitate the transactions, according to press and Embassy reporting. [redacted]

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**Implications for Sandinista Vulnerabilities**

We believe that the current sanctions have hurt the Sandinista economy, and probably increased Managua's vulnerability to internal dissent and armed insurrection. From Managua's standpoint remaining vulnerabilities exist. Given Sandinista efforts to find loopholes and gaps in US sanctions, tighter US economic sanctions would certainly restrict remaining Sandinista access to US goods, technology, and financing. Even if sanctions were tightened, Managua would be likely to try to keep some limited access to US products and expertise, not only by relying more on front companies, but also by focusing efforts on areas where US policy actions would in principle result in increased financial costs to US citizens and possibly some international legal challenges.



Sandinista hard currency earnings could be further cut by restricting their access to third-country US subsidiaries or tightening regulations on the import of Nicaraguan products currently allowed to enter the United States following minimal processing in third countries. While either of these steps could result in legal challenges, neither would result in substantial financial costs to third countries, and both would hurt Managua substantially more. Even so, some third countries would be likely to fight the steps for political reasons in support of Nicaraguan extraterritoriality claims.



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We calculate that restricting economic aid or financial remittances from US persons to official and private Nicaraguan recipients could cut Managua's foreign exchange receipts by as much as \$20 million per year. Sandinista support groups in the United States have publicly announced that they are stepping up efforts to boost their funding of regime programs to as much as \$10 million this year. Managua's control of financial remittances to family members still living in Nicaragua is likely to provide the Sandinistas at least another \$10 million during 1987.



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Focusing on another Sandinista vulnerability, the restriction of US persons from doing business in Nicaragua either by providing direct investments or technical, financial, or related services could also hurt Managua's efforts to minimize the impact of existing sanctions. While the exact dollar value of such activities is difficult to calculate, it would affect areas ranging from access to computer software to refining of oil products. From the standpoint of in-country operations, only a few of the 30 or so US businesses remaining in Nicaragua employ US citizens. According to US business press, most of these companies have not been able to remit more than token earnings to owners and, in many cases, are staying in country only to protect investments.



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## Appendix A

### Methodological Notes on the Costs of US Sanctions

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We estimated the direct costs of US sanctions by comparing Nicaraguan export earnings and import expenditures since the embargo with what we believe they would have been in the absence of any sanctions. In making our estimates, we assume that both exports and imports would have fallen somewhat even without the sanctions because of the Sandinistas' other economic problems. On the earnings side we concentrated on the net foreign exchange impact of reduced beef, sugar, banana, seafood, and tobacco sales and on lower air passenger and cargo receipts—those areas that accounted for the overwhelming share of Nicaraguan earnings from economic relations with the United States before sanctions were announced. On the import side, we analyzed the Sandinistas' direct costs of finding alternative access to priority purchases of US machinery, spare parts, agrochemicals, luxury consumer goods, and other US supplies. [redacted]

In our calculations, we used official US trade data for US-Nicaraguan exchange through 1986. To analyze Nicaraguan trade with the rest of the world, we used United Nations Bilateral Trade tapes and IMF Direction of Trade tapes. To estimate the Sandinistas' aggregate commodity exports during 1986, we relied on official Nicaraguan trade data as reported by the Ministry of Foreign Trade. [redacted]

#### Calculating Export Losses

Our estimates indicate that, in aggregate, sanction-related export losses have cost the Sandinistas \$52 million, including \$20 million during the last seven months of 1985, \$28 million in 1986, and another \$4 million during the first two months of 1987. Losses from lower beef, sugar, and banana sales caused the bulk of the decline. In estimating the foreign exchange impact of the sanctions on export earnings, we calculated the difference between what we believe net earnings would have been under free trade and what our analysis of international trade shows net foreign exchange earnings actually were. In calculating potential trade, we compared observed exports with what could have been under preembargo export volumes, unless we knew that export levels would have

fallen because of deteriorating output, such as was the case for beef and sugar production. We estimated net foreign exchange earnings by subtracting the Sandinistas' hard currency costs of producing and delivering the export from the final sales price. While actual hard currency costs vary substantially for each different commodity export, each included transportation and insurance fees and most also involve hard currency costs for agrochemicals (including pesticides, herbicides, fertilizers, and chemicals needed in processing), equipment and spare parts for maintenance, materials for packaging and shipping, and brokering fees. [redacted]

