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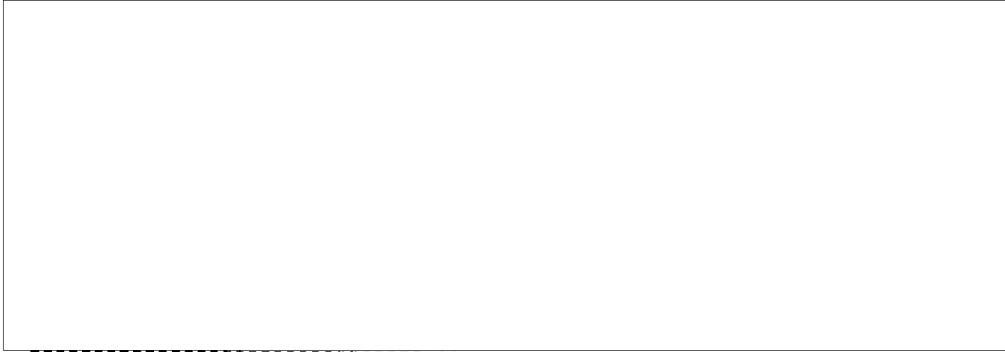
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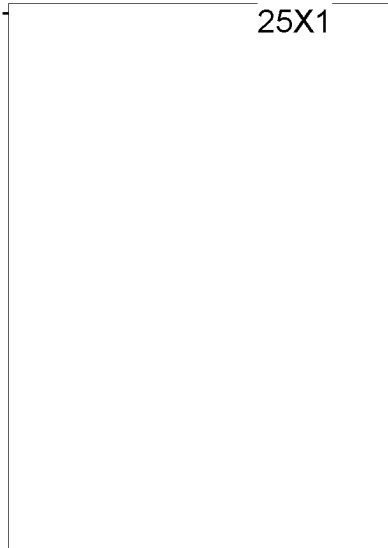
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SUBJECT: CENTRAL AMERICAN UPDATE NO. 7

1. (LOU) THERE FOLLOWS SEVENTH IN OUR SERIES OF REPORTS TO UPDATE POSTS ON DEVELOPMENTS IN CENTRAL AMERICA. POSTS MAY, AT THEIR DISCRETION, USE UNCLASSIFIED AND LOU INFORMATION AS NON-PAPERS FOR HOST GOVERNMENT OFFICIALS. CONFIDENTIAL INFORMATION IS PRIMARILY FOR POSTS' BACKGROUND, BUT MAY BE USED SELECTIVELY IN BRIEFINGS.

2. CONTADORA:



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(C) AMB. SHLAUDEMAN VISITED GUATEMALA, HONDURAS, EL SALVADOR AND COSTA RICA JUNE 19-22 TO CONSULT ON THE THEN UPCOMING TALKS WITH NICARAGUA AND THE CONTADORA PROCESS. HE RETURNED TO THE REGION JULY 1-5 TO CONSULT ON THE MOST APPROPRIATE WAY TO ASSOCIATE THE RESULTS OF THE US-NICARAGUAN BILATERAL DISCUSSIONS WITH THE CONTADORA NEGOTIATIONS.

3. SHLAUDEMAN-TINOCO MEETING JUNE 25-26 IN MEXICO:

(C) THE ATMOSPHERE IN THE MEETING WAS BUSINESSLIKE THROUGHOUT. THE TWO SIDES AGREED TO MEET AGAIN AT A DATE AND PLACE TO BE DETERMINED. THE DECISION OF THE US TO UNDERTAKE THESE TALKS WAS MADE IN RESPONSE TO A REQUEST BY THE CONTADORA GOVERNMENTS AND IN ORDER TO STRENGTHEN THE CONTADORA PROCESS. OUR FIRM VIEW IS THAT THE US-NICARAGUAN TALKS CANNOT AND MUST NOT SUBSTITUTE FOR OR WEAKEN IN ANY WAY THE CONTADORA PROCESS.

(LOU) TO CREATE A CLIMATE OF CONFIDENCE IN THE TALKS AND THEREBY MAXIMIZE THE PROSPECTS FOR SUCCESS, THE US HAS DECIDED TO MAINTAIN THE STRICTEST CONFIDENTIALITY ON THE CONTENT OF THE DISCUSSIONS. THE US GOVERNMENT WILL THEREFORE NOT BE MAKING ANY PUBLIC STATEMENTS CONCERNING THE TALKS NOR WILL IT BE PROVIDING BACKGROUND INFORMATION TO THE PRESS ON THEIR PROGRESS.

