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**Latin America  
Review**



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20 June 1986

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20 June 1986*

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**Latin America  
Review**

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**Articles****Brazil: Political Challenges Facing Sarney**

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President Sarney has demonstrated considerable political skill in guiding Brazil through a smooth transition to civilian government, but he faces new tests over his ability to administer successfully an economic stabilization package and retain support for his governing coalition in gubernatorial and congressional elections this fall.

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**Cuba: Betting Heavily on Nuclear Power**

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Havana is trying to reduce its dependence on Soviet oil through heavy investment in the development of nuclear power, but questions remain about measures to prevent a nuclear accident, and the program will face obstacles in integrating nuclear plants into the existing power grid.

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**Cuba: Showing the Flag in Latin America**

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Vice President Rodriguez's recent trip to Peru, Uruguay, Argentina, and Mexico will help consolidate political support for Cuba from sympathizers in the region and lend legitimacy to Cuban views on regional affairs.

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**Cuba: Addressing Domestic Problems**

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A recent speech by President Castro suggests a continuing concern over the high crime rate and widespread official corruption.

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**Cuba: Concern Over Video Recorders**

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The regime is trying to control the use of video cassette recorders out of concern over the potential adverse impact of Western video media on the Cuban population.

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[Redacted]

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**Guatemala: Rebels on the Defensive** [Redacted]  
[Redacted]

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The Army's aggressive counterinsurgency campaign is increasingly isolating the guerrillas and forcing them to emphasize low-risk attacks in remote areas and to focus on political rather than military action to challenge the government, with little likelihood of success.  
[Redacted]

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**Honduras-El Salvador: Border Dispute Drags On** [Redacted]  
[Redacted]

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Tegucigalpa and San Salvador have agreed to submit their longstanding border dispute to the International Court of Justice. They still have almost three years to reach a bilateral settlement during which time the expense of the judicial process and the prospect that Nicaragua may become involved may lead to concessions by both sides. [Redacted]

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[Redacted]

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**West Germany-Nicaragua: Social Democrats and Sandinistas** [Redacted]  
[Redacted]

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The West German Social Democratic Party has begun publicly to take note of human rights abuses in Nicaragua but is still focusing its criticism on US policy toward the Sandinistas. [Redacted]

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**Venezuela: Presidential Politics Heating Up** [Redacted]  
[Redacted]

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President Lusinchi and his allies in the ruling party are facing a strong challenge from populist former President Perez, who is actively seeking the party's presidential nomination for the election in 1988. [Redacted]

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[Redacted]

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*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]*

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**Latin America  
Review**



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**Articles**

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**Brazil: Political Challenges  
Facing Sarney**



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Assuming office as an accidental president following Tancredo Neves's death in April 1985, Jose Sarney has established himself as a leader of considerable political skill and has guided Brazil through a smooth transition to civilian government. Although viewed as diffident and indecisive during the early months of his presidency, Sarney's initial low-key style helped hold together a tenuous governing coalition and retain the support of the military. Simultaneously, his selection of capable advisers and administrators, ability to gain the support of influential leaders for political reform, and actions to respond to the popular will for economic improvements strengthened his political base. Buoyed by rising popularity and the outcome of last November's municipal elections, Sarney has made increasingly assertive use of his presidential powers to fend off opposition from his labor and leftist critics and has launched a bold, politically popular assault on rising inflation.



Although his public approval rating is now near 90 percent nationwide, Sarney faces major challenges in his second year. His ability to administer successfully his economic stabilization package in the face of interest group resistance will be a key factor in determining the strength of protest by his opposition critics and ensuring military backing. Moreover, gubernatorial and congressional elections in November will test the strength of popular sentiment in support of his governing coalition. The political atmosphere will heat up even more as the new congress—also empowered to act as a constituent assembly—begins drafting a new constitution.



In our view, Sarney will keep sufficient centrist political and popular backing to overcome these challenges. Bolstered by a respectable economic performance, he will probably emerge strengthened

from the elections and will be a stabilizing influence in the difficult task ahead of institutionalizing Brazil's fledgling democracy. A domestically strong Sarney administration will promote friendly relations with the United States, although frictions will beset commercial ties.



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**Keeping a Low Profile**

Sarney faced an uphill struggle for public and political acceptance when he assumed the presidency after Neves's death. He lacked Neves's broad popularity and faced opposition from powerful leaders both within and outside of the government. the leaders of the Brazilian Democratic Movement Party (PMDB)—the majority partner in Neves's coalition government—had accepted Sarney as the vice-presidential standard bearer, but distrusted him because of his former membership in the old military government party. Moreover, the military and Brazil's ruling political elite disliked him for having left their party to form the Liberal Front Party—a center-right party—and for joining Neves's Democratic Alliance.



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Throughout 1985, according to US Embassy and Brazilian press reports, Sarney adopted a conciliatory style aimed at winning the confidence of the coalition and bolstering his public standing. He invoked Neves's memory to rally support for a unified civilian government in the weeks following the president-elect's death. He conferred with politicians of all stripes to prevent infighting and seek civilian consensus on policy initiatives. Sarney also capitalized on the popular yearning for political liberalization by moving rapidly to push through Congress legislation

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implementing direct presidential elections and a constitutional assembly, legalizing banned leftist parties, and holding democratic municipal elections in November. True to the spirit of the "New Republic" he allowed unions to strike over bread-and-butter issues and endured with grace the criticisms of Leonel Brizola—Brazil's leading leftist and governor of Rio de Janeiro state—who was campaigning for immediate direct elections. The President's conduct—above the partisan fray but supportive of the democratic process—during Brazil's first elections under civilian rule significantly raised his prestige.

[redacted]

Sarney also proved adept at successfully cultivating the military. US Embassy reports indicated he deflected attempts by radical leftist groups to conduct widespread investigations into human rights abuses under the military government and made high-profile appearances at military ceremonies. Moreover, apparently Sarney heeded military advice to go slow on reestablishing diplomatic ties to Cuba and resuming large-scale arms sales to Libya. To keep the military happy, he also increased funding for weapons procurement.

[redacted]

Brazilian political commentators assert that the most effective tactic in Sarney's strategy to consolidate his political base was his economic policies. Because of pressure from the majority party in the coalition, he adopted a domestic economic program that stressed rapid growth as necessary to redress long-neglected socioeconomic inequities—the so-called social debt. To achieve these goals, according to US Embassy reporting, the administration permitted large real wage increases, boosted public spending, and accelerated monetary growth, stimulating a domestic boom that expanded economic activity by 8 percent, the world's highest growth rate last year. Despite growing demand, tough controls kept prices from skyrocketing. In the external economic sphere, Sarney capitalized on Brazil's strong external payments position. He bowed to widespread sentiment among Brazilians—USIS-sponsored polls indicate consistent anti-IMF opposition to fund prescriptions—and took a tough stance toward the IMF and Western banks in monitoring domestic adjustment policies.

[redacted]

**Setting His Own Course**

Early this year, Sarney became less beholden to the governing coalition and adopted a more forceful style. Because of the limited success of the PMDB in the municipal elections last November—it won most of the mayoralties but lost Rio de Janeiro and Sao Paulo—and his shrewd political maneuvering in encouraging defections to his own party, Sarney believed his political base had been strengthened. Buoyed by a sense of greater independence, he began to employ the powers of the presidency more freely, using federal troops to squelch a truckers' strike in January, reshaping the Cabinet to make it more politically conservative and personally loyal, and streamlining the presidential staff to make it more effective in implementing his policies and dealing with Congress. At the same time, Sarney showed a deft touch by stroking the bruised egos of PMDB chieftains, who were angry at his Cabinet shifts, thus heading off their defection from his government.

[redacted]

Simultaneously, however, Sarney became concerned about the potential for rising prices to spark social discontent. US Embassy reporting indicated that soaring demand and drought-induced losses of food supplies sent prices soaring. For example, the official cost-of-living index rose by 17 percent in January, a record that sent shockwaves through the country.

[redacted] Sarney ordered tighter economic policies, but the moves were too late to break the momentum of inflation.

[redacted]

[redacted] Sarney announced in late February a bold stabilization package, the Cruzado Plan, designed to squelch inflation that was accelerating to a 400-percent annual rate. The program—which imposed a competitive wage-price freeze, introduced the cruzado as part of a currency reform, and dismantled Brazil's indexation system—drastically reduced inflation to near zero in March and April, and became immensely popular. Moreover, Sarney forestalled a major split in the coalition over the political costs of inflation, defused simmering

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labor unrest, and deprived Brizola—at least temporarily—of an issue around which he could construct a leftist opposition movement. [redacted]

**Challenges Still Ahead**

Sarney's astute political maneuvering and bold attack on Brazil's hyperinflation have dispelled the image of a weak president. Sarney, however, still faces challenges that will test his executive ability to administer the stabilization program and political acumen to keep the transition on track. [redacted]

**Managing the Economy.** Sarney's ability to suppress inflation without prompting a recession remains the key to the success of his government. While we believe that the economic program will cut inflation below 100 percent this year because of rigorous price controls, it is likely to slow growth substantially by discouraging new investment. Businesses remain reluctant to expand, despite high demand, in the face of widespread uncertainty over future policy adjustments, especially easing of frozen prices. Moreover, the US Embassy reports that price-control dodging by private firms and a \$900 million public-sector deficit in March have begun to erode expectations that inflation will be controlled. The cruzado is now trading at a 50-percent premium on Brazil's parallel exchange market—an indicator of waning public confidence. Expecting prices to rise soon, consumers are drawing down savings to sustain high spending levels, and many manufacturers are withholding goods from the market, causing spot shortages. In the next several months, Brasilia will have to regain public confidence, get the deficit under control, and begin introducing complementary economic reforms to keep the program on track. [redacted]

**Dealing With Labor Unrest.** We believe labor is likely to mount the first organized attack on the economic program should the plan be seen as faltering. The US Embassy reports that labor leaders are becoming more vocal in their criticism of the Cruzado Plan and a number of short-lived wildcat strikes for higher wages have erupted recently. According to [redacted] the US Embassy, the radical leftist Unified Workers Central is planning a series of strikes over the next few months. Should the unions win wage concessions, we would expect the moderate

General Confederation of Workers, encouraged by leftist leaders, to launch a wave of strikes in the months preceding the congressional elections. [redacted]

