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**NATIONAL  
INTELLIGENCE  
ESTIMATE**

**Panama: Developments and Prospects**

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**PANAMA: DEVELOPMENTS AND PROSPECTS**

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*The following intelligence organizations participated in the preparation of the estimate:*

The Central Intelligence Agency, the intelligence organizations of the Departments of State, Defense, and Treasury, and the National Security Agency.

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The Director of Intelligence and Research representing the Department of State

The Director, Defense Intelligence Agency

The Director, National Security Agency

The Special Assistant to the Secretary for National Security, Department of the Treasury

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The Deputy Assistant Administrator for National Security, Energy Research and Development

**Abstaining:**

None

**Also Participating:**

The Assistant Chief of Staff for Intelligence, Department of the Army

The Director of Naval Intelligence, Department of the Navy

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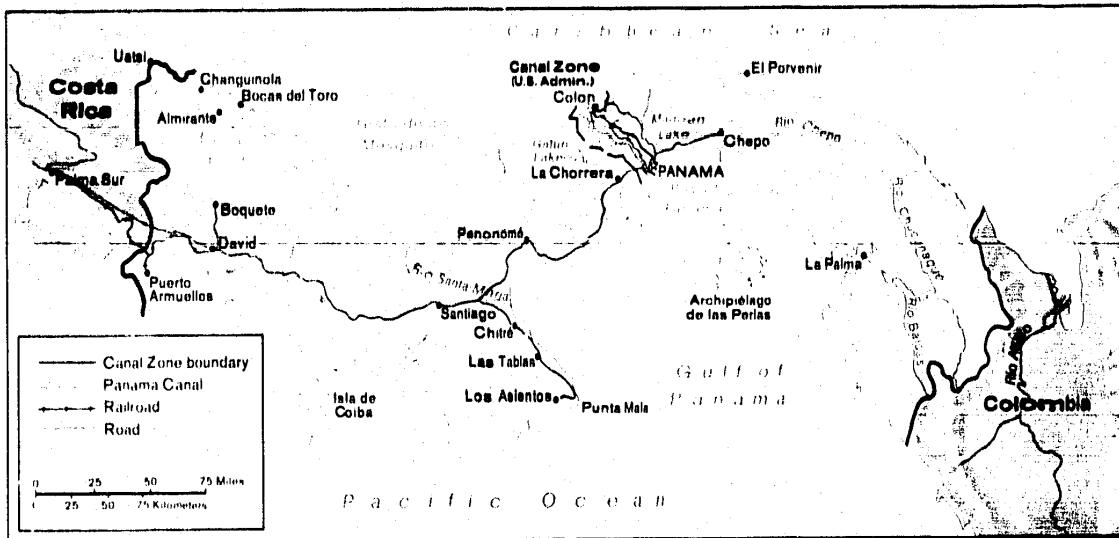
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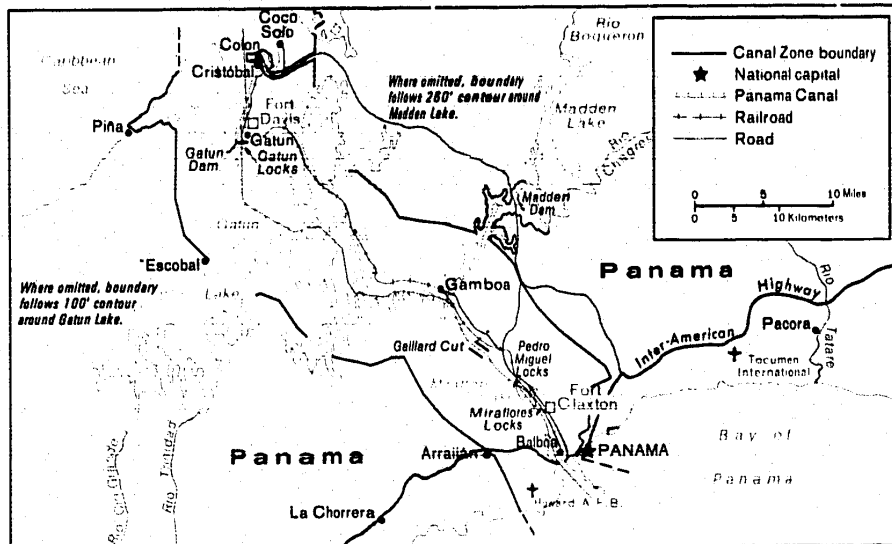
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### Panama



### Canal Zone



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## PANAMA: DEVELOPMENTS AND PROSPECTS

### PRECIS

General Omar Torrijos, Panama's Chief of Government, retains a strong grip on power, but his political support has declined significantly and the country's economic slump has generated domestic concern and unrest.

- Domestic problems will probably get worse, at least over the short term, and could endanger Torrijos' political survival, particularly if progress is not made in the canal treaty negotiations.
- If Torrijos were to fall because of internal economic and political problems, he would most likely be replaced by a more moderate government, but such a government would probably find it more difficult to win approval for a new canal treaty.

Domestic problems have given Panamanian leaders a new sense of urgency to speed up with the treaty talks, and they have declared 1977 the "Year of the Treaty."

- They believe that prompt conclusion of a treaty acceptable to Panama is essential to avoid further economic and political deterioration.
- Government leaders probably expect a brief delay in the negotiations while the new US officials become informed on the canal issue, but they will press the US to adhere publicly to the 1974 Statement of Principles and resume talks before Panama's politically active students return to class in April 1977.

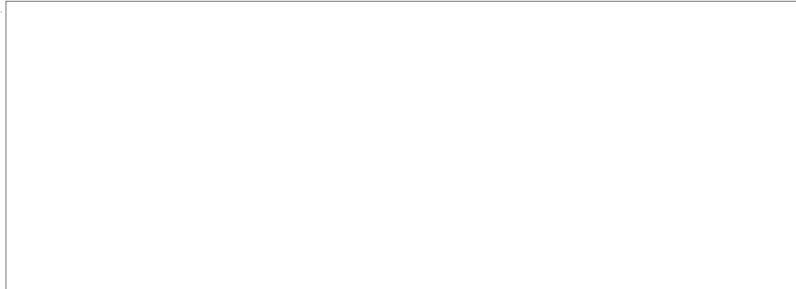
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Panamanian officials will probably remain relatively calm during the initial months of 1977 but they will urge the US with increasing intensity to move ahead on the negotiations as the year advances.