4. CONTADORA DRAFT AGREEMENT:

(C) THE CONTADORA DRAFT AGREEMENT PROVIDED TO THE FIVE CENTRAL AMERICAN GOVERNMENTS JUNE 9-10 DEFERS NEGOTIATIONS ON ARMS AND TROOP LEVEL REDUCTIONS AND THE WITHDRAWAL OF FOREIGN MILITARY AND SECURITY ADVISERS UNTIL AFTER THE BASIC AGREEMENT IS SIGNED, WHILE OBLIGATING THE PARTIES TO IMMEDIATELY CEASE ALL SUPPORT TO PARAMILITARY FORCES AND TO TAKE CONCRETE STEPS TO STOP ILLEGAL ARMS TRAFFICKING. WE SUPPORT THIS LATTER PROVISION, BUT ONLY IN THE CONTEXT OF AN AGREEMENT THAT MEETS SIMULTANEOUSLY CENTRAL AMERICAN CONCERNS ON ARMS AND TROOP LEVEL REDUCTIONS AND WITHDRAWAL OF FOREIGN ADVISERS.

(C) THE DRAFT AGREEMENT PROVIDES FOR A "VERIFICATION AND CONTROL COMMISSION" CONSISTING OF FIVE MEMBERS, FOUR FROM "GENUINELY IMPARTIAL" COUNTRIES AND A LATIN AMERICAN EXECUTIVE SECRETARY. THE VERIFICATION PROVISIONS LACK, HOWEVER, SPECIFICITY ON STAFF, FINANCING AND PROCEDURES.

(C) THE DRAFT PROVISIONS ON DEMOCRATIZATION WOULD BE BOTH LEGALLY BINDING AND SUBJECT TO VERIFICATION BY A SUBGROUP OF THE VERIFICATION AND CONTROL COMMISSION. NICARAGUA HAS ALREADY, PUBLICLY AND PRIVATELY, EXPRESSED ITS STRONG OBJECTION TO THESE PROVISIONS. OTHER POSITIVE FEATURES ARE AN IMMEDIATE MORATORIUM ON THE INTRODUCTION OF NEW WEAPONS SYSTEMS (WHICH WOULD PRECLUDE NICARAGUAN ACQUISITION OF MIGS) AND MILITARY PARITY AMONG THE FIVE COUNTRIES AS A GUIDE TO ARMS NEGOTIATIONS (NICARAGUA HAD ARGUED THAT ITS DEFENSIVE NEEDS VIS A VIS ALL OTHER CENTRAL AMERICAN NEIGHBORS AND THE UNITED STATES SHOULD BE THE CRITERION).

(C) THE CONTADORA GOVERNMENTS HAVE ASKED THE FIVE CENTRAL AMERICAN GOVERNMENTS TO RESPOND WITH "OBSERVATIONS" BY MID-JULY AND MAY INTEND TO INCORPORATE THESE INTO A REVISED DRAFT. THERE IS NOT YET, HOWEVER, AGREEMENT AMONG THE NINE PARTICIPANTS AS TO WHAT HAPPENS (OR WHEN) AFTER THE OBSERVATIONS ARE SUBMITTED.

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(C) HONDURAS AND EL SALVADOR, ALTHOUGH ACUTELY CONSCIOUS OF THE DEFICIENCIES IN THE DRAFT HAVE INDICATED TO THE CONTADORA GOVERNMENTS THAT THEY CAN ACCEPT THE DRAFT AGREEMENT AS A BASE FOR NEGOTIATIONS (HONDURAS) OR FURTHER TALKS (EL SALVADOR) AMONG THE CENTRAL AMERICAN STATES. THE OTHER CENTRAL AMERICAN GOVERNMENTS HAVE NOT YET RESPONDED TO THE REQUEST FROM THE CONTADORA GOVERNMENTS FOR OBSERVATIONS ON THE DRAFT AGREEMENT. THE CENTRAL AMERICANS (INCLUDING, PERHAPS NICARAGUA) MAY RESIST ANY CONTADORA ATTEMPT TO FORCE THE PACE OF NEGOTIATIONS SUCH AS TO SET ASIDE CONTENTIOUS ISSUES.