Efforts to find alternative markets for *beef* have been largely unsuccessful, and we estimate that net foreign exchange earnings fell by \$5 million in 1985 and another \$9 million last year. While Nicaragua has been able to maintain earlier beef sales to Canada, other potential customers in Europe and the radical Arab states have not followed up test shipments of beef with major purchases, in part because those countries lack the demand for frozen "hamburger" beef that was sold in US markets. The decline of beef sales has been particularly costly because the foreign-exchange input into production and shipping costs are relatively low, while hard-currency profit margins for beef exports are high. While a small decline in world beef prices would have reduced the export value of constant beef sales somewhat in any case, we estimate that, without the embargo, Nicaragua would have provided enough incentives to the private sector to limit the decline in beef sales to the United States to about \$22 million in both 1985 and 1986, with net foreign exchange earnings equal to a little more than half that amount. Instead, after the embargo, beef sales plummeted. US and Nicaraguan trade statistics show that Managua exported only \$13 million worth of beef in 1985 and \$5 million in 1986, at the same time, [redacted] profit margins fell somewhat because of higher transportation costs. [redacted]

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**Table A-1** *Million US \$*  
**Nicaragua: Exports to the United States**

	1976-78 Average	1982-83 Average	1984	1985	1986
<b>Total</b>	<b>194</b>	<b>102</b>	<b>69</b>	<b>50</b>	<b>1</b>
Seafood	30	15	10	6	0
Bananas	21	20	33	23	0
Meat	48	32	11 <sup>a</sup>	13	0
Sugar	32	23	5 <sup>b</sup>	3	0
Tobacco	7	4	4	2	0
Coffee	28	3	6	2	0
Cotton	0	0	0	0	0
Other	28	5	NEGL	1	1

<sup>a</sup> Meat products were banned for much of 1984 because of sanitary conditions.

<sup>b</sup> Sugar quota revoked in 1983.

Source: Figures from official US trade data.

As a result, we calculate that foreign exchange earnings from beef fell from a potential \$12 million in both 1985 and 1986 to an actual \$7 million during 1985 and just \$3 million during 1986.

While the Sandinistas' have been slightly more successful in finding new *sugar* customers, the loss of the US sugar quota, in most cases so far, has meant that the Sandinistas have had to sell on the world market at less than the subsidized US price. We calculate that net foreign exchange losses from lower sugar earning were \$7 million in 1985 and another \$4 million during 1986. On the basis of Nicaraguan production figures, we believe that in the absence of sanctions Managua could have exported \$18 million worth of sugar in 1985 and \$22 million in 1986, which would have yielded them approximately \$11 million in 1985 and \$13 million last year in net foreign exchange profits. During 1985, Managua actually sold \$7 million worth of sugar to Algeria, India, and Sri Lanka, at a net foreign exchange profit of \$4 million.

Last year, with new sales at more favorable prices to Cuba and the Soviet Union, Nicaragua

**Table A-2** *Million US \$*  
**Nicaragua: Commodity Exports**

	1976-78 Average	1984	1985	1986 <sup>a</sup>
Meat	48	17	13	5
Sugar	33	20	7	18
Bananas	21	33	25	13
Seafood	30	12	12	10
Tobacco	7	5	4	3
Cotton	141	134	91	41
Coffee	173	122	123	117
<b>Top seven</b>	<b>453</b>	<b>343</b>	<b>275</b>	<b>207</b>

<sup>a</sup> Official Nicaraguan estimate.

increased exports to \$18 million and net foreign exchange earning to about \$9 million,

Since the embargo, the Sandinistas have had only partial success in finding new customers for *banana* exports, and we estimate that net foreign exchange earning from bananas fell by \$3 million in 1985 and \$8 million in 1986. Progress has been slow in part because most European countries continue to purchase the majority of their bananas in the Eastern Caribbean under concessions of the Lome Convention. Nicaragua has been able to sell a portion of its bananas in Libya and Western Europe. Efforts to place bananas in Soviet Bloc countries continue, but have thus far been unsuccessful. Given steady world prices and only a small reduction in Nicaraguan banana production, we estimate that Managua could have held banana sales to the United States at about the 1984 level of \$33 million in the absence of the sanctions. the net foreign exchange earnings would have been about \$11 million per year. As it was, Nicaragua came close to its potential by selling \$25 million in bananas to the United States during 1985 because it was permitted to sell bananas through October under long-term