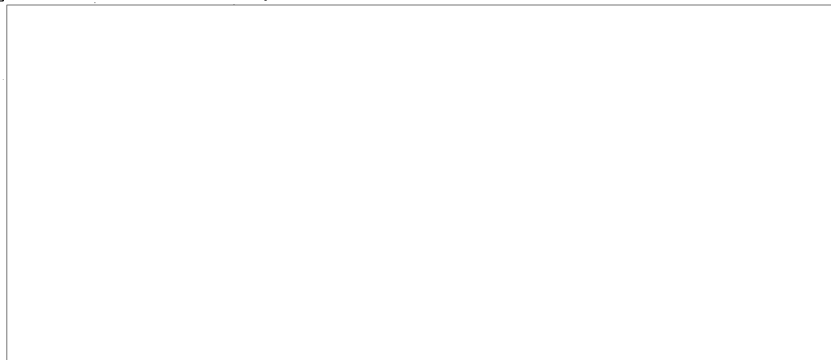
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We believe that domestic problems will make Torrijos amenable to accept certain compromises on his treaty position to conclude the negotiations quickly, as described in paragraph 52. The extent of compromise will depend on Torrijos' perception that the total treaty package is still acceptable.

Following is an assessment of probable Panamanian reaction to various scenarios that could arise in connection with the treaty negotiations:

**SCENARIO A: Negotiations are prolonged into 1978 without significant progress.**

Torrijos has so committed himself to a treaty in 1977 that we believe he would feel compelled to take dramatic action if major agreement was not in sight by year's end.



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A successor government, even if basically moderate, would have to take a strong nationalist stand on the canal issue, but it might be more amenable than the Torrijos government to compromise on some treaty issues.

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**SCENARIO B: A treaty is signed.**

Torrijos will almost certainly be able to obtain ratification of a treaty that he accepts.

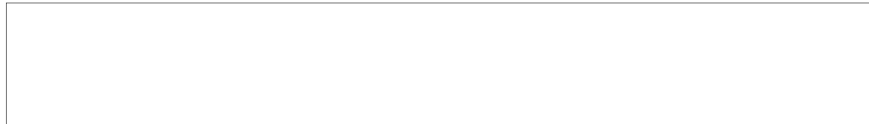
- He would have assured himself that he had sufficient domestic control and support before agreeing to the treaty.
- Ratification would probably come within several months and before the US Senate acted, in part to place the onus of possible rejection on the US.

There is little chance that a treaty signed and ratified by Panama would be denounced by a future Panamanian government, although some effort at revision would most likely be made in future years.

**SCENARIO C: A treaty is signed but the US Senate fails to act for an extended period.**

Torrijos would probably remain relatively calm for about six months after ratifying the treaty, but then would increase pressure on the US to ratify.

- As long as he believed that the door remained open for ratification, Torrijos would most likely control the level of Panamanian reaction.

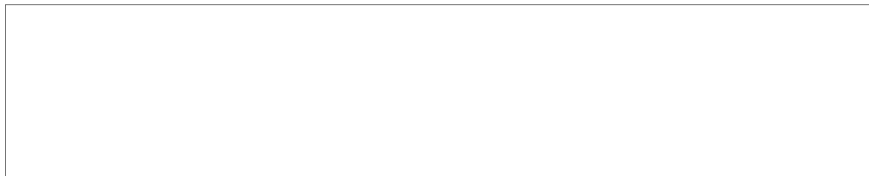


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**SCENARIO D: A treaty is signed but the US Senate fails to ratify it**

Nationalist sentiment would be ignited and violence against US personnel and installations would occur. The intensity of reaction would depend on whether Torrijos felt betrayed by the US executive branch and whether he believed that minor modifications in the treaty would result in US ratification.

After the initial disorders ran their course, Panamanian officials would undertake more calculated actions to make operation of the canal difficult.



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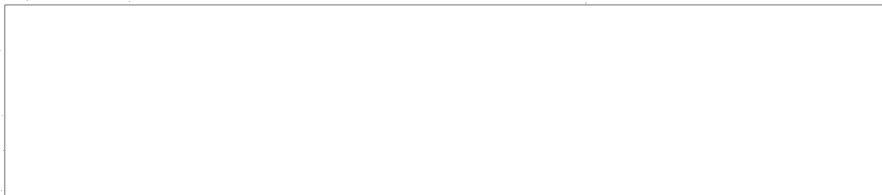
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— Torrijos would probably break diplomatic relations with the US and denounce the 1903 treaty. International support for Panama would be strong, particularly in Latin America and the Third World.

Torrijos would probably survive the negative economic repercussions of such a scenario, but his government would be more militantly anti-US. Should he not survive, a successor government would probably be at least as difficult to deal with on the canal issue as Torrijos. Without a treaty, each successor government would probably have to be as militant as its predecessor on the canal issue.

**SCENARIO E: The negotiations break down because an acceptable treaty cannot be agreed upon.**

If Torrijos believed that talks might resume on his terms, he would limit his reaction to prodding the US to return to the negotiations.



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Panama would find international sympathy if treaty talks break down but its support would be much more limited if Panama could be shown to have turned down an essentially equitable treaty.