(C) IN POINTING OUT DEFICIENCIES IN THE DRAFT AGREEMENT, POSTS SHOULD BE CAREFUL NOT TO CO;VEY ATTITUDE OF OPPOSITION TO THE DRAFT AGREEMENT AS A WHOLE OR TO THE CONTADORA PROCESS, WHICH WE STRONGLY SUPPORT. WE WOULD BE INTERESTED IN ANY INDICATION VOLUNTEERED BY HOST GOVERNMENT OFFICIALS THAT THE CONTADORA GOVERNMENTS HAVE BRIEFED THEM IN DETAIL ON THE DRAFT AGREEMENT OR PROVIDED THEM WITH COPY OF THE DRAFT AGREEMENT.

**5. CONGRESSIONAL RELATIONS:**

(U) ON JUNE 18 THE SENATE DEFEATED TWO AMENDMENTS TO THE DOD AUTHORIZATION BILL THAT WOULD HAVE RESTRICTED US POLICY IN CENTRAL AMERICA. AN AMENDMENT OFFERED BY SENATOR KENNEDY TO BAR US COMBAT TROOPS FROM EL SALVADOR OR NICARAGUA WITHOUT PRIOR CONGRESSIONAL APPROVAL WAS REJECTED 63-31. A KENNEDY-BINGAMAN AMENDMENT TO PROHIBIT US SUPPORT FOR PARAMILITARY OPERATIONS IN NICARAGUA IN FY-85 WAS DEFEATED 58-38. THE HOUSE HAD APPROVED AN AMENDMENT TO THE DOD BILL OFFERED BY REP. FOLEY (D-WA) THAT WOULD PROHIBIT THE PRESIDENT FROM SENDING US TROOPS TO CENTRAL AMERICA OR MEXICO FOR COMBAT WITHOUT PRIOR CONGRESSIONAL CONSENT. SINCE THE SENATE VERSION OF THE BILL CONTAINS NO COMPARABLE LANGUAGE, THIS ISSUE MUST NOW BE RESOLVED IN CONFERENCE ON THE DOD AUTHORIZATION BILL.

(LOU) ON JUNE 25 THE SENATE VOTED 88-1 TO DELETE THE DOLLARS 21 MILLION APPROPRIATION FOR THE CONTINGENCY

RESERVE FOR THE NICARAGUAN PROGRAM FROM THE URGENT SUPPLEMENTAL (H.U. RES. 492). DESPITE THE 58-38 VOTE A WEEK EARLIER TO SUSTAIN THE ADMINISTRATION'S POSITION ON NICARAGUA (ABOVE), THERE WAS STRONG PRESSURE IN THE SENATE TO SEPARATE THIS FUNDING FROM POPULAR ELEMENTS IN THE URGENT SUPPLEMENTAL, SUCH AS SUMMER JOBS, GIVEN THE HOUSE'S REFUSAL TO APPROVE THE BILL WITH THE DOLLARS 21 MILLION INCLUDED. SENATORS BAKER AND GOLDWATER SAID THEY WOULD SEEK TO RESTORE THE MONEY FOR THE NICARAGUA PROGRAM IN ANOTHER BILL.

(U) THE FOREIGN OPERATIONS SUBCOMMITTEE OF THE SENATE APPROPRIATIONS COMMITTEE (SENATOR KASTEN, CHAIRMAN) IN MARKING UP THE FY-84 "OMNIBUS" SUPPLEMENTAL AND THE FY-85 FOREIGN AID APPROPRIATION REQUEST JUNE 21, APPROVED THE PRESIDENT'S FULL ECONOMIC AND MILITARY AID REQUESTS FOR CENTRAL AMERICA FOR BOTH SUPPLEMENTAL FY-84 AND FY-85 (LESS THE DOLLARS 62 MILLION FOR EL SALVADOR ALREADY APPROVED IN THE URGENT SUPPLEMENTAL). ON JUNE 26 THE FULL SENATE APPROPRIATIONS COMMITTEE ALSO APPROVED THE FY-85 REQUEST, BUT IT DEFERRED MARK-UP OF THE ONMIBUS SUPPLEMENTAL PENDING HOUSE ACTION ON THIS BILL. THE HOUSE APPROPRIATIONS COMMITTEE HAS DEFERRED ACTION ON THE OMBIBUS SUPPLEMENTAL UNTIL AFTER THE JUNE 30 - JULY 23 CONGRESSIONAL RECESS.