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**Table A-3**  
**Nicaragua: Imports From the United States**

Million US \$

	1976-78 Average	1982-83 Average	1984	1985	1986
<b>Total</b>	<b>192</b>	<b>126</b>	<b>112</b>	<b>42</b>	<b>3</b>
Manufactures	158	95	89	29	1
Chemicals	42	33	34	8	NEGL
Spare parts and machinery	69	42	37	17	NEGL
Other	47	20	18	4	NEGL
Foodstuffs	21	23	15	5	1
Raw materials	4	1	1	NEGL	0
Fuels	3	5	3	4	0
Other	6	2	4	4	1

<sup>a</sup> Figures from official US trade data.

[REDACTED]

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contract commitments. As a result, we estimate that net banana foreign exchange earning stayed high, at \$8 million during 1985, [REDACTED]

[REDACTED] During 1986, Nicaragua, of course, was not able to sell bananas to the United States, and exports to Libya and Western Europe reached only \$13 million. [REDACTED]

[REDACTED] higher transportation costs and product deterioration during the longer shipping time cut profit margins, and we estimate that net foreign exchange earnings from banana exports fell to about \$3 million last year. [REDACTED]

one-third of revenue generated, we estimate that net foreign exchange losses from lost flights to the United States cost Nicaragua about \$380,000 a month in lower flight profits and higher costs during the rest of 1985. Within one year of the embargo, the Sandinistas had been able to cut Aeronica revenue losses in half by selling Nicaraguan tours out of US travel agencies and rescheduling some flights through Mexico, Costa Rica, and Honduras, according to Embassy [REDACTED] sources, and we estimate that sanctions cost Aeronica about \$215,000 a month during 1986. [REDACTED]

According to our analysis of official estimates provided to the US Embassy [REDACTED]

[REDACTED] US sanctions cost Aeronica—the state airline—about \$2 million in 1985 and \$3 million in 1986.

[REDACTED] immediately following the implementation of sanctions Aeronica lost \$500,000 per month in lower revenue from passenger and cargo services. At the same time airline officials told press sources in late 1985 that spare parts and maintenance needed to keep operating even with a reduced number of flights was costing an additional \$50,000 per month. [REDACTED]

[REDACTED] Aeronica's hard currency costs before the sanctions were equal to about

Nicaraguan figures show that *seafood* exports have fallen only moderately since the embargo, but still enough to cost the Sandinistas \$2 million in 1985 and another \$3 million in 1986, according to our estimates. Sanction value-added rules have allowed the Nicaraguan to reestablish partial access to US markets by first delivering the seafood to partners in Costa Rica and Honduras, who then wash, package, and resell it in the more profitable US market, [REDACTED]

[REDACTED] In addition, Nicaragua has leased fishing rights to Cuban trawlers. Managua's success in opening new markets in Europe and the Soviet Bloc,

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**Table A-4  
Nicaragua: Calculating Export Losses***Million US \$*

	<u>Beef</u>		<u>Sugar</u>		<u>Bananas</u>		<u>Aeronica</u>		<u>Seafood</u>		<u>Tobacco</u>	
	1985	1986	1985	1986	1985	1986	1985	1986	1985	1986	1985	1986
Probable export sales without sanctions	22	22	18	22	33	33	6	6	13	13	4	4
Probable net foreign exchange earnings without sanctions	12	12	11	13	11	11	4	4	8	8	2	2
Actual sales	13	5	7	18	25	13	3	2	12	10	4	3
Estimated net foreign exchange earnings after sanctions	7	3	4	9	8	3	2	1	6	5	1	1
Net foreign exchange losses because of sanctions	5	9	7	4	3	8	2	3	2	3	1	1

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however, have been severely limited by transportation costs and the difficulty of breaking into new markets that in many cases are protected for national fishing fleets. On balance we estimate that direct and indirect fish exports to the United States totaled about \$9 million in 1985 and \$6 million in 1986, down from an average \$13 million during 1982-84. Nicaraguan export statistics indicate fish sales to other countries reached \$3 million in 1985 and \$4 million in 1986.