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**Fending Off the Left.** [redacted]

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Brazil's leftist opposition parties also are looking to exploit any drop in Sarney's popularity resulting from a resurgence of inflation or economic stagnation to score gains in the coming elections. [redacted]

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[redacted] Brizola is still Sarney's most formidable leftist opponent. A highly charismatic leader and political gambler, Brizola was the only major political figure to attack the Cruzado Plan when it was announced. While he came under immediate severe criticism in the press, he has positioned himself to exploit a collapse of the package. [redacted]

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[redacted] In addition to seeking electoral alliances with other opposition parties to strengthen his influence in the next Congress, Brizola is courting the left wing of the PMDB, which is dissatisfied with the growing influence of more conservative elements in Sarney's government. [redacted]

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**Retaining Military Support.** Finally, Sarney still has to contend with a military establishment that still wields considerable clout and weighs in on issues it regards as important to its institutional integrity and vital to political stability. [redacted]

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**Sarney Confronts the Challenges**

We are reasonably confident that Sarney will be able to maintain a stable transition in the months ahead. On the economic front, we believe he probably will achieve the main objectives of his stabilization program—significantly reduced inflation and respectable growth—and reap substantial political gain. In our view, he probably will retain the backing of the centrist political majority and the military, while keeping the left off balance. Capitalizing on these achievements, he is likely to be instrumental in the election of a moderate Congress and to exercise considerable influence in the drafting of the new constitution. [redacted]

In our view, Sarney will probably engage in backstage political maneuvering while his economic advisers try to hold the stabilization program together. We believe Sarney will maintain rigorous price controls for all or most of 1986 because steps to clamp a tight lid on fiscal spending and credit expansion will be politically difficult in this important election year. Despite the sharp acceleration of prices in January and February, we project that the program will cut the annual inflation rate to about 75 percent by the end of the year. We believe this would keep Sarney's popular approval rating high and help secure the acquiescence of labor and business to the wage and price controls. We expect economic growth to slow as a result of the program's wage restraints and continued investor uncertainty, but will record a politically acceptable 4- to 5-percent real economic growth rate in 1986. [redacted]

We believe Sarney will increasingly use his presidential power to undermine the left and labor. In our view, he is likely to use the administration's legal authority to prevent violent, disruptive labor strife and expensive wage settlements. To keep Brizola from luring away the left wing of the PMDB, Sarney has stated [redacted] that he intends to move forward with judicial, political party, and agrarian reform. Recently, he has ordered the police to prevent violent disruption of the agrarian reform

program by leftist groups or landowners. Finally, the administration has introduced legislation to restrict payments of oil royalties to the states—a move aimed directly at chastening Brizola, who depends on these revenues to fund social spending aimed at bolstering his popularity. [redacted]

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We believe Sarney will throw his weight behind moderate and conservative candidates in the coming elections. He has already taken initial steps in this direction by pushing businessmen to promote conservative candidates [redacted]

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We expect that Sarney will remain solicitous of the military's concerns. Despite the need to control the government deficit, he will back a fairly high level of funding for force modernization, as well as the indigenous nuclear program favored by the military. Moreover, he will probably continue to cultivate close personal relations with key officers—especially Army Minister Leonidas—and take their advice on internal security matters and key foreign policy issues. He also is likely to lobby actively among civilian politicians to forsake any attempt by the constituent assembly to alter the traditional role of the military. [redacted]

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**Implications for the United States**

We expect a politically and economically secure Sarney administration to strive to maintain reasonably harmonious relations with the United States. We judge that frictions will continue over Brazil's nationalistic—albeit popular—trade, foreign investment, and debt policies. Nevertheless, his administration should continue to be sympathetic—though not acquiescent—to US political concerns such as restricting arms sales to pariah states—including Libya—narcotics control, and blunting Cuban and Soviet adventurism in South America.

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**Cuba: Betting Heavily on Nuclear Power** [redacted]

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Havana has invested considerable resources in the development of nuclear power in an effort to reduce its dependence on Soviet oil by the year 2000. The Soviet Union and other CEMA countries, as well as Argentina, India, and the United Nations, are assisting Cuba in this effort. Cuba's first nuclear power plant is under construction on the south coast, and two other plants are in the planning stages. To support its nuclear program, Havana has established several research and academic programs since the late 1960s. Since the Chernobyl' disaster, the Castro regime has sought to reassure the Cuban populace about the safety of its nuclear power program, but there are still many unanswered questions regarding the measures Moscow and Havana have taken to prevent a nuclear accident in Cuba. In addition to the safety concerns, Havana probably will encounter obstacles in integrating the nuclear plants into its existing power grid. [redacted]

[redacted]

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**CEMA and Western Assistance**

The USSR and CEMA countries have underwritten most of the Cuban nuclear program by providing labor, materials, and funding. [redacted]

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[redacted]

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[redacted] According to

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Cuban press reports, there are 150 to 300 Soviet specialists currently working at the Juragua site. The Soviets also funded Cuba's Nuclear Research Institute, which was built in 1969, and assisted in the training of Cuban technicians—many of whom graduated from the Faculty for Nuclear Science and Technology at the University of Havana. In addition, Moscow supplied a research reactor to the Nuclear Research Institute, and has reportedly agreed to supply another for a second nuclear research center it will build for the Cubans in western Cuba. Hungary

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**Three Nuclear Power Stations**

Cuba, with massive assistance from the USSR, is building its first nuclear power plant at Juragua near Cienfuegos on the south central coast. [redacted]

[redacted] this plant eventually will have four Soviet-built 440-megawatt (MW) reactors. [redacted]

[redacted]

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[redacted], according to the Cuban media, will also give a research reactor to the Cubans. Bulgaria has helped in the construction of the Juragua plant, and Czechoslovakia has a nuclear cooperation and training agreement with Cuba.

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[redacted] The Juragua project—initially scheduled for completion last year—has reportedly encountered construction delays [redacted]

[redacted]

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[redacted] work is now under way on the first two reactors, but they probably will not be operational until the early 1990s. [redacted]

Argentina, India, and the United Nations have also been involved in the Cuban nuclear program.

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[redacted] construction of two other nuclear power plants is planned, one in Holguin Province in eastern Cuba and another in Pinar del Rio Province in the west. [redacted]

[redacted]

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[redacted] The International Atomic Energy Agency (IAEA), through funding made available by the United Nations Development Program, has helped train

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Cuban students in nuclear science and engineering and is reportedly constructing laboratories at the Faculty of Nuclear Science and Technology.

[Redacted]

[Redacted] India signed a bilateral nuclear cooperation agreement with Cuba in May 1985, [Redacted]

[Redacted]

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**Safety and Nonproliferation Issues**

The reactors under construction at the Juragua nuclear power station are the standard Soviet export model of the VVER-440. This is a pressurized-water type reactor, similar to many US reactors. (In contrast, the reactors at Chernobyl' are graphite-moderated boiling water reactors—a type not exported by the USSR.) The specific reactor model being built in Cuba, the VVER-440-V213, incorporates a combination of passive and active emergency core cooling systems designed to safely cool the reactor if the largest reactor cooling pipe should break. This is the same design criteria used in Western reactors. [redacted]

The Juragua reactors will have a unique containment system. The VVER-440-V312 reactors in the USSR and Eastern Europe have an "added on" type of containment, which is called a localization-tower. The Cienfuegos site posed unique problems that precluded using either a localization-tower or the standard Soviet-designed reactor building. To meet these requirements, Soviet engineers produced a design that appears similar to the Soviet-designed VVER-1000 containment system in use at the Novovoronezh nuclear power station and other sites in the USSR. [redacted]

Handling of radioactive waste at the plant will apparently follow standard East European practices. A special building is planned to process and temporarily store low-level waste. The waste will be stabilized by adding bitumen and placed in special containers. Spent nuclear fuel will be stored for several years in a pool in the reactor building, then returned by ship to the Soviet Union. [redacted]

Despite these protective measures, several questions remain unanswered about the safety of the Juragua plant. Although the Soviets have no experience building a nuclear power plant in a tropical climate, the Cuban press says the main structures of the facility will be built to withstand earthquakes, hurricane-force winds, and tidal waves. [redacted]

[redacted]

[redacted]

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One of our main concerns about the containment system for the Cuban reactors is whether adequate provisions are included to handle the hydrogen generated if significant melting of the nuclear fuel should occur. (It was a hydrogen explosion that destroyed the reactor building at Chernobyl'.) The Soviets have largely ignored the problem of hydrogen buildup, apparently assuming that the emergency cooling systems will operate successfully, preventing fuel melting. In addition, the Cuban personnel trained by the Soviets and other CEMA countries to run the facility may not be competent. [redacted]

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[redacted]

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In the wake of the accident at Chernobyl', contingency plans for the evacuation of populated areas around the Cuban nuclear plants probably are being discussed in Havana, possibly with Soviet diplomats or technical advisers. Havana has ample time, however, for comprehensive, detailed civil emergency planning prior to completion and commissioning of the first units. Moreover, the IAEA will probably assume a more active role in facilitating emergency response planning for nuclear power plants worldwide, especially in developing countries whose nuclear infrastructures are in the infant stages. It is

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possible that an operational safety review team from the IAEA will visit Cuba to conduct a safety analysis on the new reactors. Given Soviet President Gorbachev's positive reaction to an increased safety role for the IAEA, it seems unlikely that Moscow would discourage such a visit. [redacted]

Despite Cuba's refusal to sign any treaty requiring it to relinquish a nuclear weapons option, we doubt that Havana would attempt to develop a nuclear weapons capability using fuel or technology from the nuclear power program. Cuba has agreed to permit the IAEA to monitor the plant through continuous camera surveillance and periodic on-site inspections. Moreover, the Soviets have traditionally controlled their exported nuclear technology and spent fuel from reactors they have supplied to other countries, and there is no reason to believe that this policy will change with Cuba. [redacted] the two countries have agreed that all plutonium byproducts from the reactors will be returned to the USSR. The return of the spent fuel would leave only lower level radioactive waste and, of course, the incipient radiation absorbed by the reactor components. [redacted]