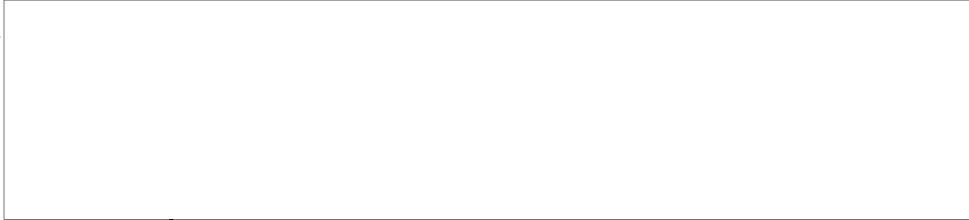
The domestic repercussions of this scenario could lead to the replacement of Torrijos, but a successor government, even if more moderate and friendlier to the US, would probably not be able to be much more reasonable than Torrijos on the canal issue.

**SCENARIO F: Treaty negotiations break down as a result of serious Panamanian government-sponsored anti-US violence.**

In the unlikely event of such a development, a crisis in Panamanian-US relations would almost certainly ensue, particularly if Panamanian government denial caused the US to reveal evidence of official sponsorship of the violence.

— If the evidence was not airtight, Torrijos would most likely continue to deny official involvement, but he would probably avoid further provocation in an effort to resolve the crisis.

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Whichever course Torrijos followed, he would be likely to turn to confrontation tactics if he became convinced that the US did not intend to resume negotiations with his government or that US ratification of a treaty was unlikely.

Torrijos would most likely not be able to survive politically in this scenario for long if the US did not show a willingness to resume negotiations with his government.

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## DISCUSSION

## I. INTRODUCTION

1. Panama and the United States have been intermittently engaged for almost 12 years in an attempt to negotiate a new Panama Canal treaty. The original 1903 accord, which granted the United States in perpetuity all the rights, power, and authority in the Canal Zone as if it were sovereign, has long rankled Panamanians. Treaty revisions in 1936 and 1955 did not affect these rights. Simmering nationalism over the canal issue culminated in the 1964 anti-US riots in which 20 Panamanians and four US citizens lost their lives. Panama broke relations with Washington and accused the US of "aggression." Negotiations to change the nature of our relationship began the following year. Treaty drafts prepared in 1967 were not signed by either government, and negotiations resumed in 1971 with the government of General Omar Torrijos, who had assumed power in 1968.

2. After a slow start, the negotiations picked up momentum in late 1973 with the assignment of Ambassador Ellsworth Bunker to head the US negotiating team. The two countries signed an eight-point Statement of Principles in 1974, which called for a fixed-term treaty, prompt cession to Panama of jurisdiction over the Canal Zone, continued US control over the administration and defense of the canal with increasing Panamanian participation, an arrangement for expansion of the canal, and receipt by Panama of an "equitable" share in the canal's benefits. These principles have guided subsequent treaty talks.

3. Since then, more specific agreement has been reached on transferring jurisdiction over the Canal Zone to Panama, on phasing in Panamanian participation in the operation of the canal, and on a status of forces agreement. Significant progress has also been made in determining the extent of lands and waters to be retained by the US for the operation and defense of the canal. No agreement has yet been reached, however, on such basic issues as treaty duration, provision for the canal's neutrality and defense,

possible expansion of transit facilities, and the amount and nature of compensation to be provided Panama.

4. The pace of negotiations slowed markedly during the recent US presidential election campaign, and the change in the US administration created uncertainty in Panama concerning the intention of the incoming Carter administration. Political and economic problems confronting Torrijos in Panama have also affected the negotiating environment. This Estimate examines recent developments in Panama as they affect the Panamanian government's position in the canal treaty negotiations and assesses Panama's likely strategy and tactics, particularly with regard to certain scenarios that could arise in connection with the negotiating process.

## US RESIDENTS IN PANAMA

## CANAL ZONE:

23,000 *	Military personnel and civilian employees of the Armed Forces, and dependents.
12,000	Employees of civilian agencies and dependents.

## REPUBLIC OF PANAMA:

7,000	American citizens, including US Government officials.
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\* Includes approximately 9,000 US military personnel.

## II. THE DOMESTIC SCENE

5. General Torrijos retains a strong grip on power with the continued support of the National Guard, but his position has eroded, particularly in the past year. The populist image of his eight-year old "revolution" has dulled and the country's economic problems have generated domestic concern and unrest. Government policies have come under attack from various elements of Panamanian society, particularly businessmen and radical students, and Torrijos' popularity and general support for his government have declined to the lowest point since he came to power. Growing awareness of corrupt practices by Torrijos and other high-level government officials has

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further damaged the General's popular image. Torrijos' reluctance to move quickly and firmly last September to put down student antigovernment disorders drew criticism from both senior and junior officers of Panama's only armed force, the National Guard, which remains his primary source of power and the only force ultimately capable of removing him from office.

6. Despite Torrijos' present strength, the cumulative effect of political and economic problems could jeopardize his tenure. The relative seriousness of Torrijos' domestic situation, in turn, will directly influence the nature and direction of Panamanian policy and action with regard to the United States and the canal treaty negotiations.

#### Economic Problems

7. Economic difficulties have been a major cause of Torrijos' problems. Panama has suffered a general and serious economic recession in the past three years (see chart). The slump has come as a shock to Panamanians. Most had become accustomed to the bullish economy of the previous decade, which stemmed largely from substantial private investment, both foreign and domestic. An important cause of Panama's economic malaise has been a sharp decline in private investment, which in good years accounted for two thirds or more of total investment and about 20 percent of GNP. This decline reflects a continuing erosion of investor confidence as world inflation and recession have impacted on Panama. Other important factors are the collapse of a housing construction boom, caused by overbuilding of luxury housing and rent controls on low-cost housing, and the shortage of new profitable investment opportunities.

8. The 1976 decline was concentrated in construction, manufacturing, tourism, and the sale of services to the Canal Zone. Private construction was down 60 percent in the January-June period from the already depressed level of a year earlier, and manufacturing output was down about 20 percent, partly because rising unemployment has reduced consumer demand. Unemployment has probably reached 13 percent overall and in urban areas may be as much as 30 percent.