**Import Costs**

On the import side, we estimate that higher prices and new middlemen fees to regain access to priority US-sanctioned goods have cost Managua about \$33 million since the embargo was announced, including \$14 million in 1985, \$16 million in 1986, and another \$3 million so far this year. In calculating these costs we first estimated the volume of US goods that we believe the Sandinistas were able to obtain through US subsidiaries or front companies after the sanctions were announced. Finally we multiplied that amount by 25 percent, the average premium

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international trade statistics indicate that lower tobacco sales to the United States cost Nicaragua about \$1 million per year in 1985 and 1986. Tobacco sales to the United States fell from an average \$4 million a year during 1982-84 to \$2 million during 1985 and to nothing last year. At the same time, Nicaraguan statistics indicate that overall tobacco sales have fallen from \$5 million in 1984 to \$4 million in 1985 and to only about \$3 million last year. Some of the slack may have been taken up by increased purchases from the Bulgarians, who are involved in efforts to revitalize the Nicaraguan cigar industry, according to press reports.

the Sandinistas pay to obtain such priority US goods. To determine the volume of US goods, Managua bought, we considered the Sandinistas' import plans for 1985 and 1986, how much they were able to buy in 1985 before the embargo, and what access we believe they actually had to US goods after the embargo. Because the Sandinistas' economic plans indicate that they hoped to reduce domestic shortages during 1985 and 1986 by increasing imports of spare parts, machinery, and chemicals that could be purchased only in the United States, we believe that Managua gave priority to obtaining these goods. As a working estimate, we assumed that the Sandinistas were able to purchase only 80 percent of these priority imports during the last part of 1985 and

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**Table A-5**  
**Nicaragua: Import Costs**

Million US \$

	1985	1986
<b>Planned purchases</b>		
Priority spares, machinery, agrochemicals	74	74
Other US goods	47	47
<b>Purchased before sanctions</b>		
Priority spares, machinery, agrochemicals	25	0
Other US goods	17	0
<b>Estimated purchases after sanctions</b>		
Priority spares, machinery, agrochemicals	39	49
Other US goods	15	16
<b>Premium caused by sanctions</b>		
Priority spares, machinery, agrochemicals	10	12
Other US goods	4	4

only two-thirds of planned priority imports during 1986. For nonpriority imports, we assume that Managua regained access to one-half of them during the second half of 1985, and to just one-third of them during 1987.

Using this methodology, we estimate Managua paid an additional \$10 million in 1985 and \$12 million in 1986 to regain access to priority purchases of spare parts, machinery, and agrochemicals. During 1982-84 purchase of these goods from suppliers in the United States cost Managua an average \$73 million each year. Before the embargo was implemented in 1985, the Sandinistas had already been able to procure \$25 million worth of these goods, according to US trade figures.

we believe that, during the rest of 1985, the Sandinistas were able to buy spare parts, machinery, and agrochemicals worth about \$40 million through US subsidiaries and front companies for about \$50 million. We believe, on the basis of our analysis of the Sandinistas' economic plan for 1986

that during 1986 they were able to buy some \$50 million worth of those goods at a cost of about \$60 million.

We estimate the Sandinistas paid another \$3 million each year to regain access to other US goods, including luxury consumer goods, specialty fuels, and some semifinished products. During 1982-84 Nicaragua bought about \$50 million per year in these goods. Before the embargo was implemented in 1985, Managua had been able to procure \$17 million worth of these goods, according to US trade statistics. We believe that, during the rest of 1985, Nicaragua bought about \$15 million more, for which they paid a 25-percent premium. We believe that during 1986, consistent with economic planning, the Sandinistas were able to restrict purchase of these goods to just one-third of preembargo levels, paying about \$20 million for \$16 million worth of these goods.

