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Central Intelligence Agency

Washington, D.C. 20505

9 April 1986

The Honorable Lee H. Hamilton
Chairman
Permanent Select Committee on Intelligence
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

Enclosed is our analysis of the impact of falling oil prices on the Soviet Union and recent Nicaraguan military activity in the northeast. I believe they answer the questions raised by the members. [redacted] 25X1

I have also included some examples of the fine work being done by our Counterterrorist Center. Three of the papers are unclassified and two were released by the State Department as White Papers. [redacted] 25X6 25X6

As always, we stand ready to respond to any other questions you may have. [redacted] 25X1

[redacted] 25X1

John L. Helgerson
Associate Deputy Director
for Intelligence

Enclosure

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Impact of Lower Oil Prices on the USSR

Low oil prices, a depreciating dollar, and declining domestic oil production will substantially reduce Moscow's ability to import Western equipment, agricultural goods, and industrial materials. Oil earnings dropped about $3 billion in 1985 and could fall as much as $7 billion this year. 25X1

Over one-third of Soviet imports are paid for in hard currency. Should oil prices remain low, the dollar fail to appreciate, and domestic oil production continue to decline for the rest of the decade, Moscow's annual hard currency import capacity could drop by nearly 40 percent from its 1984 level of $27 billion. While this estimate allows for some increase in debt to the West, large annual gold sales, and little increase in nonenergy exports, we doubt Moscow will abandon its conservative borrowing strategy, and thus jeopardize its ability to finance key imports such as grain in bad harvest years. 25X1

Instead, mounting evidence indicates that the Soviets are reducing the level of planned imports for 1986 and beyond. These cutbacks appear to be occurring across the board. In addition to dealing with the immediate scarcity of hard currency, these cuts will buy the leadership time to implement an import strategy that reflects the long term nature of the problem. 25X1

While success of Gorbachev's modernization program hinges on internal factors, his lofty goals--when matched against a realistic assessment of the capabilities of domestic producers--imply that some highly specialized imports from the West for such sectors as energy, machine tools, microelectronics, and telecommunications must be continued, if not increased. Import cuts in key intermediate goods such as specialty steels, in turn, could exacerbate already taut production schedules. 25X1

Soviet planners will--if they are not already doing so--need to revise and reformulate the five-year plan to account for reduced imports. In setting new priorities, Moscow may hope that efforts to improve worker discipline and economic management will boost domestic production of farm products, industrial materials, and machinery, reducing reliance on Western imports. Even with some success in this regard, the drop in hard currency earnings will increase pressure on Moscow to alter the nature of its trade relations both with its clients and with the West. 25X1

- Moscow will press its East European allies to fill some of the gap in hard currency imports, particularly machinery, and at some point could cut back on its oil deliveries to the region. Eastern Europe, however, is not in a postion to provide the scale of support the Soviets are likely to want or to absorb large cuts in oil imports from the USSR. 25X1

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- Moscow may decide to step up the pace of current efforts to alter the relationship between Soviet entities and Western firms to enhance the effectiveness of imported technology and equipment, e.g. Western management participation and profit sharing. The Soviet leadership may even consider measures to ease East-West tensions to foster a climate more conducive to attracting the help it needs. It will proceed cautiously, however, and not hesitate to pull back should it sense that the West is striving to take advantage of its weakened trade position. 25X1

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Sandinista Campaign in Northeast Nicaragua

The Sandinistas attacked Indian insurgent camps at Bilwaskarma and Kum on 25 March. Managua probably had multiple objectives, as with its campaign in the Las Vegas salient. It sought to disrupt any plans for the reactivation of the northeastern front, largely quiet for the past year, and to round up conscripts.

-- Refugees debriefed by representatives of the US Embassy and United Nations High Commission on Refugees (UNHCR) report the Nicaraguan forces used "tanks"--more likely armored personnel carriers--and mortars.

[redacted] 25X1

-- In other villages nearby, according to press and refugee accounts, Sandinista soldiers posing as Red Cross teams conscripted young men. The Sandinistas also reportedly threatened to remove the Indians to resettlement camps again. [redacted] 25X1

The flight of the Indians into Honduras has prompted the UNHCR to declare a refugee emergency.

-- By 4 April, some 3,000 Indians had arrived in Honduran refugee camps, and the UNHCR expected another 1,500-2,500 within days, possibly straining its resources.

-- KISAN leaders have little confidence they can persuade the refugees to return to Nicaragua. [redacted] 25X1

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United States Department of State

Terrorist Attacks on US Businesses Abroad

March 1986

United States Department of State

Patterns of Global Terrorism: 1984

November 1985