9. Last summer's drought sharply cut production of rice, corn, and beans, although other crops, including the important banana, and sugar export crops, did well enough to prevent a decline in overall agricultural

output. The drought also contributed to a rise in prices of basic foodstuffs and of living costs in general. Actual inflation is undoubtedly higher than the 3-4 percent that official cost-of-living statistics suggest.

10. In the balance of payments, the current account deficit increased by 20-25 percent in 1976. Imports rose as government purchases for investment projects more than offset reduced private demand. Exports, meanwhile, declined. Shipments of petroleum products—the largest export category in recent years—dropped sharply as a two-month maintenance shut-down of the oil refinery cut supplies and a drop in traffic through the canal reduced the demand for bunker fuels. Proceeds from sugar exports fell below expectations because of low world prices. Receipts from tourism and from sales of services to the Canal Zone were down 10-12 percent in the first three quarters of the year. Service payments on the foreign debt rose to about \$65 million from about \$40 million in 1975.

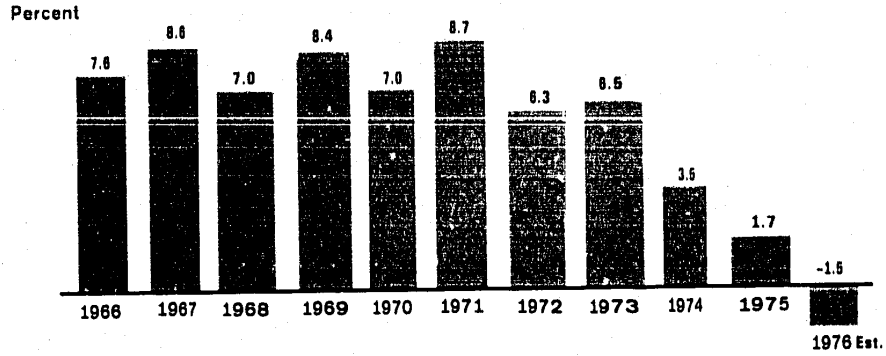
11. In a vain effort to stimulate the economy, the government doubled capital expenditures in 1975—to \$330 million—and raised them again in 1976—possibly to \$400 million. These stepped-up expenditures, intended to provide jobs and boost demand by speeding up work already underway on infrastructure projects, were financed principally by an increase in government borrowing from foreign commercial banks. Current revenues normally yield a surplus of \$20 million or more above current expenditures for use in public investment, but the sluggish economy failed to produce projected revenues in 1976, and receipts did not even cover current expenses. To cover the current deficit, meet foreign payments, and fund its special development projects, the government borrowed over \$200 million abroad during the year.

12. In the first five months of 1976, the foreign debt grew by nearly as much as in all of 1974, the year of heaviest borrowing to date by the Torrijos regime. By June, the government debt stood at \$816 million, equal to about 43 percent of 1975 GNP.\* Of this, \$312 million was owed domestically and \$504 million abroad, 40 percent of it to private international banks. A large share of the debt is in short-term and medium-term commercial bank loans, and foreign debt service

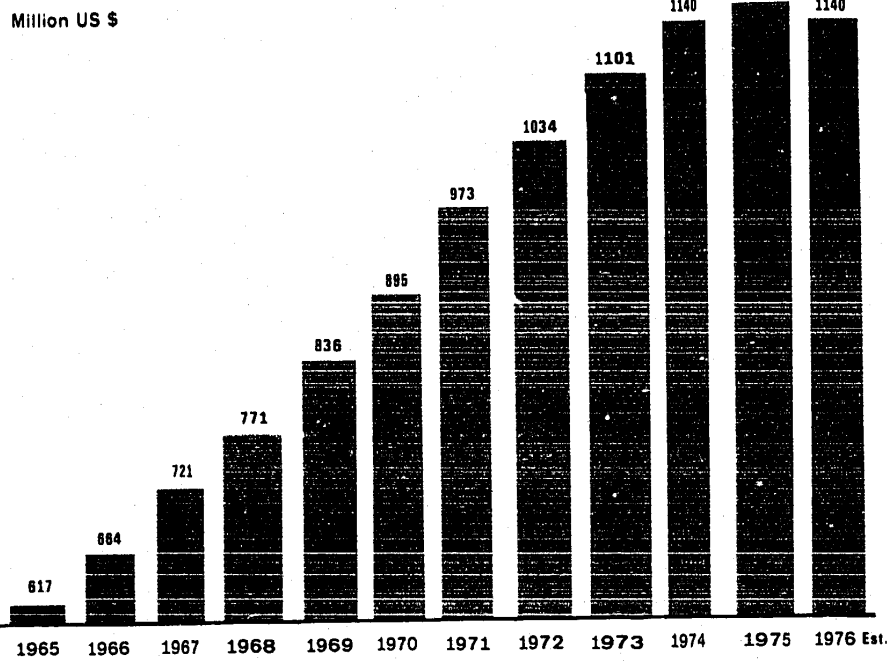
\*Panama is \$86 million in arrears on debt owed to the US Government as of 30 June 1976. Of this, \$42 million is owed to the Canal Zone Government and \$3 million to the Panama Canal Company for various services.

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### Panama's Economic Growth Rate



### Gross Domestic Product (in 1960 Prices)



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payments are projected at nearly 30 percent of current tax revenues in 1976 and almost 40 percent in 1977. In addition, autonomous government agencies owe some \$330 million.

13. The government faces serious financial constraints in 1977 and is unlikely to be able to carry out its budgeted program. Operating outlays are budgeted at \$340 million, some \$50 million more than in 1976. The capital budget will probably be at least as large as in 1976. Spending for a recently announced modest emergency program to spur economic recovery will probably replace 1976 spending for investment in the sugar industry and for financing the new Agricultural Marketing Institute. Since Panama uses the US dollar as its currency, it cannot expand the money supply to cover rising government expenditures but must depend on tax revenues and borrowing abroad. A new tax package was announced in mid-December 1976. As projected, the new taxes will raise revenues by \$20-\$30 million. Although Panama will be able to continue to draw on existing loans and credits from international agencies such as the World Bank and the Inter-American Development Bank, commercial bank loans will be increasingly hard to obtain. The banks will probably cover the government's minimum needs, though reluctantly, for fear of jeopardizing their already large investment in Panama. The loans will most likely fall short of amounts needed for the government's budgeted program, however, and will have strings attached regarding use of the funds.

