CONFIDENTIAL - ENTIRE TEXT.

EMBASSY NOTED WITH INTEREST STORY APPEARING IN JULY 16 MIAMI HERALD WHICH QUOTES SANDINISTA DEPUTY FOREIGN MINISTER NORA ASTORGA AS SAYING ABOUT THE U.S./NICARAGUAN DIALOGUE, "THE TWO MEETINGS REAFFIRM OUR INITIAL IMPRES-SION THAT THIS IS A PROPAGANDA MANEUVER...IT IS A PUB-ILICY STUNT WITH ELECTORAL GOALS." STORY THEN GOES ON TO STATE THAT, ON BACKGROUND BASIS, SANDINISTA OFFICIALS ARE SOMEWHAT MORE OPTIMISTIC ABOUT TALKS.

IN WHAT APPEARS TO US TO BE A PARTICULARLY INTEREST-ING PASSAGE, ASTORGA IS QUOTED AS SAYING THAT SANDINIS-TA'S KEY DEMANDS WILL BE FOR U.S. TO END AID FOR ANTI-SANDINISTA REBELS AND U.S. ACCEPTANCE TO SANDINISTAS AS A LEGITIMATE GOVERNMENT. OTHER SANDINISTA OFFICIALS, STORY CONTINUES, STATE THAT ALSO UNDER DISCUSSION IS THE RESTORATION OF NICARAGUA'S U.S. SUGAR QUOTA AND THE RESUMPTION OF INTERNATIONAL LOANS NOW BLOCKED BY WASHING-TON. IN EXCHANGE, THE OFFICIALS ARE QUOTED AS SAYING, THE SANDINISTAS COULD "ACCOMODATE" WASHINGTON ON AID TO SALVADORAN GUERRILLAS, FOREIGN MILITARY ADVISORS, AND NICARAGUA'S MILITARY BUILD-UP.

AS DEPARTMENT KNOWS, WE HAVE UNDER INSTRUCTIONS INFORMED HOST GOVERNMENT OF US/NICARAGUAN AGREEMENT NOT RPT NOT TO PUBLICLY CHARACTERIZE OUR BILATERAL DIALOGUE IN ANY WAY. THIS MIAMI HERALD STORY WOULD APPEAR TO BE JUST THE LATEST IN A SERIES OF SANDINISTA DEVIATIONS FROM SUCH AGREEMENT AND IS BOUND TO CONTRIBUTE TO WHAT-EVER UNSETTLING AFFECT OUR BILATERAL DIALOGUE IS HAVING ON FRIENDS IN THE REGION. NEGROPONTE