**Outlook**

When the nuclear power plant at Juragua is fully operational, it should reduce Cuba's oil consumption substantially. According to the Cuban press, each of the four reactors will save 600,000 tons of petroleum per year, or about a third of Cuba's current annual petroleum demand. However, Cuba's petroleum needs will grow significantly over the next decade, as new nickel and thermoelectric plants—intensive petroleum consumers—are built. As a result, by the turn of the century, the potential oil savings from the Juragua plant could be relatively small—perhaps reducing oil consumption by no more than 10 percent. Although the two other nuclear plants now in the planning stages could triple the oil savings, it is doubtful that either plant will be operational by the year 2000, judging from the long delays typically associated with major projects in Cuba. [redacted]

Because Havana needs to cut back on its petroleum consumption to expand economically, it has little option but to forge ahead with the nuclear program

despite the risks involved. Not only must the Castro regime be concerned with safety issues, but it must also integrate the nuclear plants into the existing power grid. [redacted] the Juragua plant will account for 25 percent of Cuba's electrical generating capacity when completed. Such a high dependence on one facility will make it difficult for Havana to offset a loss of power in the event of a plant shutdown. Moreover, the time required to train personnel to operate the nuclear plants cannot be underestimated. Other countries have traditionally experienced long learning curves with their nuclear power programs, and given its underdeveloped technological base, Cuba is not likely to be an exception. [redacted]

[redacted]

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## Cuba: Showing the Flag in Latin America [ ]

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Vice President Carlos Rafael Rodriguez's 13-day trip to Peru, Uruguay, Argentina, and Mexico in late May and early June demonstrates Havana's commitment to build on its diplomatic gains in Latin America over the past two years. Rodriguez, President Castro's highest ranking and ablest foreign policy envoy, presented Havana's views to the presidents of all four countries on the Contadora negotiations, the Third World debt crisis, and bilateral economic relations. Rodriguez generated heavy media coverage with his visits and he took pains to portray Havana's policies as moderate and pragmatic. While he did not persuade any of the Latin leaders that closer ties to Cuba—either economic or political—are in their interest, the high-level attention from Havana undoubtedly will help consolidate political support for Cuba from sympathizers in the region and lends some legitimacy to Cuban views on regional developments. [ ]

Rodriguez's tour clearly was intended to provide a major boost to Castro's efforts to reintegrate Cuba into the Latin American fold. The Cuban Vice President, a polished and articulate spokesman and influential adviser to Castro, is empowered to deliver authoritative statements of Cuban policy on a broad array of issues—from Havana's involvement in Angola to debt negotiations with Western creditors. In dealing with Latin America and the West, however, Rodriguez is Castro's chief dissembler, whose mission is often to obscure artfully Cuba's policy motives and persuade skeptical hosts of Havana's benign intentions. [ ] press accounts of Rodriguez's talks with the four presidents indicate that his mission was indeed to persuade them through his moderate rhetoric and distorted portrayals of Cuban policy that Havana is a responsible neighbor. Accompanying Rodriguez were Deputy Foreign Minister Ricardo Alarcon, a key official heavily involved in Cuba's policy regarding the Contadora negotiations and Havana's relations with the United States, and Carlos Martinez Salsamendi, another high-level Cuban official who frequently deals with the West. [ ]



*Peruvian President Garcia greeting Cuban Vice President Carlos Rafael Rodriguez on his arrival in Lima. Peruvian Foreign Minister Wagner in background at left. Rodriguez probably urged Garcia to travel to Cuba soon. [ ]*

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### Promoting Regional Solidarity

Coming on the heels of the opening of diplomatic relations with Uruguay last fall and the rapprochement with Peru last winter, Rodriguez's trip was largely an effort to build on Cuba's improving relations in the hemisphere, in our opinion. He reiterated Castro's current propaganda thrust—the need for Latin American unity—at each stop and set the stage for Havana's subsequent entry into the Latin American Integration Association (ALADI) as an observer by addressing the organization at its headquarters in Montevideo. Rodriguez opened his remarks by asserting that Cuba's socialist system should not overshadow its Latin American heritage, and he underscored Cuba's status as an underdeveloped Latin American country. Cuba's admittance to ALADI follows Cuba's successful bids last year to obtain membership in the Andean Pact and the Latin American Parliament. [ ]

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*Anatomy of a Public Relations Tour—Rodriguez's Junket to Latin America*

*Peru*

*21 May*

*Met at airport by Peruvian Prime Minister Alva Castro.*

*Hosts Peruvian Foreign Minister Wagner at Cuban Embassy in evening.*

*22 May*

*Breakfasts with Peruvian President Alan Garcia and Foreign Minister Wagner; two-hour session focuses on Central America, the Nonaligned Movement, and the foreign debt crisis.*

*Lunches with Prime Minister Alva Castro.*

*Pays a protocol visit to the Presidents of Peru's Chamber of Deputies and the Peruvian Senate; holds a press conference shortly before his departure, asserting that "there was never any incompatibility between Fidel Castro and Alan Garcia, only momentary disagreements."*

*Argentina*

*23-24 May*

*Transits Buenos Aires en route to Uruguay.*

*Uruguay*

*25 May*

*Uruguayan Vice President Enrique Tarigo and Foreign Minister Enrique Iglesias welcome Rodriguez, marking the first official "high-level" contact between the two countries in 21 years.*

*26 May*

*Begins official activities by visiting Montevideo City Hall, meeting with the acting Mayor, and receiving a medal at celebrations for 250th anniversary of the founding of Montevideo.*

*Meets privately with Uruguayan Foreign Minister Iglesias, and holds separate sessions with officials from leading opposition parties and the leftist Broad Front coalition.*

*27 May*

*Meets with President Sanguinetti for one-hour discussion focusing on Central American situation and Contadora-sponsored negotiations.*

*Delivers speech to student leaders, faculty members, and administrators at National University on subject of world peace, criticizing the United States for provoking an arms race and supporting Soviet disarmament proposals.*

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*28 May*                      *Addresses the Latin America Integration Association and, as expected, announces Cuba's intent to join organization as an observer. Lunches with Vice President Tarigo and several Uruguayan lawmakers.*

*In the afternoon speaks with members of the respective Foreign Relations Committees of the Uruguayan Senate and Chamber of Deputies, strongly attacking the United States as the source of the conflict in Central America.*

*29 May*                      *Lunches with news media; Cuban Deputy Foreign Minister Alarcon signs bilateral trade agreement.*

*30 May*                      *Gives long interview to local and international media, playing up common viewpoints between Cuba and Uruguay, before departing for Argentina.*

***Argentina***

*30 May*                      *Meets with President Alfonsin to discuss situation in Central America, the Nonaligned Movement, and bilateral relations.*

*31 May*                      *Discusses the Central American situation and Contadora-sponsored peace efforts, as well as bilateral issues, with Argentine Foreign Minister Dante Caputo.*

*Grants a lengthy interview to the official Argentine news agency, arguing that Latin America needs a political organization that replaces the OAS and excludes the United States.*

***Mexico***

*1 June*                      *Arrives in Mexico City for an "in-transit" visit, but waits two days to meet with President de la Madrid.*

*2 and 3 June*              *Meets with Mexican Foreign Affairs Secretary Sepulveda, and President de la Madrid the following day; Central America figures prominently in both sessions, but Rodriguez undoubtedly raises Mexico's recent suspension of line of credit.*

*3 June*                      *Grants exclusive interview to Mexico's largest daily newspaper on flight to Havana, praising de la Madrid's tougher stand on the foreign debt problem.*



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Rodriguez clearly ruled out, however, any Cuban attempt to rejoin the Organization of American States (OAS). [redacted]

Rodriguez stated in an interview in Argentina that the OAS does not work in favor of Latin America's interests because of interference from the United States and that it is increasingly less relevant to Latin America's problems. Sweet-talking his hosts, Rodriguez said that the nature of the member countries of the OAS today—presumably referring to the numerous new civilian governments in the region—is not the same as of those who voted Cuba out of the organization in 1964. He claimed that Latin America needs a political organization that excludes the United States—along the lines of the Latin America Economic System—but implied that the impetus for an alternative to the OAS must come from the Latin American democracies, not from Cuba. The OAS has been mentioned recently as an alternative to the Contadora group as a mediator in Central America, and Rodriguez's protests may conceal a fear that the talks will pass to an organization where Cuban access is restricted and support for Nicaragua is limited. [redacted]

The timing of the trip as well as Rodriguez's traveling companions suggest that Central America, specifically the Contadora talks, was one of Havana's key concerns. The trip was undertaken just two weeks before the 6 June "deadline" for the signing of a Contadora-sponsored negotiated settlement in Central America, and Rodriguez publicly made an effort to deflect blame from Nicaragua to the United States and other Central American countries for the failure to reach an accord. He reiterated in each capital that the negotiations for peace in Central America must continue even if the treaty was not signed in early June, but gave no indication that Havana was advising the Sandinistas to sign. Repeating the standard Cuban line, Rodriguez said Nicaragua should sign if the agreement was "compatible with its interests" and that Cuba would withdraw all its military and civilian advisers from Nicaragua if the agreement required such a move and the United States "stops threatening" Managua. He stuck to recent Cuban statements that there are about 800

Cuban military advisers and some 550 to 650 civilian personnel in Nicaragua. According to our estimates, the actual numbers are some 2,000 to 2,500 military advisers and 3,500 to 4,000 civilian technicians and advisers.<sup>1</sup> [redacted]

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Complementing his obvious public diplomacy efforts, Rodriguez apparently used his private discussions with the four Latin American leaders—all of whom are involved in the Contadora efforts—to sell Cuba's "balanced and positive" positions on Central America. Deliberately misrepresenting Havana's views, according to US Embassy reporting from Montevideo, Rodriguez told Uruguayan President Sanguinetti that a Cuban-style revolution could not be copied in Latin America and that Cuba was trying to disengage gracefully from its commitment to Nicaragua. Regarding the Contadora talks, a Uruguayan Foreign Affairs official told US Embassy personnel that Rodriguez vaguely criticized Nicaraguan intransigence. He added that Nicaraguan leaders were "immature types with no political talent" and that the Soviets also were not disposed to support them. [redacted]