14. Panama was granted \$22 million by the International Monetary Fund in December 1976 to compensate for declines in export earnings and has applied for a new IMF standby agreement to replace one that expired in November. If granted, the standby will help Panama's credit rating somewhat. Panama has been seeking a long-term \$300 million loan from Libya to help meet its financing needs. Libya is reported to be attaching unacceptable political conditions, however, and its lending record makes a loan of this size improbable.

15. The outlook for an economic upturn in Panama in 1977 is poor. Any improvement would, at a minimum, require renewed investor confidence. The government has been trying to regenerate business confidence through various means, including plans to modify some prolabor features of the present labor code that business finds especially onerous. Businessmen, however, remain cautious. Imposition of new

taxes and other austerity measures could further reduce business willingness to invest. Progress toward a treaty would provide a psychological boost toward restoring confidence. Investor decisions will, however, rest largely on basic economic factors such as world and domestic market conditions. Toward the end of 1976 there were some indications that the downturn might be leveling off, but renewed strong growth is not yet foreseen; another round of world recession would particularly hurt Panama.

#### Political Trends

16. The economic problems have contributed to a spreading sense of alienation among various sectors of society, some of which are already critical of the government on other grounds. The cumulative impact is presenting Torrijos with the most serious domestic problems of his eight years in power.

#### Private Sector Concern

17. The traditional landholding-merchant elite, which lost its political power to Torrijos in 1968, is concerned over the government's economic policies. Its members distrust Torrijos' leftist "revolutionary" rhetoric and his populist programs. They have particularly resented his prolabor policies, which they see as endangering their source of livelihood. Torrijos' confrontation with the private sector in January 1976 severely damaged his relations with businessmen. In an overreaction to public criticism from business elements, he accused some business leaders of plotting against the government. Thirteen prominent business and professional leaders were exiled, and more than 100 were arrested. The private sector was outraged by the action, and the damage caused by these events has yet to be repaired.

18. The government, recognizing the need for financial support from the business community if Panama is to recover from its economic slump, has since tried to mend its relations with businessmen. Cabinet shifts later in the year toward more moderate policies and a public statement by Torrijos on December 16 that the labor code would be revised were further attempts to placate private enterprise. Nevertheless, while some progress has been made, the business community's relations with the government remain strained and the sense of deep-seated resentment and distrust felt by businessmen poses a potentially serious long-term political problem for Torrijos.



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**Student Criticism**

19. Students are another growing problem for the government. Torrijos well recognizes the political potency of students. He singled them out from the outset as one of his main "revolutionary" constituencies and in 1974 gained control over the Panamanian Student Federation (FEP). The more radical student groups have grown in power, however, and are Torrijos' most outspoken opponents.

20. Student violence last September protesting increases in the price of basic foodstuffs produced the most serious street demonstrations since Torrijos took power. Torrijos, not wanting to create martyrs or encourage other antigovernment elements, initially restrained the National Guard, but after several days of violence, arson, and looting finally allowed the Guard to use force to bring the students back under control. Although progovernment students accused the radicals of being manipulated by the ousted oligarchy and "US provocateurs," even the FEP felt compelled to issue a communique criticizing the price increases and calling for other ways to correct the country's economic problems.

21. Victory by the radicals over the FEP in the November university student elections reflected the discrediting of the progovernment student group. The radical students now control most university and secondary school organizations and are in a stronger position to demonstrate against government policies in the future—and will be more likely to win broad student backing for their actions.

**Labor Concern**

22. Panama's relatively weak labor unions have generally supported the government, especially since the enactment of the 1972 labor code, which significantly increased workers' benefits. Torrijos has used organized labor, and particularly the Communist-controlled National Confederation of Panamanian Workers (CNTP)—the country's second largest confederation—to demonstrate support for government policy.

23. Labor leaders have already begun to criticize government plans to revise the strongly proworker labor code. Labor activists will probably launch strong protests when the specifics of the code revisions are publicly announced. Government leaders are working hard to prevent an angry outburst from the

unions. The government's decision to delay announcing the changes in the labor code until after student vacations began in mid-December was designed to reduce the possibility that students would join in the expected labor protests.

**Communist Support**

24. The communist People's Party (PDP), initially suppressed under Torrijos, is now the only political organization allowed reasonably free rein, provided that the party supports government programs and takes no unauthorized initiatives. Although still officially illegal, the PDP, which numbers about 500 members and 3,000 sympathizers, has in fact actively cooperated in mobilizing support for the government, especially through the student group and labor unions it influences. The National Guard keeps close watch on the party and its leaders, however, and has cracked down on the communists each time they have stepped out of line.

25. PDP leaders are concerned over recent economic problems and trends toward more moderate government policies in the fields of education and labor, particularly the removal of some leftists from government positions. Nevertheless, the party remains in a relatively advantageous position under Torrijos and, barring a sharp deterioration in the economic situation, is likely to continue to support his government and "revolutionary" program.

**Torrijos and the National Guard**

26. The National Guard, Panama's only military force, has been Torrijos' source of power from the first. He remains its Commandant in addition to being Chief of Government, and he continues to enjoy the loyalty of its members. Torrijos' handling of the September student violence produced the first sign of a potentially significant disagreement within the Guard. Guard officers were upset by what was seen as Torrijos' vacillation and mismanagement of the situation, especially the fact that he remained at his retreat away from the city and isolated from the events. Deputy Commandant Colonel Rodrigo Garcia openly disagreed with Torrijos' initial order to act with restraint in dealing with the students and at one point countermanded the General's directive for the withdrawal of troops from one location. Guard officers also expressed anger over the General's order to release students arrested during the violence. Torrijos' eventual agreement to use force to control the students

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helped restore National Guard morale, but his obvious reluctance to deal with the students forcefully was seen as ambivalence and raised some doubt as to how he might act in the event of disorders in the future.

