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A26 FRIDAY, DECEMBER 6, 1985

The Washington Post

Panama 'Beheaded'

ACCORDING TO A report from the police in Ciudad Neily, Costa Rica, witnesses last saw Dr. Hugo Spadafora alive reading a newspaper at a Panamanian National Guard border checkpoint, where he was being detained after having been removed from a bus, about noon on Friday, Sept. 13. The next person the Costa Rican police could find who had seen him was the young man who found his body, "completely decapitated," in La Vaquita River just across the border from Panama the next afternoon.

Dr. Spadafora was known, among other things, for having formed a battalion in Panama to fight against the Somoza family in Nicaragua. He was also known for being a keen critic of, among other things, the alleged drug trafficking connections of Gen. Manuel Noriega, strongman of Panama.

The murder and its manner stunned Panama, which is not one of those Central American places where the killing, let alone the evident torture and beheading, of critics is routine. In an important sense, however, Dr. Spadafora was not the only victim. There is reason to believe that the elected president, Nicolas Arditas Barletta, was planning to launch an inquiry into the crime upon his return from a trip to the United Nations in October. While he was still in New York, Gen. Noriega forced his ouster; actually, President Barletta, struggling to maintain a thread of constitutionality, "separated"

himself from office under an obscure article and technically remains president.

The story was put out that the Barletta economic policies were largely to blame, but knowledgeable Panamanians look more to the Spadafora affair. Panama's painful progress toward democracy was thereby "beheaded" too.

In Panama these days, the atmosphere reeks of police intimidation, but large numbers of citizens have come out in the streets calling peacefully for an inquiry into the Spadafora murder. Meanwhile, the armed forces are bringing under their direct control a whole range of functions—ports, railroads, customs, immigration—previously and more properly under civil administration. The Barletta economic policy, which had been sanctioned by the political parties, threatens to go by the boards, with immense potential costs to the country's economic viability and credit worthiness.

Gen. Noriega is well known in Panama. He is becoming well known outside Panama as an imperious leader who fears to let independent investigators examine the Spadafora affair and to let independent citizens control their government. Almost every country in Latin America is going the democratic way except Nicaragua and Panama. Gen. Noriega is an embarrassment to his country, and to the integrity of the Panamanian armed forces.

Los Angeles Times

Friday, November 1, 1985

Why No Outrage Over Panama's Coup?

By NORMAN A. BAILEY

Ever since 1982, when one Latin American country after another began moving from military dictatorship to democracy, pessimists have been warning that the region's persistent economic crisis would cause the political tide to turn again. It was said that the people would grow impatient with the democratic system's inherently slow management of the economy and would look again to authoritarians for a Draconian solution.

That appears to be the case in Panama, where a coup is struggling to take hold. If the democratic governments of the Hemisphere don't intervene, Panama may become the first domino to fall.

Panama's crisis descended, ironically, on the eve of the international financial convocation in Seoul, where the United States unveiled the outline of a new program for dealing with Latin America's huge external debt—thus offering these countries a light at the end of the economic tunnel for the first time in three years.

In New York, on Thursday, Sept. 26, President Nicolas Ardito Barletta of Panama gave a speech at the General Assembly of the United Nations. That evening he hosted a reception in honor of the U.N. secretary-general. But around 9:30 p.m. Barletta left his hotel suddenly and flew back to Panama, into the teeth of a gathering hurricane.

He was met at the airport Friday morning by officers of the Panamanian National Guard headed by Gen. Manuel Antonio Noriega, and taken to the guard barracks. Fourteen hours later, at 3:30 a.m. on Saturday, Sept. 28, Barletta issued a declaration addressed to "the people of Panama" and was sent home. Shortly thereafter the first vice president, Eric Arturo Delvalle, was sworn in as president,

over the vigorous objections of U.S. Ambassador Everett Briggs.

The reason given for Barletta's ouster was the country's economic and financial crisis and his inability to deal with it.

On the face of it, there would seem to be no Latin American president better prepared to understand and deal with the economic situation than Nicolas Barletta. He was educated as an economist at North Carolina State University and the University of Chicago; he was minister of economy in the government of Col. Omar Torrijos; he was the World Bank's vice president for Latin America from 1978 to 1984. In that year, with the support of the National Guard, he was elected president, narrowly defeating 83-year-old veteran politician Arnulfo Arias. From the time of his inauguration until his overthrow, Barletta tried to institute those economic measures necessary to deal with Panama's foreign debt service and economic crisis.