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Rodriguez may have done some horsetrading with some of his hosts, particularly with Peruvian President Garcia and perhaps even with Argentine President Alfonsin. Press accounts indicate that the Nonaligned Movement (NAM) was a major topic of discussion in both Lima and Buenos Aires. Although Castro is pledged to support the announced Nicaraguan candidacy to host the next summit, we believe Rodriguez probably brought with him an offer of Cuban support for a Garcia bid if the Sandinista campaign falls flat. Nicaragua's candidacy met with little enthusiasm at the NAM ministerial in India last

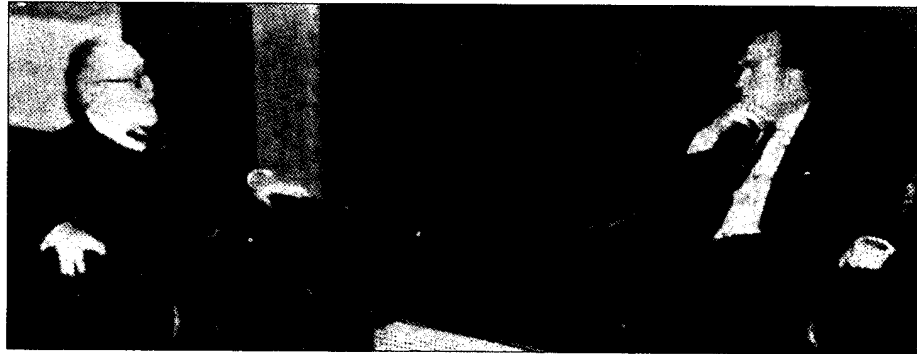
<sup>1</sup> Intelligence Community analysts recently agreed that, based on new reporting [redacted] and a reevaluation of previous reporting, our previous estimate of 2,500 to 3,500 Cuban military advisers in Nicaragua should be lowered to 2,000 to 2,500. [redacted]

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Vice President Rodriguez with Uruguayan President Sanguinetti during his official five-day visit to Montevideo. Rodriguez announced that he delivered an official invitation from Cuban President Castro for Sanguinetti to travel to Havana. [redacted]



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April [redacted]

[redacted] A Peruvian Foreign Affairs official told US Embassy personnel that the Cubans recently dangled an offer of their support and influence in the NAM for a Peruvian leadership role, much as they held out an offer of such support for Alfonsin in early 1985. Peruvian Foreign Minister Wagner admitted earlier this year that the strong position of Cuba in the NAM was an important reason for Peru to improve relations with Havana. [redacted]

In return, Havana almost certainly would look for a continued increase of bilateral exchanges, particularly economic trade and barter agreements, between the countries as a means of reinforcing Cuba's reintegration into regional affairs. Castro probably also wants sympathetic treatment of Nicaragua in the Contadora talks by the three support-group countries Rodriguez visited, and their help in assisting the Sandinistas resist conditions imposed by the other Central American countries that are damaging to Managua's interests. In addition, Rodriguez may have been asking for a specific commitment from the Latin American leaders to back a Cuban bid to host a major international meeting in the future—perhaps of the World Health Organization or of another UN organization—if Havana withdraws its invitation to host next year's seventh United Nations Conference on Trade and Development (UNCTAD). Rodriguez may have received such assurances because, subsequent to his trip, according to the Secretary General of UNCTAD, Cuba agreed to withdraw its

candidacy—under US pressure—if the membership endorsed Latin America's right to host the succeeding UNCTAD conference. [redacted]

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**Building on Incipient Bilateral Ties**

Rodriguez apparently also brought with him an agenda of specific bilateral issues to be covered in each country, although we doubt that the Cuban Vice President intended to pursue new agreements on economic cooperation, trade, or other types of exchanges. If he did, Havana was surely disappointed because the tangible results from his journey were few, according to reporting from US Embassies in the various capitals he visited. [redacted]

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Rodriguez's one-day stop in Lima was eventful, but noncontroversial, with separate meetings with President Garcia, Foreign Minister Wagner, Prime Minister Alva Castro, and leaders of the Peruvian legislature. Rodriguez played down the acrimonious public debate between Lima and Havana last year, describing the current state of relations as "optimum" and brushing aside differences on handling the foreign debt. According to US Embassy sources, Rodriguez brought Garcia a personal message from Cuban President Castro, which we believe probably was an invitation for Garcia to visit Havana during Cuba's 26 July anniversary celebrations. [redacted]

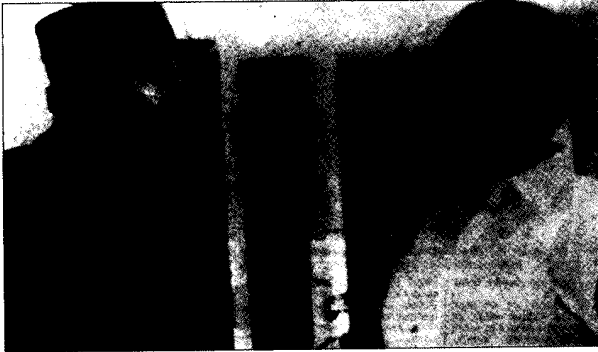
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[redacted] Peruvian Prime Minister Alva Castro [redacted]

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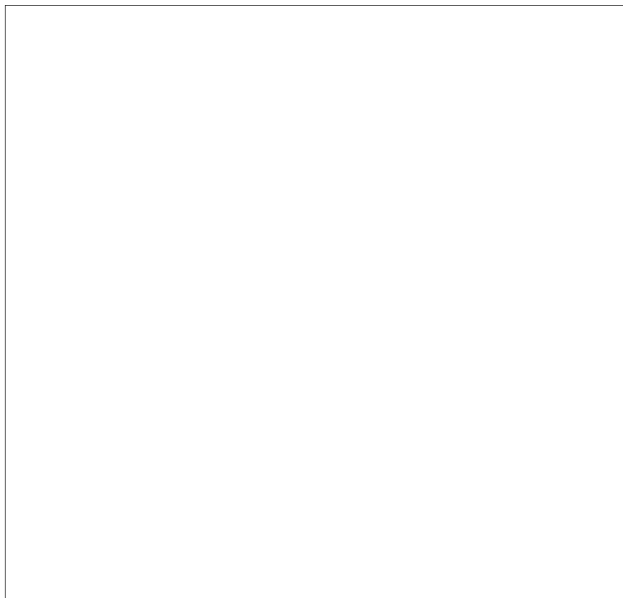
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*Cuban President Castro with Peruvian Prime Minister Alva Castro in Havana in early May 1986; this was his second trip to Cuba in six months. Alva Castro worked out several economic cooperation agreements in fishing, agriculture, and medicine with his Cuban hosts.*

[redacted]

[redacted] visited Cuba in early May to work out an extension of an agreement under which two Cuban fishing vessels would operate in Peruvian waters but deliver their entire catch to Peru. Rodriguez played up the fishing agreement to the press and noted that his visit coincided with a 10-day stay of a 23-member Cuban delegation led by Cuba's Minister of Fishing that provided the Peruvians with advice on fishing, livestock, public health, and the preservation of national patrimony. [redacted]



Rodriguez's official five-day visit to Uruguay was the public relations high point of his trip because the Cubans met privately with Sanguinetti and held separate sessions with Foreign Minister Iglesias as well as officials from Uruguay's three major opposition groups, including the leftist Broad Front coalition. The Cuban Vice President made major addresses to the joint Foreign Relations Committee of the Uruguayan Congress, to the student organization at the National University, and to ALADI. He was also feted and presented with a medal at celebrations honoring the 250th anniversary of the founding of Montevideo. Cuba's efforts to make Rodriguez's trip a public relations success and as noncontroversial as possible is reflected by US Embassy reporting indicating Havana requested that its leftist contacts in the Broad Front not make any pro-Cuban demonstrations or stage anti-United States disturbances during his stay. [redacted] Rodriguez brought with him an official invitation from Castro for President Sanguinetti to visit Cuba soon. [redacted]

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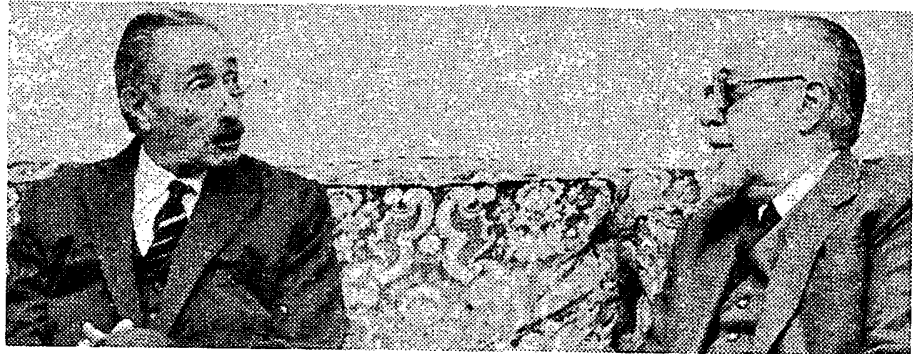
The two countries signed a three-year economic cooperation and trade agreement during the visit that will give each country most-favored-nation status regarding customs fees, import and export taxes, and other trade-related regulations. [redacted] bilateral trade between the two countries is restricted by hard currency shortages in both nations. [redacted] the economic agreement was vague, with many details yet to be worked out, and primarily called for barter of agricultural products, Cuban assistance for Uruguay's rice industry, and the export of Uruguayan chickens to Cuba. The Cubans also presented the Uruguayan National Bank with a proposal for a reciprocal payment and credit arrangement, and, according to the US Interests Section in Havana, a one-year commercial credit arrangement was worked out with a third-country Western bank that will allow Uruguay to test Cuba as a market for its products. Rodriguez's visit came on the heels of a large exposition of potential exports to Uruguay, but, as US Embassy officials in Montevideo note, if Rodriguez

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*Vice President Rodriguez meeting with Uruguayan Gen. Liber Seregni, leader of the leftist opposition Broad Front coalition.* [redacted]



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was seeking Uruguayan credits to finance Cuban exports, his visit was surely unsuccessful in that regard. [redacted]

the Cuban economy and damaging to Havana's efforts to expand its economic relations in the region. [redacted]