**Government Stability**

28. Future government stability will depend in large part on Torrijos' ability to keep his various opponents off balance. He has tended to do this by appealing alternately to the left and right. His trip to Cuba and move against rightist businessmen last January, for example, raised his stature among leftists, but shortly after his return, Torrijos undertook cabinet shifts designed to give a more moderate tone to domestic policies. The government is still considering establishment of diplomatic relations with the USSR. This would represent another move which would placate the left.

29. The danger for Torrijos has been that such fluctuations are always unpopular with certain groups and never gain him lasting supporters among any. In the likely event that the economic situation continues to stagnate—and especially if the government were faced with little progress in the treaty negotiations—Torrijos could well find himself confronted by opposition on all sides with only the loyalty of the National Guard to keep him in office. The imposition of politically unpopular austerity measures or the

impact of a financial crisis, for example, would most likely lead to an upsurge in antigovernment agitation. In such a situation, especially in the event of widespread and prolonged disorders, it is doubtful that Guard officers would be willing to continue defending Torrijos, and there would be a good possibility that certain members of the General Staff would move to replace him as a means of protecting their own interests. In the absence of a recognized leader, Colonel Garcia would most likely assume charge of the government, at least temporarily, as the Guard sought to restore order and confidence in the government.

30. It is not certain that Garcia could hold on to power for long since he lacks the charisma and leadership image that gave Torrijos much of his early appeal. A power struggle might well develop within the Guard. If so, longtime rivals Lt. Colonel Noriega, the National Guard G-2, and Lt. Colonel Paredes, who serves as G-1 and also Minister of Agricultural Development, would be the most likely contenders. The bulk of the Guard officer corps would be likely to support the more moderate and respected Paredes over the ruthless and opportunistic Noriega. A government headed by either Garcia or Paredes would probably be more moderate and acceptable to the business community than the present one. Such a regime, however, would be uncertain of its support both within and without the National Guard, lack a strong central figure, and require some time to consolidate its control of the tools of power. Consequently, it would probably find it more difficult than the Torrijos government to win approval for a new treaty

**III. THE IMPACT OF DOMESTIC FACTORS ON NEGOTIATIONS**

31. Panama's economic difficulties and the increased pressures on Torrijos have given a new sense of urgency to government leaders concerning the canal treaty negotiations. Many officials, including Torrijos, believe that prompt conclusion of a treaty acceptable to Panama is essential to resolve the country's pressing economic and political problems. They appear worried—with substantial justification—that an inability to conclude a treaty in the next year or so would further weaken investor confidence, cause continuing economic deterioration, and provoke increased antigovernment agitation. This concern reinforces their sense of urgency to accelerate the negotiations.

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Torrijos apparently also perceives a favorable treaty as necessary to discredit his critics, refurbish his flagging image as "maximum leader of the Panamanian" and ensure his political future. He seems convinced that most Panamanians would acclaim a treaty that satisfied Panama's long-sought goal of regaining sovereign jurisdiction in the Canal Zone, had a reasonably short duration, and provided sizable financial and other economic benefits to Panama.

32. Despite domestic problems and the impatience of some elements, a broad base of support remains in Panama for Torrijos' negotiating efforts. Although many differences separate Panamanians, virtually all unite behind the nationalist goal of regaining sovereign jurisdiction in the Canal Zone. Broad nationalist sentiment on this issue continues to run high—nourished by years of resentment against US control of the Zone, by the belief that the United States is depriving Panama of the proper exploitation of its most important "natural resource," and by envy of the benefits enjoyed by US residents in the Zone. Most Panamanians share the government's belief that a new treaty will help solve Panama's problems. Despite the long wait, they do not appear overly impatient in awaiting treaty developments as long as there are indications of definite progress and prospects for ultimate success.

33. In contrast, some important and highly vocal sectors of Panamanian society, particularly radical students and other ultranationalists, have accused Torrijos of "selling out" to the United States. Torrijos is sensitive to such criticism and has often felt it necessary to speak out on the status of negotiations, reiterating negotiating demands to show that he is effectively defending Panamanian interests. Torrijos has also insisted that the timing of a new treaty is not as important to Panama as its substance and acceptability. Domestic problems have shortened Torrijos' perceived timetable, however, and he is likely to continue to insist on completion of a draft treaty before the end of 1977.

34. During his visit to Cuba in January 1976, Torrijos received Castro's endorsement for his policy of relatively peaceful and responsible negotiations. In Castro's public statements—well publicized in the Panamanian press—he cautioned Torrijos to exercise prudence in dealing with the US and not "bite the hook of imperialist provocateurs" by engaging in anti-US violence. Such statements were useful to Torrijos

in easing leftist criticism of his handling of the negotiations.

35. Torrijos has an underlying distrust of the United States and has accused Washington of a concerted campaign to undermine support for Panama among Latin American governments. At the same time, Torrijos has not hesitated to use the US as a scapegoat in an attempt to divert criticism from himself. During the September student violence, for example, Torrijos accused the United States of involvement in the disorders in an attempt to "destabilize" his government. On his orders, Foreign Minister Boyd formally protested activities by US and Panamanian residents in the Canal Zone who they alleged were plotting against the government. Few Panamanians believed their government's accusation. The United States rejected the protest.

#### Panama's Negotiating Strategy and Tactics

36. Over the years, Panamanian authorities have pursued an essentially three-pronged strategy in their dealings with the United States over the canal issue:

- a tough stance in the treaty negotiations, insisting on the justice of Panama's demands;
- periodic warnings of growing domestic impatience over the slow pace of negotiations and of the danger of anti-US violence should Panama fail to receive its "just rights" through the negotiating process; and
- a concerted and largely successful campaign to gain international backing for its position in the negotiations.

This strategy has contributed to steady, albeit slow, progress toward achieving Panama's basic objectives. Government authorities undoubtedly see themselves closer than ever before to gaining their long-sought goal of effective sovereignty in the Canal Zone.