The overthrow of President Barletta's government is triply dangerous. In the first place, his downfall, as mentioned, is the first reversal of the recent process of democratization in Latin America. Second, the excuse used (and it is certainly nothing more than an excuse) is the economic and financial crisis. There is not a country in Latin America where this pretext could not be used to justify a coup. Thus the worst fears of the pessimists may be coming true. Finally, Noriega, widely suspected of drug dealings and the murder of an opposition figure shortly before the coup, has indicated that he staged the takeover to forestall a similar action by his second-in-command, Lt. Col. Roberto Riaz Herrera, a leftist with reported ties to the Sandinistas and Castro, who is slated for retirement early next year.

Nicolas Barletta claims that he is still constitutional president of Panama. His assertion rests on two grounds. In his declaration, he spoke of "separating himself from his tasks," not "resigning," and did so in front of his cabinet. According to the Panamanian Constitution, the president can separate himself from his tasks for up to 90 days without ceasing to be president. The first vice president then becomes temporary acting president. Also, Barletta addressed himself to "the people of Panama," not to the National Assembly, which would have been appropriate had he wanted to resign. The dean of the University of Panama's law school has agreed with these interpretations.

Given the dignity and courage being shown by President Barletta; given the importance of reaffirming the democratic process in the face of the Hemisphere's economic crisis; given the dangers of the lethal formula of drugs plus radicalism in strife-ridden Latin America; is it too much to ask the countries of the Hemisphere to meet in the council of the Organization of American States, put aside their habitual hypocrisy for once and demand that the constitutional president of Panama be restored to the exercise of his office? Is it too much to ask one of the democratic countries of the region to convene an emergency meeting of the council? Is it also too much to ask the U.S. government to support such a move, or is "twisting slowly in the wind" now to be applied on a worldwide scale?

Norman A. Bailey is senior associate of the Washington consultant firm of Colby, Bailey, Werner & Associates. He was special assistant to the President for national security affairs in 1981-83.



MONDAY, JUNE 10, 1985

Panama a haven for traffickers

Panama is a safe haven for narcotics traffickers and guerrillas who have financed their arms purchases through the narcotics trade. The country's tight bank secrecy laws, the venality of some of its bankers and the layers of corruption in its political and military establishment allow wholesalers to spend their ill-gotten wealth unimpeded by law enforcement efforts.

■ FIRST IN A SERIES
■ SUBVERSION/A4

Today, The Hearst Newspapers begins a series by Knut Royce on Panama's little-understood role in the narcotics trade.

By **KNUT ROYCE**
The Hearst Newspapers

PANAMA CITY, Panama — The plot was hatched in Havana. The final outcome was bloodshed off Colombia's Pacific coast, but Panama is what made it happen.

It was on a steamy November day in 1981 that a medium-sized freighter, the Karina, entered the Panama Canal at Colon, on the Atlantic side of the isthmus, to begin the eight-hour journey to the Pacific. The crew and captain were from the Eastern bloc.

What set this ship apart from the 40 others that passed through that day was that it was on its final voyage.

The 40-mile canal crossing was uneventful. But shortly after it passed through the last locks at Balboa, The Hearst Newspapers have learned, it took on some unlikely cargo at the fishing port of Vacamonte: a new captain and crew, tons of weapons and a small contingent of insurgents belonging to the M-19 organization that was waging guerrilla warfare in Colombia.

"The M-19 was not aboard when it transited (through the canal)," said a U.S. intelligence official with intimate knowledge of what happened that day. "After it transited, the captain changed. The whole crew changed. The captain and the crew now were Panamanians. The M-19 came on. There's no official record of its being in Vacamonte. But there's information that's where it was."

The fishing port of Vacamonte is a 20-minute drive west of here. It is not a typical fishing port. Security guards refused access to a reporter and photographer to the port. In the past, they also have refused access to U.S. Drug Enforcement Administration agents.

The largest fishing fleet there, ranging at various times from two to four dozen ships, belongs to Cuba. And the vessels, apparently, do not always carry fish.