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Rodriguez's shorter and "private, in-transit" visits to Argentina and Mexico appear to have been motivated primarily by economic concerns. According to US Interests Section sources [redacted] both Argentina and Mexico recently suspended longstanding large credit lines to Cuba, and, although Rodriguez spoke at length about Central America in both capitals, his first order of business undoubtedly was to try to persuade Presidents Alfonsin and de la Madrid to restore the credit arrangements. According to the Mexican Embassy in Havana, Cuba had been pressing the Mexicans to increase their three-year \$150 million credit to \$200 million, but Rodriguez was unsuccessful even in preserving the current accord. Castro himself apparently tried to salvage the remainder of the 1984-86 \$600 million credit line from Argentina just before the Rodriguez meeting with Alfonsin. The Cuban leader met in Havana with the Argentine Ambassador to Cuba, bringing along his top economic advisers, in a probable move to impress upon the Argentines the importance of their credits to Cuban economic development. [redacted]

Nonetheless, despite the lack of substantive bilateral agreements and continuing differences of opinion between Havana and South American leaders on bilateral and regional issues, Rodriguez's trip was a major success for Cuban public diplomacy and propaganda efforts. Rodriguez's dissembling tactics with heads of state puts at risk his own credibility, as well as Cuba's, but his personal diplomacy and statesmanlike appearance probably will help accomplish Castro's goal of reducing the perception of a "Cuban threat" in Latin America. His comments on the Nicaraguan leadership's immaturity and intransigence, for example, help reinforce Cuban public statements of support for a negotiated settlement in Central America and cast Havana as a positive influence on the Sandinistas and a benevolent player in regional politics. Similarly, his comments on Moscow's "unhelpful role" in Central America and desire to pull out are meant to assure Latin leaders that Cuba's role in Central America should not be seen in an East-West context and, by implication, that it is Washington that has introduced the East-West struggle into a regional setting. [redacted]

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#### Outlook

On face value, the tangible benefits to Cuba of the Rodriguez tour were minimal, and Havana's point man on foreign economic relations scored few gains in terms of substantive agreements heralding increased Cuban-Latin American ties. His failure to persuade the Argentine and Mexican leaders to restore credit lines to Cuba, moreover, will be a serious setback to

Although the Latin American leaders who met with Rodriguez are likely to remain wary of Havana's motives and meddling, Rodriguez probably had some success conveying to them a sense of Cuba's desired image of "moderation, openness, frankness, and

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independence" on issues of great concern to them. Sanguinetti, for example, publicly stated that there were more areas of agreement between Cuban and Uruguayan policy than he expected. The Rodriguez trip also probably has ensured that the increase of contacts and official travel between Havana and Latin American capitals over the last year will continue apace. We doubt that Sanguinetti or Garcia will travel to Cuba soon, but the invitations from Castro that Rodriguez delivered will put pressure on them to visit sometime in the future and could give the Cuban leader a propaganda windfall and diplomatic success even greater than that provided by Ecuadorean President Febres-Cordero's visit in April 1985.

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**Cuba: Addressing Domestic Problems** [redacted]

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President Castro's speech on 6 June closing the ceremonies marking the 25th anniversary of the Interior Ministry reflected his continuing concern over the trend of domestic events. Castro's address was not broadcast and only summarized in the Cuban media, suggesting that his remarks were frank to the point of requiring judicious editing prior to release to the general public. Castro admitted there was an increase in crime that had led the Politburo to devise a "sanitary plan" consisting of a wide range of corrective measures, but the speech summaries did not elaborate on the specifics of the plan. As has occurred several times over the past two years with speeches on politically sensitive subjects, Castro's comments may have been videotaped for later viewing by selected audiences such as party officials and military officers. [redacted]

Castro held out little hope for government help in alleviating the housing crisis and insisted that the problem be resolved through a "revitalized microbrigade" system that has been in use for years, despite the fact that this approach has proved wholly inadequate, according to reporting from the US Interests Section. [redacted]

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Judging from the media's abbreviated coverage, Castro's speech reflects a serious preoccupation with internal matters and a determination to adhere to a rigid ideological line despite mounting problems that demand a more pragmatic approach. It also suggests that the Interior Ministry will play an ever more critical role in population control if current trends in crime and corruption continue and overt repression becomes increasingly necessary. [redacted]

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According to summaries of the speech carried in the Cuban media, Castro bluntly acknowledged that the Interior Ministry's "main task" today is the struggle against "antisocial activities," such as burglary and crimes of violence, and admitted that some "hooligans" have even been so bold as to take on the police. His unusual stress on the need for integrity in the Interior Ministry implies that some of its personnel have been found wanting in that quality, tending to confirm [redacted] that Cuba's chief internal security organ has become riddled with corruption and other weaknesses. [redacted]

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Continuing the trend set in his speeches earlier this year, Castro lashed out against peasants, workers, and others who use their positions for personal enrichment. His criticism of the labor movement for "violating the principle of paying each worker according to his work," in our opinion, probably means the regime will soon produce new regulations that link salaries much more closely to productivity as part of a program to overcome worker apathy. Portending more bad news for the average Cuban,

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**Cuba: Concern Over Video Recorders** [redacted]

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The Castro regime apparently is becoming concerned about the potential impact of Western video media on the Cuban population. This concern was underscored by a recent announcement that the Communications Ministry had established a series of new regulations governing transmission and reception of radio communications through the use of artificial Earth satellites and dish antennas. Any such activity must now have prior approval of the Ministry. [redacted]

popularity of the recorders, thieves hijacked an entire shipping container of them outside Havana earlier this year, according to sources of the US Interests Section. [redacted]

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[redacted] three arrests were made last April in connection with a pornography ring in which two party members—one a member of the Central Committee's America Department who held high diplomatic rank—made videotapes of teenagers performing sexual acts in exchange for drugs. Regime officials were reportedly furious because some of the pornography was set against a background of portraits of Fidel Castro and other heroes of the revolution.

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In assessing this new development, the US Interests Section in Havana notes that video cassette recorders are becoming available, and that most members of the elite now have them. Uncontrolled access to television broadcasts via satellite from other countries, if only through a few receiving stations, could result in a high volume of information inimical to the regime being copied on video tapes and passed through Cuban society. According to the Interests Section, the new regulations seem aimed at controlling this politically dangerous source of ideological penetration. [redacted]

The new regulations governing satellite communications, in our opinion, are likely to be only the beginning of a wave of legal and administrative measures aimed at clamping down on the flow of information via videotape. [redacted]

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[redacted]

visited Cuba in March noted there was increased Western influence in Cuba as a result of the greater availability of video cassette recorders, the accessibility of US television and radio transmissions, and better communications in general. Two years earlier [redacted] reported being told by an official [redacted] that there were already 10,000 video cassette recorders in the country and that "countless" cassettes with pirated US television programs and tapes brought in by travelers from abroad were circulating in Cuba. The source said that taping television programs from Miami was becoming a big business because of the strong popular demand [redacted]

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The regime's political watchdogs have long been concerned about the political threat posed by video recorders and tapes, and several recent events probably helped stiffen their resolve to try to control their use. Presumably prompted by the immense

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**Guatemala: Rebels  
on the Defensive** [redacted]

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Guatemala's four insurgent factions—whose forces we estimate number some 1,500 full-time combatants—have been unable to recover from serious setbacks suffered over the past four years and are likely to remain on the defensive for the foreseeable future. The Army's aggressive counterinsurgency campaign is keeping the rebels off-balance and increasingly isolated in the countryside, forcing the guerrillas to emphasize low-risk attacks against economic targets and military patrols, largely in remote areas. In addition, battlefield reverses have caused the insurgents to focus on political rather than military action to challenge the six-month-old civilian administration, with little likelihood of success. Although the rebels may gain some publicity by turning to acts of rural and urban terrorism to embarrass the government and maintain their credibility, we believe they will remain incapable of mounting any serious threat against the government.

[redacted]

Since the inauguration of President Cerezo, the military has kept the insurgents on the run with frequent sweep operations in areas of concentrated guerrilla activity, especially in northern Peten Department and the highlands of northwestern Guatemala. For example, since March the Army has diverted troops from inactive zones to increase its forces in the western departments of [redacted]

[redacted]

[redacted] reporting. A heightened military presence and aggressive patrolling have caused higher guerrilla casualties and hindered rebel efforts to operate even in areas where they have strength. [redacted] that one insurgent faction suffered a major setback when the Army [redacted] dismantled a rebel base and communications site in San Marcos in February, and, in April, killed four of the faction's leaders during a subsequent sweep operation in Quezaltenango Department. Meanwhile, [redacted] [redacted] the Army frequently

is able to respond to guerrilla attacks against military and civilian outposts, despite continuing transportation and logistic difficulties. [redacted]

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In addition to military action, the Army is undercutting popular support for the rebels with civic action programs and is receiving government promises of support for future projects. Cerezo has pledged not to disband the 915,000-strong Civil Defense Force—a program the military views as vital to its counterinsurgency efforts—and is promoting the Army's model village and other rural development programs, according to the US Embassy. In our view, the success of these and other programs limits the insurgents' ability to infiltrate and recruit from among local Civil Defense Forces and inhabitants of model villages, many of whom are former guerrilla sympathizers. [redacted]

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The military hopes to continue restricting rebel activity in urban areas by preventing the resurgence of insurgent cells, which have been largely controlled since 1983. [redacted] the Army last December dismantled one of the guerrilla's last functioning urban safehouses. [redacted]

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[redacted] President Cerezo, [redacted]

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will probably support the military's attempts to limit urban actions by insurgents. [redacted]

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**Insurgent Tactics**

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Insurgent leaders are currently reassessing their military options in light of their failure to disrupt the national election last fall [redacted]

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[redacted] US defense attache reports indicate that the insurgents continue to

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execute hit-and-run ambushes against military patrols in northwestern Guatemala and in the Peten—where the Army is currently conducting aggressive sweep operations—but they have concentrated on attacking small isolated Army and Civilian Defense Force units while avoiding contact with larger units. We believe these low-risk efforts probably reflect the insurgents' desire to inflict casualties on the military without engaging battalion-sized Army units in heavy combat.

[redacted]

In the face of military setbacks, the guerrillas are turning to a strategy of attacking lightly defended economic targets in the Peten and southwestern Guatemala to embarrass the government and scare off potential investors. Since February, for example, guerrillas in the Peten have launched several attacks against unprotected foreign and domestic oil installations during which they burned vehicles and other equipment.