37. Although domestic pressures have given Panamanian officials a sense of urgency to speed up the negotiations, there is no reason to expect Torrijos to change the basic thrust of his strategy as the Carter administration enters office—at least in the initial phases of his dealings with the new US Government. He can be expected, in fact, to pursue his time-proven strategy with even greater vigor and intensity as he tests the new administration's intentions. Torrijos is,

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however, an unpredictable person whose personal characteristics and idiosyncrasies have a major impact on the kind of tactics used.

38. While Panamanian leaders are concerned over the delay in their game plan caused by the change in the US Government, Foreign Minister Aquilino Boyd and others have expressed cautious optimism, noting that Democratic governments in the US have tended to show greater understanding and sympathy toward Latin American problems than have Republican administrations. Boyd has further commented that a treaty approved by President Carter should receive more resolute support for ratification from the Democratic-controlled US Senate than would one submitted by a Republican President. Panamanian officials also expressed satisfaction over the nomina-

tion of Cyrus Vance as the new Secretary of State; Vance served as a US presidential envoy to Panama in the wake of the 1964 riots.

39. Panamanian officials are attempting to bring the canal issue to the attention of President-elect Carter even before he enters office. Foreign Minister Boyd's announcement in early November that Panama intended to raise the canal issue in the UN General Assembly for "full debate" if a treaty is not achieved in 1977 was undoubtedly timed to get Panama's message to the new US administration. Boyd also visited Washington in early December and discussed the canal issue with US officials. Even before the US elections, Panamanian officials had increased their warnings of dire consequences to both countries if negotiations failed. On several occasions,



#### OMAR TORRIJOS: A CHARACTER SKETCH

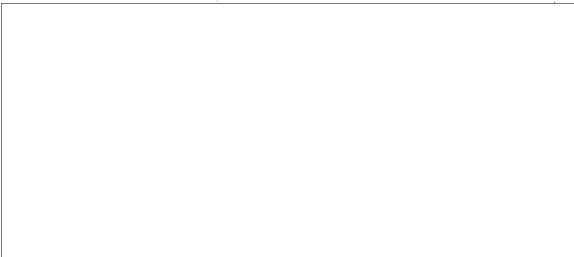
General Omar Torrijos, Panama's 47-year-old Chief of Government and Commandant of the National Guard, is an ardent nationalist and sees himself as destined to achieve effective Panamanian sovereignty over the Canal Zone. He has a deep-seated resentment toward the US over the canal issue—as do many Panamanians—and feels frustrated over the slowness of the treaty negotiations. He distrusts US intentions and is hypersensitive to perceived signs of US deception, pressure, or "destabilization" efforts.

Torrijos is essentially authoritarian by nature, and he keeps all major decision-making powers in his own hands. He does delegate day-to-day matters to subordinates, including the canal treaty negotiators, but he does not hesitate to assert himself when he senses that subordinates are stepping beyond their authority.

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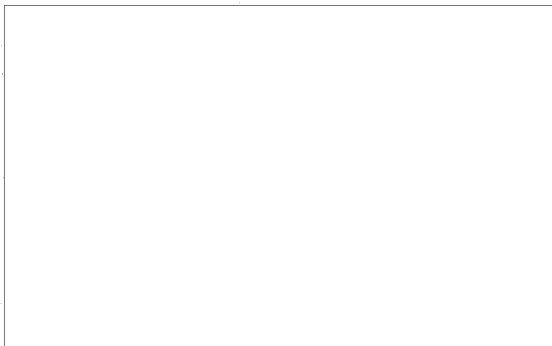
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Torrijos and other Panamanian leaders publicly reiterated the theme that anti-US violence will break out if Panama is unable to achieve its "liberation" through negotiations. During private meetings with their US counterparts during the negotiating session in October, Panamanian negotiators also warned of the danger of eventual anti-US violence.

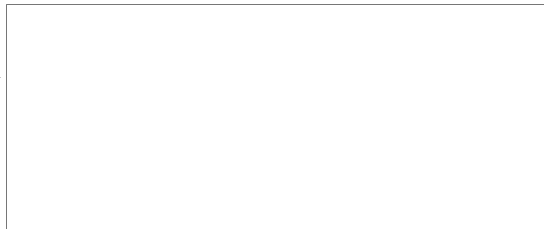


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**Domestic Actions**



41. During the initial months of 1977, Panamanian officials will probably remain relatively calm and responsible in their dealings with the United States as they attempt to obtain a favorable US response. In their initial meetings with Carter administration officials, Panamanian authorities will undoubtedly continue to emphasize their basic stance on the "injustice" of the existing situation and the need for early resolution of the canal issue before Panama's patience runs out and serious anti-US violence erupts. They probably expect a brief delay to allow the new US administration to become informed on the canal issue, but Torrijos would want assurances that the US policy review was not just procrastination, especially during a period in which his domestic problems might appear to be weakening his bargaining position. Panamanian leaders would expect the US to adhere to the 1974 Statement of Principles and to resume at least technical talks before the students return to class in April.



**International Actions**

43. Along with domestic efforts to encourage early action by the Carter administration would be a continuation of Panamanian efforts to orchestrate international expressions of support, both on an individual country basis and through such organizations as the UN, the OAS, and the nonaligned movement. Panamanian officials appear convinced that international pressure will eventually force the US to accept a treaty favorable to Panama.

44. Panama went to some trouble to obtain one of the Latin American seats in the UN Security Council for the 1976-78 period and undoubtedly intends to put its presence there to maximum use as a means of influencing the United States. During its previous tenure on the Council in 1973, Panama was host to a Security Council meeting in Panama City, where it secured broad support for a resolution endorsing its position. The United States vetoed the resolution on the grounds that it did not take US needs into account and that the UN was an inappropriate forum since amicable bilateral negotiations were then in progress. Panamanian officials are convinced that their use of the UN Security Council seat in 1973 was effective in forcing the US to take the canal negotiations seriously. Foreign Minister Boyd, who was Panama's UN representative at the time, will be sensitive to opportunities for exploiting the Security Council seat and will doubtless include it in his arsenal of international tactics.