The Karina on that day four years ago was on a mission sponsored by Cuba.

The mission's organizer was a major Colombian narcotics trafficker, Jaime Guillot-Lara, a fugitive from a 1982 U.S. federal drug indictment. Cuba had allowed him to tranship narcotics into the United States. In return, he used his smuggling network at the behest of the Cubans to move guns to the M-19.

Several days after passing through the canal, the Karina offloaded some of its weapons to another of Guillot-Lara's ships, the Monarca.

A short time later, the Colombian Navy sank the Karina with about 100 tons of weapons and supplies still in the hold, killing an estimated 20 persons. Three low-level M-19 members were rescued, as was the Panamanian captain, although he died while in custody.

The following year, Thomas Enders, then assistant secretary of state for inter-American affairs, testified before a Senate Committee that Guillot-Lara had received \$700,000 from Cuba to buy the arms and had "also transferred funds to the guerrillas through an employee of a Panamanian bank."

The Guillot-Lara-Cuba alliance was a classic example of what officials now are calling narco-terrorism, the symbiotic relationship between narcotics and subversion.

There were other times when Guillot-Lara used Panama as a stopping point in his gun-running missions. And not all of them failed.

A month before the sinking of the Karina, the M-19 guerrillas had hijacked a DC-3 cargo plane belonging to Colombia's Aerospeca airline.

As Guillot-Lara watched on a secret airstrip in Colombia, the plane was loaded with 55 crates containing 10 Belgian M16 rifles each and 90 boxes, each holding 1,000 rounds of 7.62mm ammunition.

The pilot flew the aircraft to the Ortega River, where he was forced to land in the water. Over the next several days the freshly armed guerrillas raided several small towns in the area.

The day after the plane was ditched, it was discovered by Colombian authorities. The empty crates showed that the arms had been packed in Colon, Panama.

(more)

For years M-19 guerrillas have passed through Panama on the way to Cuba for training. They also returned through Panama, picked up weapons and sneaked back into Colombia. Occasionally they have been caught, as was the case in April 1981, when a group re-entering Colombia through Ecuador was ambushed by the Colombian army.

Panama is an often-baffling U.S. ally. It is strategically important to the United States because of the canal, which comes under full Panamanian control in the year 2000, and the U.S. military installations in what once was the Canal Zone.

The U.S. Southern Command, which would play a critical role in any military action in Latin America, is based here.

Panama is a quixotically charming tropical nation populated both by a well-educated service sector and primitive Indian tribes. It also is struggling to sustain its reborn but tenuous democracy, overshadowed by an all-powerful military that prefers making dollars on the side to oppressing the population.

The national pastime is the pursuit of cash.

"It's like an old Humphrey Bogart movie," a Western diplomat said recently. "You want to do something — legal or illegal — go to Panama with enough money. You can find a way of doing it. You keep your nose clean and you bring in money to keep Panama (in the) green, you're a good citizen."

Panama, through its banks, is the leading laundering center for cocaine and marijuana traffickers, and many of the deals are made in the bars of its hotels and downtown law offices.

"The thing that makes Panama so significant to me, and to most of us," said a senior law enforcement official in Washington, "is that not only is it the center for laundering proceeds, but it's a center for cutting up the deals, for making payments, for meetings. It's like the corporate center for drug trafficking."

Unlike other banking centers with tight bank secrecy laws, such as the Dutch Antilles, Switzerland or the Cayman Islands, which have agreements with the United States to reveal bank information in certain felony cases, there are no bilateral agreements here and secrecy is absolute.

Corporate records do not indicate true owners. Many of the bank accounts are numbered and some of the bankers do not ask questions when suitcases of \$20 bills are delivered by the armored cars.

In addition, according to U.S. officials, the Panamanian Defense Forces (PDF), also responsible for law enforcement, often are more aggressive in making a dollar out of the drug traffic than in stopping it.

In a scathing staff report earlier this year, the House Foreign Affairs Committee quoted a "knowledgeable U.S. source" as saying: "The Panamanian Defense Force is the axle around which the wheel of corruption turns."

"This corruption is endemic and institutionalized," the report said.

Gen. Manuel Noriega, the head of the Defense Forces, dismissed the report as "political."