[redacted]

By March, attacks had become so frequent that one Spanish firm agreed to continue exploration activities only after Cerezo ordered some 700 troops to protect the area from future harassment,

[redacted]

In other attempts to disrupt economic activity, the guerrillas are terrorizing farm owners and their workers by periodically occupying or burning farms and cooperatives in the vital agricultural areas of southwestern Guatemala.

[redacted]

While these tactics are causing concern to coffee and sugar growers, disruption of economic activity—such as roadblocks and the stealing of farm payrolls—impacts directly on the local population and works against the insurgents' goal of regaining popular support from among the several thousand workers who migrate annually to the area during the harvest season.

**Insurgent Problems**

The insurgents are having increasing difficulty retaining full-time combatants as a result of their military setbacks.

[redacted] all of the insurgent groups are suffering from a rising defection rate and high combat losses. Moreover, [redacted] insurgent leaders are increasingly frustrated at their inability to infiltrate and recruit from among local civilian defense units and inhabitants of newly constructed model villages.

[redacted]

The insurgent factions also have been unable to overcome longtime personality conflicts and ideological differences.

[redacted]

the factions have failed to cooperate in planning and logistics.

[redacted]

While Cuba probably will continue to provide training for insurgents—

[redacted] frustration in fostering rebel unity may result in diminished arms supplies and financial aid.

[redacted]

**Opting for Political Action**

As a result of the military's success against the insurgents, guerrilla leaders have been emphasizing political action.

they believe they can best challenge the new civilian government by infiltrating labor, student, and political groups and by organizing strikes and mass demonstrations.

[redacted]

Although the improved political climate may make it easier for the insurgents to make limited inroads on the political front, rebel attempts to manipulate the labor movement and political organizations will be

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**Insurgent Factions**

	Leaders and Strengths	Area of Activity
Rebel Armed Forces (FAR)	Jorge Ismael Soto Garcia Approximately 400 members	The Peten
Guerrilla Army of the Poor (EGP)	Ricardo Ramirez de Leon Approximately 600 members	Northwestern Guatemala
Revolutionary Army of People in Arms (ORPA)	Rodrigo Asturias Armado Approximately 450 members	Southwestern Guatemala
Guatemalan Labor Party/ Dissident Faction (PGT/D)	Jose Alberto Cardoza Aguilar Less than 50 members	Nothing recent

limited by their inability to revive weak urban support networks. [redacted] moderate labor leaders are, for the most part, reluctant to establish ties to the insurgents and even called off Labor Day demonstrations to curtail violence incited by leftists. Moreover, although some groups on the democratic left might be willing to accept manipulation by the insurgents, they would need to conceal their ties or risk reprisal by the government. [redacted]

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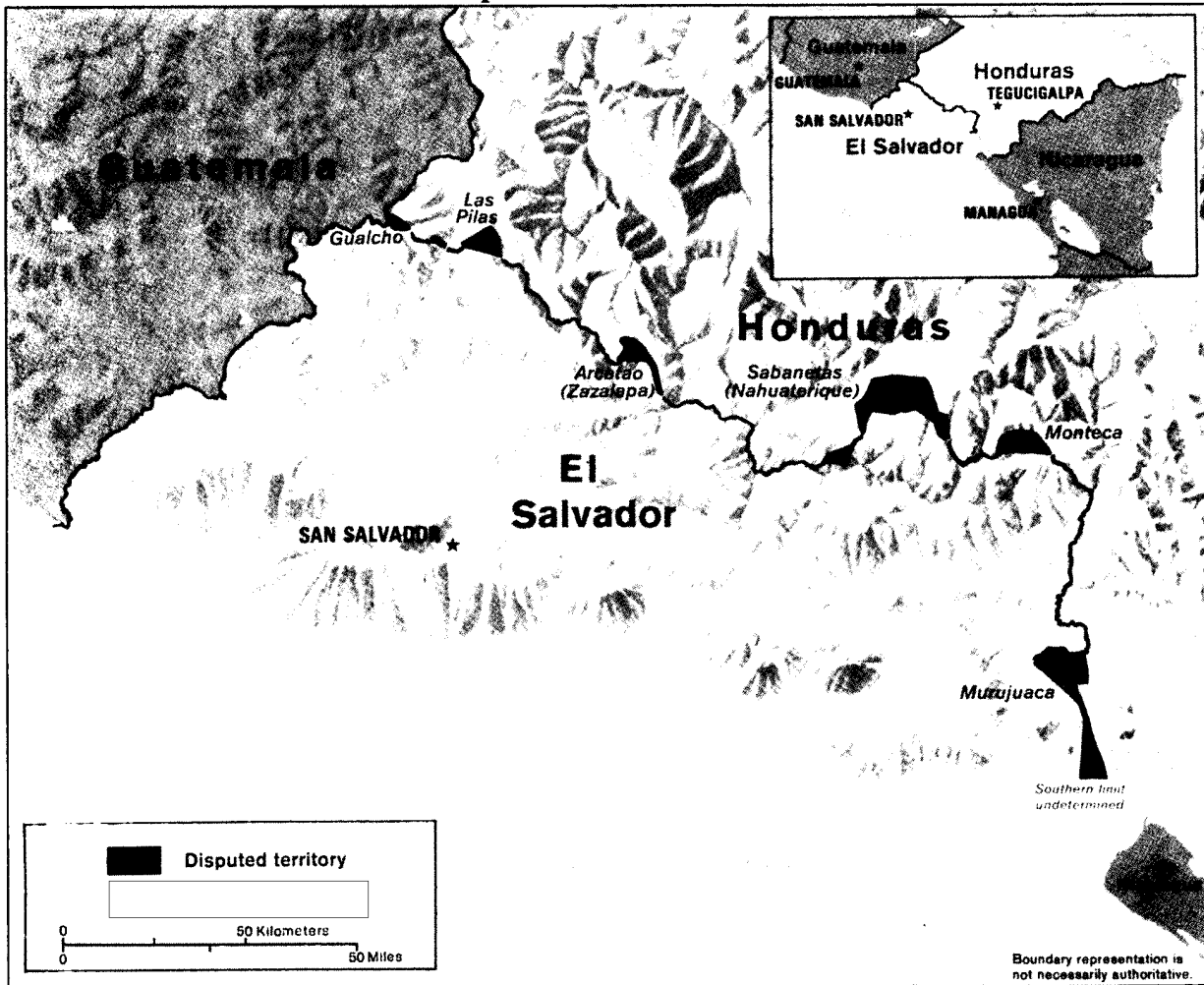
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### El Salvador-Honduras Border Dispute



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**Honduras-El Salvador:  
Border Dispute Drags On** [redacted]

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Honduras and El Salvador agreed last month at the presidential summit in Guatemala to submit their longstanding border dispute to the International Court of Justice later this year, but their agreement allows them almost three years to reach a bilateral settlement. Despite some optimism on both sides for a quick out-of-court settlement, the suspicions and maneuvering that have made the issue controversial since independence from Spain in the 1820s are unlikely to disappear immediately. Over time, however, transfer of the dispute to a new venue, as well as the growing expense of the judicial process and the prospect that Nicaragua may try to get involved, probably will encourage both sides to make concessions. Meanwhile, the two countries are likely to maintain their current limited cooperation on security and diplomatic matters. [redacted]

The agreement to go to the World Court is in accord with a peace treaty signed in 1980 that allowed either Tegucigalpa or San Salvador to submit the border dispute for Court arbitration if the issue was not resolved bilaterally by last December. Bilateral talks have been fruitless and sometimes acrimonious, according to US Embassy reports, because deep nationalist sentiments and constitutional prohibitions—passed since the 1980 treaty—on yielding “sovereign territory” made it impossible for either side to compromise. [redacted]

[redacted] two national elections in each country and an active insurgency in El Salvador also stymied the talks, and poor coordination of military actions in and around disputed territory led to sporadic clashes and heated diplomatic exchanges. [redacted]

[redacted] Honduras—concerned that El Salvador’s greater military strength precluded a fair bilateral agreement—intended all along to demand Court arbitration. El Salvador, appearing equally confident of its legal case, also came to accept the Court’s involvement. [redacted]

Last month’s agreement, however, still postpones binding arbitration by the Court for three more years. It calls for El Salvador and Honduras to present their

cases by the end of this year and then, at 10-month intervals, exchange a series of three arguments and counterarguments. All disputed areas—including 40 percent of the 405-kilometer land frontier—are open to negotiation, according to the US Embassy in San Salvador, even though recent bilateral talks have focused mostly on the two largest “pockets” of land, or *bolsones*, and on the Gulf of Fonseca and its islands. The *bolsones* are small—all six together are about twice the size of Washington, D.C.—and have little economic value. [redacted]

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Both sides claim the disputed territories are closely linked to national interests, although under the 1980 treaty neither has been permitted to locate troops or civil authorities there. El Salvador, which is one-fifth the size of Honduras and has a slightly larger population, views the *bolsones* as important to relieve growing demographic pressures. [redacted]

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[redacted] San Salvador wants to resolve the territorial status in order to deny antigovernment guerrillas refuge in a no man’s land. Honduras, for its part, has claimed that sovereignty over the Gulf of Fonseca is vital to its security and trade interests and that the land *bolsones* are of “historical” importance. [redacted]

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**Shadowboxing**

Despite the apparent deep interest on both sides in resolving the dispute, neither so far has displayed willingness to make significant concessions. Although El Salvador’s chief negotiator told the US Embassy in early June that confidential talks will resume soon and could lead to a settlement within three months, we see little basis for such optimism. In the past, Embassy reporting from both capitals has suggested that each time agreement was within reach, San Salvador and Tegucigalpa raised new demands. When El Salvador offered a “sovereign channel” to the Pacific last August, for example, Honduras resurrected an old demand for ownership of

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Direct agreement: Honduran newspaper cartoon reflecting Tegucigalpa's perception of bilateral talks before agreeing to World Court adjudication.