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## Appendix B

### The Growing Covert Merchant Fleet

The Sandinistas are relying on a growing fleet of covertly owned or indirectly controlled merchant ships to help them circumvent trade sanctions, [redacted]

[redacted] While Managua continues to operate a small official merchant steamship company under its own flag, we have increasing evidence of a larger fleet controlled by the Sandinistas through front companies using mostly Panamanian registry. [redacted]

### Nicaragua's Official Merchant Fleet

The official maritime line, Naviera Nicaraguense (Nanica), operates five ships, but its freight hauling capacity has been sharply reduced in recent years. One of Nanica's two oceangoing vessels, the Monimbo, was wrecked in a storm last fall. The other, the Carlos Fonseca Amador, reportedly is beyond repair and for sale for scrap. The rest of the fleet consists of small, old, coastal freighters, Ro/Ro's, or tankers that

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**Table B-1**  
**The Sandinista Merchant Fleet**

	Type	Flag	Capacity (DWT) <sup>a</sup>	Year Built	Crew/Nic
The official fleet					
Aracely	Ro/Ro	NU	3,775	1965	11/11
Atlantic Freeze	Cargo	NU	1,215	1958	15/15
Carlos Fonseca Amador	Cargo	NU	10,526	1963	41/41
Nicarao	Ro/Ro	NU	1,175	1968	NA
Rama	Tanker	NU	1,612	NA	NA
Directly controlled merchant ships					
Anita	Cargo	NA	NA	NA	NA
Installer II	Ro/Ro	PA	1,144	1970	11/11
Lowi	Cargo	PA	615	1966	NA
Services Tanker <sup>b</sup>	Tanker	PA	1,564	1975	10/10
Regina Valeria	Cargo	PA	1,415	1953	13/13
Western Navigator	Tanker	CY	NA	NA	14/12
The indirectly controlled merchant fleet					
Agia Markella	Cargo	PA	17,337	1968	19/7
Caribbean Tanker	Tanker	PA	1,329	NA	9/9
Fredrique	Cargo	BF	5,363	1977	21/5
Gunvor	Cargo	PA	5,000	1985	15/8
Lake Catherine	Cargo	PA	4,842	1967	26/7
Maria Christina M	Ref cargo	PA	2,284	1965	18/12
Transgas I	Tanker	PA	697	1961	13/13

<sup>a</sup> DWT = deadweight tons.

<sup>b</sup> Between 1983 and 1986, the Services Tanker was owned and operated by Nanica as the Laureano Mairena under the Panamanian flag.

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steam mostly between Nicaraguan ports. Of these ships only the Aracely operates off Nicaraguan shores on regular trips to Cuba for military resupply. In recent years Nanica ships have all been inserviceable much of the time, and the Aracely is reportedly in particularly poor condition. [redacted]

[redacted] the Sandinistas are trying to acquire two new Spanish-built ships, but we do not know if they plan to register them with Nanica or with a front. [redacted]

- Financial credits and insurance are more readily accessible to third-country ship operators than to lower rated Nicaraguan companies. Managua has had difficulty maintaining its ships to required marine standards. [redacted]

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**The Sandinistas' Covert Merchant Fleet**

Managua directly controls at least six other small merchant cargo ships through Panamanian companies. [redacted]

[redacted] Most handle Sandinista cargo in the Caribbean. One operates solely between Nicaragua east coast ports, and another has been in a Colombian shipyard for repairs for over a year. [redacted]

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We have identified at least seven other merchant ships that are probably indirectly controlled by the Sandinistas. Panama Canal ship transit records over the last six months show that each has a full or partial Nicaraguan crew. All of these vessels have called at Nicaragua's major west coast port of Corinto. All have undergone name changes within the last three years [redacted]

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**Benefits From Flying a Foreign Flag**

We believe that the Sandinistas are shifting much of their shipping to a covert fleet for a variety of reasons:

- In time of war or a US blockade, international maritime law would protect ships registered with nonbelligerent nations from interdiction or seizure, allowing the Sandinistas' foreign-flagged ships continued access to international markets.
- While the May 1985 sanctions prohibit Nicaraguan ships from entering US ports, Sandinista ships using fronts and registered with nonembargoed nations are given free access to US ports. This increases their ability to bid for cross trade cargoes, which earn the Sandinistas much-needed hard currency.

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