The military also has run guns to leftist groups, although it is widely believed that these operations were motivated by profit rather than ideology.

In 1979, a member of the military's intelligence apparatus, the G-2, was indicted in Miami in an arms smuggling operation on behalf of the Sandinistas.

The following year, one of its planes crashed while delivering arms to Salvadoran guerrillas.

In 1981, a pilot for the Defense Forces was arrested in Texas for trying to fly a Huey helicopter to Nicaragua.

Ricardo Arias Calderon, the head of the opposition Christian Democratic party and unsuccessful candidate last year for vice president, argues that the same apparatus initially set up to smuggle guns a few years ago has turned to more-profitable narcotics trade.

"In the late 1970s a network in Panama having to do with the Nicaraguan revolution developed," he said in an interview. "It was used for funneling men, arms and establishing a network of planes and clandestine contacts with officials in Cuba, Venezuela, Panama, Costa Rica, Nicaragua and Miami."

It was set up, he said, by the late populist dictator, Gen. Omar Torrijos, "who wanted to play a leading role as the Third World leader for the region."

Arias Calderon said that Torrijos began by helping arm the Sandinistas and later the M-19 guerrillas, whom he also urged to take "a more political course."

"There then were clear indications that the network was beginning to function in favor of the Salvadoran guerrillas," he said.

But over the past two years, he said, "some of the same names and planes used in this network were also used to form a network for drug trafficking. The more they became involved with Colombia, the more there was the opportunity of shooting two birds with one stone."

Helping fuel this shift, he said, was the crackdown on drug traffickers in Colombia, which started more than a year ago. Many U.S. law enforcement officials agree that the growing pressure against traffickers in Colombia has resulted in a partial shift of activity into Panama.

(more)

Running guns and dope or laundering drug money are tolerated, if not officially sanctioned, because they bring cash, and the ultimate damage they cause is elsewhere.

What is not tolerated is the importation of trouble. Cuba's Fidel Castro found that out early in his career.

In 1959 a team of 100 Cuban guerrillas landed in Panama to subvert a then-democratic government. They were quickly kicked out, although not before a young

Panamanian officer, Omar Torrijos, took a slight bullet wound during a skirmish.

After that sad lesson, however, Castro came to learn that Panama could be much more useful as a pipeline.

He and Torrijos became best of friends, and Cuba and Panama have become lucrative trading partners. Of the 54 companies and individuals worldwide designated by the U.S. Commerce Department as Cuban "fronts" set up to purchase Western goods, 35 are in Panama.

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Drugs, terrorism go hand in hand

By **KNUT ROYCE**
The Hearst Newspapers

PANAMA CITY, Panama — The symbiosis of narcotics and subversion is a relatively new phenomenon.

An exception was the disclosure in 1973 of an official Bulgarian import-export agency, Kintex, which facilitated the transiting of Turkish morphine base through Bulgaria and on to Marseille, where it would be converted to heroin.

In return, it was reported in *Newsday*, the traffickers smuggled guns to a Turkish left-wing group.

But over the past several years this marriage of convenience has taken roots elsewhere, most notably in Latin America, but in the Middle East and the Far East as well.

Testifying at a Senate committee hearing last month, David Westrate, deputy assistant administrator for the Drug Enforcement Administration, described the "emerging trend of using drug trafficking to support political ends" as a "major change in the historical pattern of drug trafficking."

During the 1980s, he said, the traditional profit motive has been replaced in many instances by "political activists, subversives and even some high government officials" who have turned to narcotics "to finance political objectives."

For example:

☐ **COLOMBIA:** The Westrate testified last month that Carlos Lehder, a major Colombian cocaine dealer, had told a Spanish television network in January that cocaine was

the "atomic bomb" for Latin America to use against U.S. imperialism and that he had established contacts with the M-19 guerrilla organization.

U.S. officials say that all five guerrilla groups in Colombia — the M-19, the Revolutionary Armed Forces of Colombia, the National Liberation Army, the Popular Liberation Army and the Pedro Leon Arboleda group — finance operations by taxing marijuana growers and protecting cocaine labs.

Carlton Turner, special assistant to President Reagan for drug-abuse policy, said in an interview that Colombian authorities had told him that in 1983 alone the Colombian Revolutionary Armed Forces (FARC) earned \$80 million from the drug trade.