(U) THE VERY FAVORAOLE ACTION OF THE SENATE

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APPROPRIATIONS COMMITTEE SETS THE STAGE AFTER THE JULY 4 RECESS FOR SHARP BATTLES IN CONFERENCE ON BOTH THE OMNIBUS SUPPLEMENTAL AND THE FY-85 CONTINUING RESOLUTION. SINCE NEITHER HOUSE IS EXPECTED TO PASS A FY-85 FOREIGN AID APPROPRIATIONS BILL THIS YEAR, THE AID APPROPRIATION FOR NEXT FISCAL YEAR MAY BE ENACTED THROUGH THE CONTINUING RESOLUTION.

## 6. EL SALVADOR:

(C) SALVADORAN PRESIDENT DUARTE HAS ACCEPTED AN INVITATION TO VISIT GERMANY IN MID JULY. OTHER EUROPEAN STOPS ARE POSSIBLE.

(U) GUERRILLA ACTIVITIES: LEFT-WING GUERRILLAS HAVE INTENSIFIED THEIR ACTIVITIES AIMED AT CIVILIAN. IN A COMMUNIQUE ISSUED JUNE 16, THE FMLN ANNOUNCED THAT IT WOULD PARALYZE TRAFFIC AND DESTROY VEHICLES ON ALL HIGHWAYS, AND PRIMARY AND SECONDARY ROADS. BUS SERVICE IN FOUR EASTERN DEPARTMENTS HAS DROPPED BECAUSE OF THREATS TO BUS DRIVERS. INDISCRIMINATE MINING BY THE GUERRILLAS HAS INCREASED, WITH RESULTING HIGHER RISKS TO

CIVILIAN NONCOMBATANTS. ON JUNE 13, THE FMLN SAID THEY WOULD SABOTAGE ALL PHASES OF COTTON PRODUCTION IN AN EFFORT TO STRIKE A BLOW TO ONE OF THE NATIONAL ECONOMY'S MAIN SOURCES OF INCOME. GUERRILLA FORCED RECRUITMENT AND MOBILIZATION ACTIVITY AMONG CIVILIANS LIVING IN AREAS OF TRADITIONAL GUERRILLA CONTROL HAS RESULTED IN A MASSIVE EXODUS OF SALVADORANS THROUGH HONDURAS. THESE EVENTS DEMONSTRATE THE FMLN'S INTENTIONS TO CONTINUE ITS ATTACKS AGAINST THE ECONOMIC INFRASTRUCTURE OF THE COUNTRY.

(U) THE GUERRILLAS ATTACKED THE CERRON GRANDE DAM, EL SALVADOR'S LARGEST HYDROELECTRIC PLANT JUNE 28. 600 TROOPS OF THE AIRBORNE BATTALION WERE TRANSPORTED QUICKLY TO THE DAM USING REPEATED TRIPS WITH ONLY 10 HELICOPTERS. OTHER TROOPS WERE AMBUSHED BY THE GUERRILLAS AS THEY MOVED BY ROAD TO THE DAM. BY NOON THE ENTIRE FACILITY WAS UNDER THE CONTROL OF GOVERNMENT FORCES. WHILE THE ATTACK ON THE DAM REFLECTED A LAPSE OF SECURITY, THE QUICK RESPONSE BY THE SALVADORAN ARMED FORCES, WITH DUARTE'S FULL SUPPORT, PREVENTED GREATER DAMAGE. DUARTE'S ROLE AS COMMANDER-IN-CHIEF AT THE GENERAL STAFF AND LATER AT THE DAM ITSELF WAS IMPRESSIVE AND IN MANY RESPECTS UNPRECEDENTED.

