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CENTRAL AMERICA ROUNDUP # 1

El Salvador-Honduras

1. News media in both Honduras and El Salvador have speculated that the meeting of presidents in San Salvador might be a suitable forum for settling the long-standing border dispute between the two countries.

2. The disputed area has remained quiet following a flurry of excitement in early June when Honduran security forces seized three Salvadoran malaria workers. The Sanchez government demonstrated restraint in the face of a militant press and recently cancelled long-scheduled military exercises near the border in an effort to avoid a new incident.

3. The plight of 43 Salvadoran prisoners held in Honduran jails since the border clashes in May and June 1967 continues to plague President Sanchez. El Salvador, playing the diplomatic reciprocity game, has yet to make an official reply to a Honduran

counterproposal regarding the prisoner exchange issue and remains publicly committed to seeking release of the Salvadoran prisoners through the Honduran judicial system.

Nicaragua

4. President Somoza appears to have backed away from an earlier stand which was straining relations among members of the Central American Common Market. Nicaragua had reportedly threatened to break up the Market if the other members did not follow its lead and promptly ratify a 30-percent tariff surcharge--known as the San Jose Protocol--on imports from outside the area. During a TV address on 4 July, Somoza stated that his country was at a disadvantage within the Market but noted that this was no reason for breaking up the integration movement. He added that Nicaragua wanted a "just and well-balanced integration."

5. The surcharge was agreed on early last month as a means of dealing with a rising trade deficit in the Common Market. It was not to go into effect until at least three legislatures had ratified but Nicaragua imposed the tariff unilaterally.

El Salvador, Costa Rica and Guatemala face greater internal problems in securing ratification of the protocol, however, and Somoza's pressure tactics may have backfired and hardened potential political opposition. The Honduran congress may approve the protocol today.

Costa Rica

6. President Trejos and Honduran President Lopez may press their Central American counterparts at meetings today to discuss with President Johnson the issue of taxation of US-owned banana companies in the area. A recent Costa Rican Government study recommends that the Central American countries try to raise to 70 percent the share of companies' profits they can tax. Under present arrangements, the local governments' share is 60 percent and the US government's 40 percent. At Punta del Este, Honduras had asked for a 90 percent local share.

Guatemala

7. Guatemala City press is giving heavy coverage to President Johnson's trip but some of it is critical. As could be expected, Guatemala's

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maverick vice president, Clemente Marroquin Rojas, is in the forefront of the criticism. In his newspaper La Hora the rightist Marroquin is attacking President Johnson's visit to both Central America and Guatemala City in his usual vitriolic style.

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