"There were strong indications that they had purchased so many weapons with that money that they sold many to other groups," Turner said.

And, just before his death in a plane crash while flying into Panama in 1983, Jaime Bateman, the leader of another Colombian insurgent group, M-19, publicly confirmed that he had purchased arms from Portugal's black market with "protection" money from drug traffickers.

☐ **PERU:** In this leading coca plant-producing nation, according to State Department reports, the Maoist Sendero Luminoso terrorist group is said to have forged alliances with coca plant growers and

traffickers, earning considerable political support from peasants, who view the eradication program as a threat to a historical source of income.

☐ **NICARAGUA:** Last year Rodolfo Palacios Talavera, first secretary at the Nicaraguan Embassy in Ottawa, was expelled after he was found with \$100,000 worth of cocaine. A police informant said Palacios was part of a major drug ring that included Interior Minister Tomas Borge.

Last year, too, a Borge associate, Frederico Vaughan, was indicted in Miami for allegedly assisting Colombian traffickers in an attempt to ship 1,500 kilos of cocaine into the United States.

☐ **HONDURAS:** Last November, the FBI uncovered a plot to assassinate the president of Honduras. A group of dissidents, including a Honduran general, planned first to sell large amounts of cocaine and then to use the proceeds to finance the overthrow of the government, according to U.S. authorities.

☐ **EL SALVADOR:** Earlier this year, customs officials in Texas arrested Francisco Guirola, an intimate friend and leading fund-raiser for El Salvador's right-wing opposition leader, Roberto d'Aubuisson. Inside eight suitcases in a private Sabreliner jet was a total of \$5.9 million in \$20 and \$100 bills.

The dope may be grown elsewhere and the guns may sold far from its borders, but Panama increasingly is the catalyst that brings the two together.

###

June 11, 1985 8

San Antonio Light

Panama's powerful figure in drug money laundering

For years, Panama has been a safe haven for narcotics traffickers and guerrillas who have financed their arms purchases through the narcotics trade. Now it has become a trading ground for traffickers who are "washing" billions of dollars through what authorities claim is the world's largest cocaine and marijuana money laundry. In a country whose national pastime is pursuit of money, there is an essential relationship between the narcotics trade and the official corruption that allows it to flourish.

By **KNUT ROYCE**

The Hearst Newspapers



■ SECOND IN
A SERIES

PANAMA CITY, Panama — In 1972, U.S. narcotics agents recommended to their boss that he consider the "total and complete immobilization" — the code phrase for assassination — of Lt. Col. Manuel Noriega, then the head

of the Panamanian military's intelligence unit, because of his alleged narcotics activity.

U.S. officials rejected the recommendation, and today the would-be victim is Gen. Noriega, commander of the Panama Defense Forces, PDF, and, by most accounts, the most powerful man in the country.

But U.S. law enforcement suspicions of Noriega's alleged role in narcotics trafficking have not abated.

"He's under investigation by everyone," said a federal narcotics investigator in Miami, where much of the cocaine and marijuana shipped or financed through Panama ends up.

No formal charges ever have been made against the enigmatic defense chief, and if U.S. agents have proof of his direct involvement in narcotics trafficking they guard it as tightly as a national security secret.

But the evidence is overwhelming that officers in his 15,000-man Defense Forces, which have military and law enforcement duties, are involved in at least protecting the trafficking of drugs and the transportation of cash coming here to be laundered.

A scathing House Foreign Affairs Committee report released earlier this year described what it said was pervasive military corruption.

"Under previous governments, members of the PDF were encouraged to

take second 'jobs,' including drug trafficking, to supplement their income," the report stated. "Allegations persist that high-ranking military officials are involved in protection or actual trafficking themselves."

The Hearst Newspapers interviewed more than 24 federal agents who have investigated narcotics cases with links to Panama, as well as military and business officials in Panama and the United States. They detailed the links between official corruption and the burgeoning narcotics industry.

Much of the narcotics-related activity, the U.S. officials said, occurs at the military Tocumen Airport, which also handles cargo. It is adjacent to Panama City's commercial Omar Torrijos Airport.