(LOU) LAND TO THE TILLER EXTENSION VOTED DOWN: ON JUNE 28, THE SALVADORAN LEGISLATIVE ASSEMBLY VOTED AGAINST A BILL THAT WOULD HAVE EXTENDED LAND REFORM'S PHASE III, THE LAND TO THE TILLER PROGRAM, FOR A FOURTH TIME. THERE WAS VERY LITTLE INTEREST ON ANYONE'S PART IN EXTENDING PHASE III. CAMPESINO GROUPS PROPOSED AN EXTENSION VERY BELATEDLY AND WITHOUT THE LOBBYING TYPIFYING PAST EXTENSIONS. CAMPESINO LEADERS REPORT THAT THE EXTENSION ISSUE WAS A POLITICALLY COSTLY DISTRACTION FROM THE REAL BUSINESS OF MAKING THE REFORMED SECTOR MORE PRODUCTIVE AND FINANCIALLY VIABLE. IN THE PEACEFUL ZONES, APPLICATIONS FOR LAND HAVE DROPPED SHARPLY, INDICATING A MUCH DIMINISHED POOL OF POTENTIAL BENEFICIARIES. IN THE CONFLICTIVE ZONES, A SIX MONTH EXTENSION, WITHOUT ESTABLISHING PEACE, WOULD ACCOMPLISH LITTLE. THE PROGRAM CAN BE REESTABLISHED LATER, AND PRESIDENT DUARTE INTENDS TO SUPPORT THE DISTRIBUTION OF LAND IN THE CONFLICTIVE ZONES AT A MORE APPROPRIATE TIME.

## 8. GUATEMALA:

(U) GUATEMALA'S CONSTITUENT ASSEMBLY ELECTIONS ON JULY 1

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 CONSTITUTE A MAJOR STEP IN THE MILITARY GOVERNMENT'S PROGRAM TO RESTORE CIVILIAN, DEMOCRATIC RULE. VOTER TURNOUT WAS HEAVY AND PRELIMINARY RESULTS INDICATE THAT

CENTRIST POLITICAL PARTIES (LED BY THE LEFT OF CENTER CHRISTIAN DEMOCRATS, THE REVOLUTIONARY PARTY AND THE NATIONAL RENOVATION PARTY) EMERGED WITH A STRONG MAJORITY IN THE 88 SEAT ASSEMBLY. GUATEMALA CHIEF OF STATE GEN. MEJIA HAS RECENTLY REITERATED THAT THE CONSTITUENT ASSEMBLY'S AUTHORITY WILL BE STRICTLY LIMITED TO DRAWING UP A NEW CONSTITUTION. THE MILITARY GOVERNMENT LIVED UP TO ITS PLEDGE NOT TO SUPPORT ANY POLITICAL PARTY OR TO INTERFERE WITH ANY GROUP'S CAMPAIGN EFFORTS, AND THE PROCESS THAT IS SCHEDULED TO CULMINATE IN PRESIDENTIAL ELECTIONS IN 1985 BEGAN ON A DYNAMIC NOTE.

(U) THE US OBSERVERS, IN THEIR REPORT ON THE ELECTIONS, STATED "WE WERE IMPRESSED BY THE CIVIC PRIDE IN THE ELECTIONS, BY THEIR (THE VOTERS) EVIDENT DESIRE FOR DEMOCRACY, BY THE TOTAL ABSENCE OF VIOLENCE OR PRESSURE, AND BY THE FRIENDSHIP EXPRESSED FOR THE UNITED STATES. WE SAW THE DETERMINATION OF THE GUATEMALAN PEOPLE TO PARTICIPATE IN A DEMOCRATIC PROCESS AND SHARE THEIR HOPE THAT THE STRONG PROCESS BEGUN ON SUNDAY WILL CULMINATE IN THE ESTABLISHMENT OF A GENUINE OPEN AND REPRESENTATIVE CIVILIAN GOVERNMENT. THE HIGH DEGREE OF PARTICIPATION BY THE REGISTERED VOTERS REFLECTS A STRONG COMMITMENT TO ACHIEVING CHANGE BY PEACEFUL MEANS."