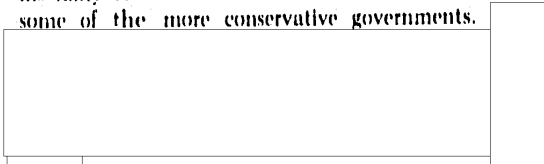
45. Panama will pay particular attention to other Latin American countries as a major source of support. Hardly a regional meeting occurs without some reference being made to Panama's cause, and Torrijos maintains that Panama's struggle has become the "religion of Latin America." Latin American support was particularly high in the early 1970s. In the recent past, however, it has become more qualified.

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46. New governments in Peru, Argentina, and Chile, for example, are more conservative than their predecessors and are more reserved in the backing they give Panama. Torrijos' visit to Cuba last January and his fairly close ties to Fidel Castro further disturbed some of the more conservative governments.



The increased importance of the canal to Brazil as a result of its growing trade with Japan is also likely to qualify Brazil's support for Panama's position. Even Colombian President Lopez, who is one of Panama's principal backers, has expressed qualification of his support. He stated publicly last June that it would be "unreasonable" for Panama to become the exclusive guarantor of transit through the canal and that the US should be allowed to retain responsibility for canal defense and to maintain a reasonable number of bases.

47. Such indications of reservations by influential Latin Americans have had an unsettling effect on Panamanian leaders. They will probably not, however, have a marked impact at international forums or significantly reduce public declarations of support from Panama's neighbors as a symbol of regional solidarity. Some countries, such as Cuba, Venezuela, and Jamaica, will remain unqualified supporters of Panama's demands. Even Torrijos' reluctant supporters will back demands for a new and more equitable treaty.

48. Torrijos also looks to other Third World countries for support. Panama joined the nonaligned movement in 1975 partly to broaden its support. Nonaligned conferences in recent years have normally included a strong endorsement of Panama's position. Torrijos personally attended the August 1976 Non-aligned Conference in Colombo but presented a relatively moderate statement, apparently sensitive to US representations that a hard-line formulation might have damaging results during a US election year. Even among the nonaligned countries, backing for Panama's position is not unreserved. Torrijos is convinced, however, that his attendance at the Nonaligned Conference set the groundwork for Panama to receive the support of 85 nonaligned states

should it be necessary to take the canal issue to the UN General Assembly.

**Pressures of Time**

49. General Torrijos has labeled 1977 as the "Year of the Treaty." In that year, he has said, "the US will have run out of excuses and the Panamanians out of patience." If marked progress on the treaty is not achieved by midyear, warnings of Panamanian impatience and of the increasing danger of anti-US violence would multiply, and Torrijos would consider anti-US incidents, including small-scale acts of violence against Canal Zone property, to assure that US officials recognized the full impact of the risks involved. Torrijos would probably continue to prefer to concentrate on diplomatic pressures on the US to speed up the negotiations, but much would depend on the level of political and economic pressure on Torrijos at the time. If faced with further economic deterioration, Torrijos would be tempted to shift the blame to the US, alleging that Panama's economic problems are largely the fault of the US for failing to agree to a treaty. And even if domestic pressures had not notably increased, he would still be under time constraints of his own making as the "Year of the Treaty" moved into its latter months.

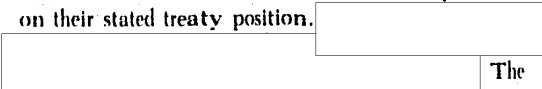
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The ninth anniversary of Torrijos' coming to power on October 11 would loom large in Torrijos' mind as a time either to refer with satisfaction to an agreed upon treaty—or one soon to be completed—or to lash out at the United States for dragging its feet and risking the "popular explosion" that he had warned of years before. Even more critical for Torrijos politically would be the period between October and the 14th anniversary of the anti-US riots in January 1978.

**Willingness to Compromise**

51. We believe that domestic pressures to obtain quick completion of the negotiations will prompt Panamanian authorities to offer certain compromises on their stated treaty position.



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timing of offers to compromise would most likely come as far along in the negotiations as possible—depending on domestic pressures—be incremental, and be conditioned by reciprocal US action to wrap up the negotiations.

52. The nature and extent of the compromises would depend on Torrijos' perception that the total treaty package would still be acceptable enough to enable him to build strong domestic support for it and that he would have sufficient control over the domestic situation to gain ratification without endangering his own political position. We believe that Panama would consider compromise on the following major issues, listed in categories of increasing difficulty:

**Easier Issues**

- Guarantees concerning reasonable toll rates and unimpeded access.
- Amount of lands and water to be retained by the US.

**More Difficult Issues**

- Timetable for phasing in Panamanian participation in administration and defense of the canal.
- Rights and privileges of civilian canal employees.
- Compensation, although economic pressures might well influence the importance of this issue in Panama's perception.
- The number of defense sites to be retained by the US. A loose definition of "defense site" might provide for a small number of sites without necessitating a drastic reduction in the actual size of US forces.

**Most Difficult Issues**

- *Residual US defense rights.* Panama would be most reluctant to grant residual defense rights to the US for an indefinite period if the language could in any way be interpreted as "disguised perpetuity." Torrijos would probably accept a carefully worded compromise, however, that avoided that connotation, e.g., in terms of a joint guarantorship of canal defense or neutral-

ity, or one for a specific, relatively short period of time beyond the year 2000.

- *Treaty duration.* The Intelligence Community is in general agreement that Torrijos is so publicly committed to a treaty not going beyond the year 2000 that it will be most difficult for him to compromise—and he would be vulnerable to domestic criticism if he accepted a compromise on this issue. Some analysts are convinced that treaty duration is essentially a nonnegotiable issue for Panama. Others believe, however, that Panama would be willing to accept a treaty duration that goes beyond—but not far beyond—2000 if this were the only obstacle to an otherwise favorable treaty.

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