It was here, for instance, that on May 18, 1982, a Convair 880 left for New Iberia, La., with a load of what was alleged to be specially prepared livestock feed to tranquilize airborne cattle. But U.S. officials had been tipped and when U.S. Customs agents opened the "feed" sacks they found, instead, 1,197 pounds of cocaine, which had been loaded in full view of Panamanian military personnel at the airport.

The cattle feed-shipping operation was run out of a fixed-base operation at Tocumen that was owned by a naturalized Panamanian named Jorge Baena-Robinson.

He and three others subsequently were indicted by a federal grand jury in Louisiana on four narcotics-related counts. The four are listed as fugitives.

Baena already had a track record of alleged involvement in drug trafficking, and in at least one earlier instance, a smuggler caught in the United States told agents that the narcotics had been shipped through Baena's operation, sources said.

"On two previous occasions he (Baena) had been called (by the Drug Enforcement Administration) to the attention of Noriega," said an official familiar with the case. "As this particular case was coming down, (DEA agents) had to go to the Panamanian Defense Forces intelligence section, the G-2 (then headed by Noriega), and asked for certain things to be done very quickly."

The DEA has no law enforcement authority in foreign posts.

"They weren't done very quickly," he said. "As a matter of fact, by the time the Panamanian forces got around to looking for this guy (Baena), by the time they looked for him, why, lo and behold, he had managed to escape to, they said, Caracas. Baena managed to do a miraculous escape (via Tocumen Airport). Nobody gets out of Panama that they don't want to get out, especially at Tocumen, with all the controls they have there."

It was at Tocumen, too, that the INAIR cargo airline was based. A 1983 video-taped sting operation by U.S. Customs officials in Miami netted two Panamanian officials of the airline in a conspiracy to launder money for a 12 percent fee by smuggling currency aboard INAIR flights.

(more)

Federal law requires that anyone transporting more than \$10,000 in cash out of the United States must declare it to U.S. Customs.

Abelardo Valdes-Guerra, the airline's general manager, was convicted and sentenced to six months in prison. During the trial, a video tape was shown in which the defendants discussed how the \$2 million in cash concealed in cartons would arrive at Tocuman at 4:30 a.m. local time and then be protected until banks opened at 7:30 a.m.

"I have the connection to let them in at the airport," Valdes-Guerra said in the tape. "Try to come out by the military gate."

At another point he said, "I got military guards in the station. So it's no problem over there. I will tell the guards nobody can touch this."

Also introduced into evidence was a laminated business card that had been in Valdes-Guerra's possession. It bore the signature of Lt. Col. Alberto Purcell, a member of the PDF general staff and head of the air force.

The message, it appears, was intended for his subordinates at Tocumen. It said, "The bearer, Mr. Abelardo Valdes, is a personal friend of your superior. Whatever cooperation, I authorize and appreciate."

Last June, scandal once again rocked the airline. Customs agents at Miami International Airport found more than a ton of cocaine stuffed inside several freezers aboard an INAIR DC-8 cargo plane.

Only one man, a Colombian who had purchased the freezers at the

Colon Free Trade Zone, was arrested. He pleaded guilty recently to a charge of conspiring to import the cocaine. The Colombian, Oscar Alfonso Cardona Donado, had been arrested by the Defense Forces and turned over to the DEA.

His Miami attorney, Joel Rosenthal, described Cardona as "the equivalent of a mule in this case." He said, "His financial ability to package such a deal clearly exceeds his income and wherewithal, multifold."

Someone who appears to have been much more than a mule in narcotics trafficking is Julian Melo, who, until last year, was Colonel

Melo, general secretary of the Defense Forces' High Command and a protege of Noriega.

Melo's removal from the military is said to have been prompted by his alleged "protection" role, for a \$2 million fee, in two apparently related narcotics-linked discoveries last year.

One was a major cocaine lab that had been set up but was not yet operating in the Darien Jungle near Colombia. The other was the discovery of a huge cache of ether, a chemical precursor for the manufacturing of cocaine, in a Colon Free Trade Zone warehouse.

The lab was discovered by pure chance, according to U.S. officials.

A fisherman had noted that a helicopter was offloading crates from a ship on the Pacific Ocean and transporting them to a deserted beach on the fringe of the jungle. From the beach the crates were hauled to a point farther inland.