## 9. NICARAGUA:

(U) EDEN PASTORA, LEADER OF THE MILITARY WING OF THE NICARAGUAN OPPOSITION MOVEMENT ARDE, WAS IN WASHINGTON JUNE 26 - JULY 2 FOLLOWING RECUPERATION IN VENEZUELA FROM THE MAY 30 BOMB ATTACK AGAINST HIM. PASTORA'S VISIT CAME IN THE WAKE OF ARDE MILITARY REVERSES AND A NEW SPLIT IN THE MOVEMENT OVER ARDE'S RELATIONS WITH THE FDN. PASTORA, JOINING WITH OPPOSITION LEADER, ARTURO CRUZ, REITERATED HIS WILLINGNESS TO LAY DOWN HIS ARMS IN RETURN FOR SANDINISTA ASSURANCES OF FREE, OPEN ELECTIONS IN WHICH ALL GROUPS COULD PARTICIPATE.

(C) DANIEL ORTEGA TRIP TO EASTERN EUROPE: FOLLOWING ANNOUNCEMENTS THAT THE GRN WAS SEEKING HIGH-PERFORMANCE AIRCRAFT, GRN JUNTA COORDINATOR DANIEL ORTEGA VISITED THE SOVIET UNION, BULGARIA, EAST GERMANY AND HUNGARY. ALTHOUGH WE ASSUME ORTEGA RAISED THE POSSIBILITY OF MORE MILITARY ASSISTANCE DURING THIS VISIT, WE HAVE NOT SEEN ANY INDICATION THAT THE SOVIETS AND THEIR ALLIES PLAN TO STEP UP THEIR MILITARY ASSISTANCE TO THE SANDINISTAS AT THIS TIME. THE LEVEL OF INCREASED ECONOMIC ASSISTANCE FROM THE BLOC IS ALSO PROBLEMATIC.

(C) GRN EFFORT TO DISCREDIT OPPOSITION: ON JUNE 20, AS PART OF ITS LATEST EFFORTS TO DISCREDIT ITS DOMESTIC OPPOSITION, THE GRN AGAIN OPENLY ATTACKED THE CATHOLIC CHURCH. THE LATEST INCIDENT FEATURED A TELECAST CONFESSION OF AN ALLEGED NICARAGUAN GUERRILLA LEADER, HERNAN ESPINOZA, IN WHICH HE CLAIMED TO HAVE BEEN IN LEAGUE WITH A CATHOLIC PRIEST AS WELL AS LEADERS OF THE CONSERVATIVE PARTY. IN SUBSEQUENT PRESS CONFERENCES AND GOVERNMENT PRESS EDITORIALS, THE GRN ACCUSED THE OPPOSITION POLITICAL PARTIES, INDEPENDENT LABOR, THE PRIVATE SECTOR, THE INDEPENDENT DAILY "LA PRENSA," AND THE CATHOLIC CHURCH HIERARCHY OF CONSPIRING TO OVERTHROW THE REGIME.

## 10. COSTA RICA:

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(C) COSTA RICA ECONOMIC PROBLEM: ON JUNE 15, COSTA RICA'S CREDITOR BANKS GRANTED IT A 90 DAY MORATORIUM ON PRINCIPAL REPAYMENTS, THUS AVERTING A SERIOUS POTENTIAL DEFAULT SITUATION. WITHIN THE NEXT NINETY DAYS THE GOCR HOPES TO RECEIVE SUBSTANTIAL ECONOMIC ASSISTANCE FROM THE IMF AND USG TO BOLSTER ITS FOREIGN EXCHANGE RESERVES.

(LOU) PRESIDENT MONGE'S EUROPEAN TRIP: ON JUNE 30, PRESIDENT MONGE WRAPPED UP HIS SUCCESSFUL FIVE-WEEK OFFICIAL VISIT TO EUROPE. MONGE ENCOUNTERED GENERAL SUPPORT FOR HIS MESSAGES OF SUPPORT FOR REGIONAL DEMOCRACY, ENDORSING THE DUARTE GOVERNMENT IN EL SALVADOR AND CRITICIING THE SANDINISTAS. HIS PROPOSAL FOR AN EC-CENTRAL AMERICAN-CONTADORA FOREIGN MINISTERS' MEETING HAS RECEIVED WIDESPREAD SUPPORT AND IS TENTATIVELY SET FOR SEPTEMBER. SUCH A MEETING WOULD PROBABLY FOCUS ON ECONOMIC ISSUES, WITH THE CENTRAL AMERICANS PUSHING FOR A REGIONAL COOPERATION AGREEMENT WITH THE EC. DAM  
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