Tiempo ©

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Meanguera Island, the major island in the middle of the Gulf of Fonseca, according to US diplomatic reports. More recently, while drafting the accord in May, they had trouble even agreeing on what they still disagreed on, according to the US Embassy in Tegucigalpa. [redacted]

Until the first round of Court arguments sometime before October 1987, both sides appear likely to remain largely inflexible. US Embassy reporting indicates that El Salvador is likely to continue pushing for acceptance of the "Cruz-Letona" line, which was rejected by Tegucigalpa in 1881 on the grounds that its negotiator had ignored instructions. Similarly, Honduras may persist in its claim of sovereignty over Meanguera Island, although El Salvador has controlled it for more than 100 years.

[redacted]

[redacted] Tegucigalpa probably will at least assert that a 1917 decision by the Central American Court of Justice—that declared the Gulf a closed sea with Honduras, El Salvador, and Nicaragua to decide jointly on its use—and a Law of the Sea Treaty provision calling for cooperation among nations bordering closed seas legally preclude San Salvador from curbing Honduran use of the Gulf. [redacted]

**Pressures for Bilateral Agreement**

We believe that momentum eventually will build for a settlement that will be privately presented to the Court for approval rather than adjudication. Removal of the issue from the domestic political agenda probably will allow nationalist feelings to cool over time, contributing to more constructive dialogue. The US Embassies report both countries are concerned that a protracted court case will be extremely expensive; Honduras has already budgeted \$3.5 million in scarce foreign reserves for it. The internal democratization process in both countries, as well as the concomitant strengthening of relations with other democracies, may also aid progress in bilateral talks because these factors probably have engendered greater respect for the rule of law and international institutions like the Court. As a result, the governments may be more sensitive to appearing to obstruct peace. In addition, unlike in the past—when historical accounts indicate that deals were scuttled by squabbles between local governors near the border—the central governments of both countries now are probably more confident of their ability to implement an agreement. [redacted]

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The prospect of Nicaraguan intervention in the case also will probably motivate San Salvador and Tegucigalpa to compromise before formally entering the arbitration process. Their submission of sovereignty over the Gulf of Fonseca for court review leaves the case open for other concerned parties to become involved, such as by submitting a brief on the issue, even though US diplomatic reporting indicates that the Court has been reluctant to allow substantive interventions. In accordance with the 1917 Central American Court finding that the Gulf was a shared sea, moreover, Nicaragua may claim a right to be involved in any decisions regarding its status. El Salvador's chief negotiator has told the US Embassy that he has already been approached by a Nicaraguan Foreign Ministry official on the topic, and Honduras's top border negotiator—apparently concerned that Managua would support El Salvador's position—was received coolly when he sought Nicaragua's views recently. While [redacted] the prospect for Nicaragua intervention alone is unlikely to cause either country to cave in to the other's demands, we believe it will weigh in their decisions because of the shared desire to keep full pressure on the Sandinistas for a multilateral negotiated settlement to regional tensions. According to the US Embassy in Managua, the issue is one of the few areas where Nicaragua can attempt to extract bilateral concessions in exchange for agreeing to support one or the other's claims. [redacted]

The two countries also appear likely to remain united in opposition to Nicaragua. In the Contadora process, US Embassy reporting indicates that they are committed to maintaining solidarity with the other Central American democracies. They also are working to revitalize the Central American Defense Council and to improve the exchange of military intelligence [redacted] Although nationalism on both sides will limit this type of cooperation, removal of the border issue to a back burner may help stabilize the relationship. [redacted]

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**Outlook for Cooperation**

By removing the border issue as an immediate irritant in bilateral relations, the agreement to go before the World Court probably will facilitate continued limited cooperation on security issues of mutual concern. [redacted]

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[redacted] The US Embassies in both capitals report, furthermore, that strong bilateral support is growing for Honduras to proceed with a plan to build fences and conduct regular military patrols around Salvadoran refugee camps, which have provided valuable refuge and supplies to the insurgents. [redacted]

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**West Germany–Nicaragua: Social Democrats and Sandinistas** [redacted]

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The Social Democratic Party (SPD) has become more critical of the Sandinistas, but it remains unwilling to disavow them altogether. Party leaders publicly note human rights abuses in Nicaragua, in part to refute Christian Democratic charges that they ignore repression by leftwing dictatorships. But the SPD almost certainly will continue to focus its criticism on US policy toward Nicaragua, especially because the rank and file apparently remains strongly pro-Sandinista. [redacted]

[redacted]

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**Background**

Like other West European leftists, the Social Democrats initially supported the Nicaraguan revolution enthusiastically, and until recently they dismissed Sandinista human rights violations as mere "mistakes." SPD leaders believed that Nicaragua was choosing the "third way" between capitalism and Communism they long had recommended for the Third World. The SPD contended that Western isolation of the Sandinistas would make them dependent on the Soviets. At the same time, criticism of US policy in Central America became another way of demonstrating West European independence and moral superiority vis-a-vis the United States. [redacted]

In public, however, the Social Democrats continued to defend the Sandinistas. In February 1984, for instance, Wischnewski told the Bundestag that Managua was improving its human rights performance despite past mistakes. The Social Democrats have vehemently attacked US economic measures against Nicaragua, mining of Nicaraguan harbors, and arming of the Contras—policies also criticized, although less stridently, by leading Christian Democrats. [redacted]

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[redacted]

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But repeated public statements by the Social Democrats cited US assistance to the Contras as a major reason for repression by the Sandinistas. [redacted]

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**Recent Criticism**

Last February, a commission of the SPD Bundestag group led by former Hamburg Mayor Hans-Ulrich Klose issued the first systematic Social Democratic criticism of the Sandinistas. The report—based on a factfinding mission to Nicaragua in November and December—catalogued a series of repressive practices including:

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Nonetheless, some Social Democrats soon began to voice concern in private about the Sandinistas' failure to implement the proclaimed objectives of the 1979 revolution: political pluralism, a mixed economy, and nonalignment. [redacted]

- The creation of neighborhood "Sandinista Defense Committees" with the potential of spying and informing on dissidents.
- Forced resettlement of Miskito Indians in 1981-82 along with continuing attempts to resettle peasants from war zones, in part to keep them from supporting Contra forces.
- "Popular tribunals" independent of the regular judiciary system and with looser rules of evidence.
- Detention of an unknown number of political prisoners.

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[redacted] According to the US Embassy in Managua, SPD Latin American expert Hans-Juergen Wischnewski told the Sandinistas in May 1983 that the Social Democrats' continued support would depend on the degree to which pluralism and nonalignment were achieved. [redacted]

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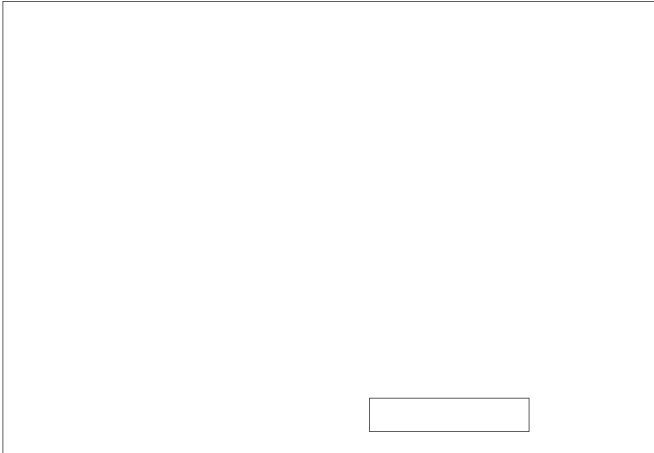
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The commission urged the SPD to criticize human rights violations in Nicaragua, even though it claimed that those in El Salvador were much more serious. The report also recommended, however, that the Social Democrats continue to seek dialogue with and promote economic development in Nicaragua while condemning US policy in the region. [redacted]



**Little Change in Policy**

Despite increasing criticism of the Sandinistas, the Social Democratic leadership has not changed its basic stance toward Nicaragua. In March, party Chairman Brandt issued a statement strongly condemning US assistance to the Contras, criticizing Bonn's suspension of development aid to Nicaragua, and endorsing the Contadora process. The statement acknowledged that the goals of the Sandinista revolution "have not always been pursued resolutely," but it laid the blame primarily on external intervention. Brandt also claimed that Nicaraguan

President Ortega had assured him that Managua would pursue dialogue with the unarmed opposition and investigate alleged human rights violations. [redacted]

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Other Social Democrats also have continued to voice general support for the Sandinistas. The SPD-Green majority in the Hessen state parliament, for instance, voted in April to initiate educational, scientific, and economic cooperation programs in a region of Nicaragua. Wischnewski, despite his criticism of the Sandinistas, claimed in a recent press release that they were sincerely seeking national reconciliation. After helping in June to arrange the release of eight West German leftist volunteers captured by insurgent forces, Wischnewski publicly defended the Sandinistas' handling of the incident and urged Bonn to improve relations with Managua. In March, Social Democratic members of the Bundestag publicly urged the US Congress to refuse assistance to the Contras, whom the party press continues to portray as members of the former Somoza regime. [redacted]

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Further, one Social Democrat's acerbic public criticism of the Sandinistas recently led to his resignation from the party. Cologne University international law professor Martin Kriele, a longtime SPD member who defended the Brandt administration's treaties with Eastern Europe against constitutional challenges in the early 1970s, repeatedly has argued that the Sandinistas are Soviet- and Cuban-style totalitarians. He also has charged SPD leaders with whitewashing Nicaraguan abuses, and his most recent book expressed sympathy for the Contras. Kriele's statements prompted his local Social Democratic organization to recommend his expulsion. Kriele probably could have won an appeal to higher party organs, according to press reports, but he resigned last March to avoid lengthy proceedings and further embarrassment to the SPD during an election campaign. [redacted]

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**Prospects**

The Social Democrats almost certainly will continue to blame the United States more frequently than the Sandinistas for instability in Central America. Even moderate party leaders believe that US assistance to

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the Contras hinders chances for a peace settlement and at least partly explains repression by the Sandinistas. Although some leaders such as chancellor candidate Johannes Rau may tone down or avoid criticism of US policy toward Nicaragua in order to undercut Christian Democratic charges of anti-Americanism, not all party members are likely to follow suit.

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The SPD may play down its views on Nicaragua during the election campaign, in part to avoid exposing its internal differences. Party leaders can point to their recent criticism of the Sandinistas to counter Christian Democratic charges that they ignore human rights abuses by leftwing dictatorships. But they probably will avoid harsher attacks on Managua's human rights abuses, which probably would provoke open dissent by party leftists.