He reported the strange events to the Defense Forces. Believing that they had stumbled onto a Colombian guerrilla landing party, the Defense Forces quickly dispatched scouts to the site.

They found, instead, a virtually completed laboratory. U.S. officials reportedly asked them to allow the lab to be completed and begin production before law enforcement forces moved in. That way, they would be given time to develop intelligence and then arrest the principals.

But the next morning, Panamanian troops swooped down, arresting 23 Colombian construction workers and a bewildered elderly cook. Since there were no drugs on the site, they had committed no crime — other than entering Panama without proper documentation.

They were kicked out of the country.

The ether was discovered soon after the closing of the Darien lab. Officials say that at least some of the ether was to have been used in Darien.

At Washington's behest, Defense Forces raided the Colon warehouse and seized 17,000 55-gallon drums of ether — enough to process a staggering 200,000 kilos of cocaine.

There is some confusion about what then happened to the ether. At least a portion, and perhaps all of it, was dumped into the ocean.

U.S. officials worry that the 2-year-old crackdown on narcotics trafficking in Colombia, especially

of its cocaine labs, may have moved some of that activity into Panama. The Darien lab would support that concern.

Political ideology is a commodity that Noriega reportedly lacks. He is said to be a nimble manipulator who plays all sides against the middle.

He has, however, become sensitive to adverse news reports. Many Panamanians believe he is grooming himself for a run at the presidency in 1989.

A Panamanian photographer on assignment for The Hearst Newspapers was arrested by the G-2 after photographing Noriega's luxurious home in the nouveau-riche San Francisco district here. His official salary is less than \$20,000 a year.

The photographer, Aurelio Jimenez, was released after two hours, but the film in the camera and another roll in the car's glove compartment were confiscated.

Panama's military, not unlike many others in Latin America, cannot make do on the official defense budget — \$98 million this year — and goes to the free market place to supplement its income.

Panamanians and U.S. officials contend the military owns a number of legitimate businesses, such as the exclusive franchise for industrial explosives and a shipping business in the Colon Free Trade Zone called Transit S.A.

Unfortunately, some of the officers also have embarked on more shady businesses, including gun-running, the protection of narcotics shipped through here and the importation of narcotics dollars.

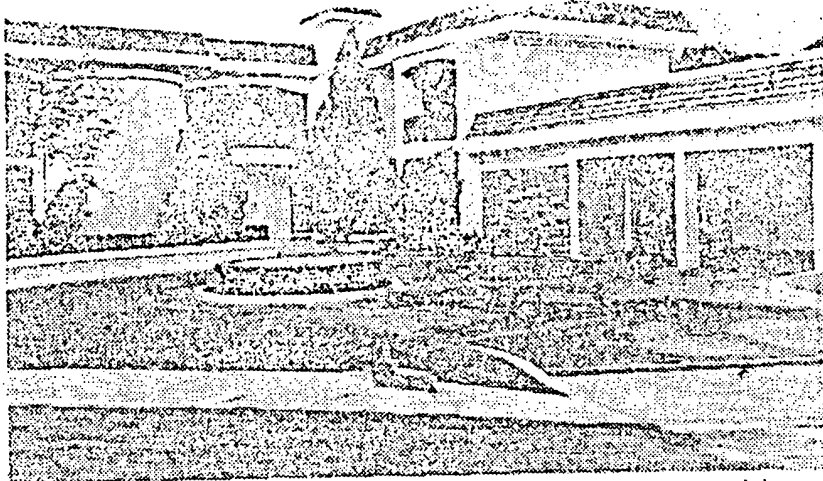
What troubles one knowledgeable U.S. official is that the officers may be getting greedier.

ASSOCIATED PRESS



SIDE BY SIDE: Gen. Manuel Noriega, left, commander of the Panama Defense Forces, stands with ex-Col. Julian Melo, who as general secretary of the Defense Forces' High Command was cashiered from the military by Noriega for his alleged role in protecting narcotics traffic in the country last year. By most accounts, Noriega is the most powerful man in Panama.





EXPENSIVE TASTES: This posh home, in the nouveau-riche San Francisco district in Panama City, Panama, belongs to Cesar Rodriguez, a close associate of Gen. Manuel Noriega. Rodriguez crashed a Panamanian plane in El Salvador in 1980 while running guns to rebels.