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The Social Democrats are even less likely to criticize Managua's ties to Moscow and Havana, a topic they have avoided in recent years. The SPD probably reasons that such criticism would run counter to its general emphasis on East-West detente and raise questions among the electorate about its previous uncritical support for the Sandinistas.

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**Venezuela: Presidential Politics Heating Up** [redacted]

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Although the presidential election is still two years away, the campaign is rapidly heating up. The pro-US "orthodox" faction of the ruling Democratic Action party—led by President Lusinchi and his allies—faces a political challenge from former President Carlos Andres Perez, leader of the party's populist wing, who is actively seeking the 1988 nomination. A sharp critic of US foreign policy and a charismatic and energetic politician, Perez at this juncture appears to have the greatest electoral appeal within the ranks of possible Democratic Action presidential choices. Lusinchi and the party organization oppose Perez's bid and will try to block his candidacy. Nevertheless, continuing economic setbacks could eventually force party leaders to turn to their strongest votegetter, particularly if the opposition Social Christian party presents a formidable challenge. [redacted]

**Background**

Last year, Lusinchi and party leaders with similar views outmaneuvered Perez, turning back his effort to place supporters on the National Executive Committee, which controls the electoral college that will select Democratic Action's next candidate. By dominating the executive committee, the "orthodox" leadership could veto Perez's nomination, just as party founder and former President Betancourt blocked the bid of a leftist candidate in 1968 who had strong voter support. [redacted]

Earlier this year, Lusinchi appeared to be in charge of the political process and appeared likely to name his successor in 1988. US Embassy reporting suggested that he had met Perez's challenge and that COPEI, the largest opposition party, was divided and still smarting from its massive electoral defeat of 1983. Furthermore, Lusinchi had corrected Venezuela's external payments deficit and was preparing to tackle unemployment and eight years of economic stagnation by implementing growth-stimulating measures. [redacted]

**New Political Vulnerabilities**

We now believe, however, that the political fallout from the recent decline in international oil prices—which account for about 90 percent of export earnings and 70 percent of government revenues—has hurt Lusinchi and may have weakened the "orthodox" wing of Democratic Action and its hold on the nominating process. Opposition leaders—including COPEI's presidential hopeful, Eduardo Fernandez, and Perez—have found plenty of ammunition to use against Lusinchi and his allies. Provided with a readymade issue by the oil crisis, Fernandez has spearheaded a hard-hitting attack on the government's economic policies, in particular its debt refinancing agreement—entered into before the oil price collapse. Fernandez, according to US Embassy sources, has blamed government mismanagement and has attacked the refinancing deal as subservient to foreign interests. While Democratic Action did unite behind Lusinchi in an effort to limit the political damage, Fernandez's campaign is paying early dividends and COPEI appears to be regaining support, according to recent Venezuelan polls. [redacted]

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**Perez's Moves**

Seizing on reports of COPEI's resurgence and on current economic issues, which he has used against Lusinchi in party circles, Perez is in the strongest position to take advantage of widespread discontent. [redacted]

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[redacted] By exploiting his popularity, emphasizing his role as Socialist International Vice President and spokesman for Venezuela, and the growing opposition challenge, Perez has attracted the support of mid-level party functionaries [redacted]

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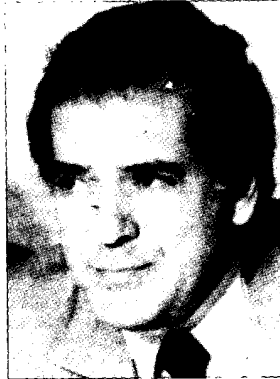
**Carlos Andres Perez**



The Daily Journal

*Colorful, outspoken former President (1974-79) . . . has enormous popular following and would like to be president again . . . a founder of Democratic Action party but at odds with moderates who control the party and are wary of his independent style and leftist views . . . well-traveled spokesman for Third World causes . . . supporter of Sandinista regime . . . often strident critic of US policies . . . energetic campaigner with forceful, personalized leadership style . . . has ridden out corruption scandals in the past . . . about 64.*

**Eduardo Fernandez**



The Daily Journal

*Popular, charismatic COPEI secretary general (since 1979) . . . controls most of party apparatus . . . has recently emerged as front-runner for 1988 COPEI presidential nomination with growing support within the party . . . widely popular according to national opinion survey . . . generally well disposed toward the United States . . . softened sharp commentary by fellow COPEI members on US airstrikes in Libya . . . articulate, polished . . . 45 years old.*

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While he has made inroads with lower level party functionaries, Perez has only one clear-cut supporter on the National Executive Committee and will have to rely on his popularity to overcome this electoral obstacle to his nomination. He is trying to convince the party leadership that without him COPEI will regain the presidency in two years.

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key factor in Democratic Action's political framework. Moreover, other opponents of Perez reportedly have already begun to line up in favor of Leandro Mora.

We believe, however, that continuing economic stagnation coupled with a growing challenge from COPEI could force the party to turn to Perez as their strongest votegetter.

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**Lusinchi's Counterstrategy**

Lusinchi and other orthodox leaders have begun to advance the candidacy of Reinaldo Leandro Mora, Senate President and Democratic Action Vice President. According to press reports, Lusinchi met with the party leaders at the highest level last month to name Leandro Mora, a politician who has demonstrated skill in building consensus, as their choice and to initiate his campaign. Lusinchi has reportedly won labor's support, which constitutes a

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**Latin America  
Briefs**

**Brazil**

**Dynamic Army Minister Leonidas**

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General Leonidas Pires Goncalves is successfully redefining the Army's role in Brazil's "New Republic" with the support of President Sarney and the Congress. Handsome, urbane, and politically astute, the Minister is supportive of civilian government and is filling key jobs in the Army with supporters who hold similar views.

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he is shifting the Army's primary responsibility to protecting Brazil from external threats, and has formalized a major force modernization program that includes a large purchase of new armored fighting vehicles and tanks. Beyond this, Leonidas has received approval to create Brazil's first Army Air Corps and equip it with modern helicopters. He is enhancing career and advancement opportunities and beginning new military hospital construction projects—popular moves supported by his troops.

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In contrast to the aloofness exhibited by his predecessors toward civilian politicians, Leonidas is actively courting congressional and presidential support for his efforts. He has increased the size of the Army's Congressional Liaison Staff,

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In an effort to earn congressional good will and obtain funding to replace outdated equipment, he has invited influential legislators, including those who opposed the former military government, to tour Army facilities to demonstrate the Army's new commitment to defense activities. He has managed to nearly double the Army's 1986 budget, with much of the increase going toward the purchase of new equipment. During a presidential tour of Army bases in the Amazon, which Leonidas orchestrated, the Minister apparently convinced Sarney that the Army needed its own helicopters to deal with potential incursions by guerrillas and narcotics traffickers from neighboring Peru and Colombia—both new concerns of the President. As a result of his efforts, Leonidas is already being labeled as one of Brazil's best Army Ministers,

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**Uruguay**

**Wrestling With the Human Rights Issue**

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Uruguay's armed forces support civilian rule but worry that leftist demands will lead to Argentine-style trials of officers for alleged human rights abuses committed under the former military government. The Supreme Court is deliberating over one case that would set a precedent for trying officers in civilian or military courts.

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President Sanguinetti is taking a cautious approach to this sensitive issue.

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[Redacted] Earlier this month, Sanguinetti met and discussed the human rights question with opposition Blanco Party President Wilson Ferriera, according to the US Embassy. [Redacted]

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Sanguinetti and most Uruguayan politicians would like to defuse the issue quietly. In our view, the Supreme Court is likely to award jurisdiction over officers' trials to the military courts. Sanguinetti may have negotiated an amnesty for human rights offenders during his meeting with Ferriera, similar to the earlier one granted to Uruguayan political prisoners. In any event, US Embassy officials believe that lack of evidence would limit the number of convictions should any cases be brought to trial. [Redacted]

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**South America**

**Andean Pact Liberalizes Trade** [Redacted]

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The members of the Andean Pact (Bolivia, Colombia, Ecuador, Peru, and Venezuela) have agreed to liberalize trade based on a new quota system. The issue had been one of the Pact's most contentious problems. Ecuador, the strongest critic, previously maintained that liberalization would only benefit Colombia, Venezuela, and Peru, but agreed to support an initiative that provides for reciprocal benefits. The new program requires each country to allow limited importation of 30 to 50 products that had been banned on the grounds that importation would hurt domestic producers. The program will be reviewed after three years. Under the new agreement, Ecuador, for example, would permit limited competitive imports of Venezuelan, Peruvian, and Colombian petrochemical and metallurgical products, but it would benefit by exporting Ecuadorean chocolate, large kitchen appliances, fish meal, and wooden goods. Pact members have agreed that, because of Bolivia's economic woes, its exports will not be limited by the new quota system. [Redacted]

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**Colombia**

**Coffee Situation** [Redacted]

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Colombia, the world's second-largest coffee producer after Brazil, will probably meet its 1986 coffee export goal of 12 million bags and may gain \$3 billion in foreign exchange earnings this year. The Colombian Coffee Growers Association estimates the 1985/86 coffee harvest will yield 11.5 million bags, a volume similar to that of last year. Colombia's coffee stocks from previous crops are at a record high—11 million bags—and domestic consumption remains at only 2 million. Bogota has so far rejected Central American and Mexican pressure to reduce coffee sales. [Redacted]

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Coffee export revenues typically contribute more than 50 percent of all legal exports. Increased export earnings will improve the ability of the next government, which takes office in August, to lower the budget deficit and reactivate the economy. [Redacted]

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Peru

**Sendero Luminoso's Growing Tactical Sophistication** [redacted]

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Despite President Garcia's recent 60-day renewal of martial law in Lima, the Sendero Luminoso insurgents continue to target high-ranking civilian and military officials. Sendero Luminoso has also demonstrated an increasing ability to damage Peru's economic infrastructure outside of Lima. Using stolen explosives, Senderistas recently blew up a key rail bridge linking Lima and a provincial capital in Peru's central copper mining region, causing an estimated \$3 million in economic damage. [redacted]

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[redacted] the precise timing of the detonations, which occurred as a train loaded with copper ore was crossing the bridge, indicates a high level of skill. [redacted]

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