Gunrunning plays part in Panama's complexity

By **KNUT ROYCE**
The Hearst Newspapers



PANAMA CITY, Panama — Carlos Wittgreen is one of those Panamanians whose name keeps cropping up in U.S. government files.

It is, for instance, included in the Commerce Department's list of Cuban "designated nationals" with whom Americans are barred from doing business.

Wittgreen is the agent for much of Cuba's commercial business here.

His name also came up as a defendant in a 1979 federal indictment returned in Miami after Bureau of Alcohol, Tobacco and Firearms agents broke up a ring smuggling guns to the Sandinistas, then in the final stages of their revolution in Nicaragua.

And his name, as the prosecutor in the case was to find out, also must have appeared in CIA documents.

The "intelligence community," according to the prosecutor, asked to have the case dropped because Wittgreen was designated to head security for the deposed and very ill Shah of Iran, who had found temporary haven in Panama.

Also in U.S. government intelligence files is the name of Cesar Rodriguez.

In June 1980, Rodriguez piloted a plane that crashed on a clandestine airstrip inside El Salvador. He had been running guns to the guerrillas.

Salvadoran officials, who found 22,000 rifle cartridges inside the wreck, said that a backup plane had recovered Rodriguez and many of the arms. They also said the plane belonged to the Panamanian Defense Forces, PDF.

Besides gunrunning for people the U.S. government did not much like, Rodriguez and Wittgreen have something else in common: they are close associates of Gen. Manuel Noriega, chief of the PDF and, by most accounts, the most powerful man in the country.

Noriega's chief spokesman is Maj. Edgardo Lopez Grimaldi, a burly and affable former diplomat who speaks English clearly.

Lopez, according to the 1979 gunrunning documents, had been Panama's consul in Miami and had helped Wittgreen shop for guns there.

Lopez was not indicted, but five others, including Wittgreen, were. The scheme involved buying more than 1,000 rifles and pistols, as well as ammunition, and shipping them to a Panamanian hunting and fishing club called Caza y Pesca.

Claiming that the weapons had been intended for the PDF, Noriega wrote a letter to Washington protesting the indictment.

There was an awkward problem. The Nicaragua national guard under the late dictator Gen. Anastasio Somoza had seized truckloads of the weapons as they were being smuggled in through the Costa Rica border. Their serial numbers matched those on the weapons that had been purchased by Lopez and Wittgreen and the four other defendants.

One of the defendants, according to a government affidavit, already had divulged to a Miami gun dealer that \$2 million worth of weapons would be purchased and that they were intended for "Nicaraguan guerrilla forces," the Sandinistas.

The indictment was technically flawed and was withdrawn by the prosecution. But when Assistant U.S. Attorney R. Jerome Sanford started to prepare a new one, he began to get "a lot of pressure from (the U.S.) Justice (Department) to close the case," he recalled.

The intelligence community, he said, wanted the charge dropped because "the Shah was running around and Wittgreen was going to be the chief of security for the Shah."

It is this political versatility — running guns for leftist insurgents one day and providing protection to an ailing former right-wing dictator the next — that leads many U.S. officials and Panamanians to believe that what motivates Wittgreen, Noriega, Rodriguez and others may be cash more than ideology.

Wittgreen recently told an acquaintance that he sees nothing wrong in his relations with Cuba.

"I am a businessman," the acquaintance recalled Wittgreen had said. "The United States, after all, does business with Russia and with China. What's wrong with my doing business with Cuba?"

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San Antonio Light

Drug money snowballing in Panamanian banks

With little fanfare, a U.S. negotiating team has begun a critical mission in Panama: the opening of bank records belonging to narcotics traffickers who are "washing" billions of dollars though what authorities claim is the world's largest cocaine and marijuana money laundry. Successful negotiations, the United States believes, would result in a major breakthrough in the war against narcotics and the political instability it breeds in the Western Hemisphere.

By KRUT ROYCE
The Hearst Newspapers



LAST IN
A SERIES

PANAMA CITY. Panama — With its tiled roof, manicured hedge and tropical flowers gracing the entrance, the First Interamericas Bank looks more like a Mediterranean villa than a financial institution.

Something else distinguishes it from the 125 other banks that help shape the city's downtown skyline.

Awash in millions of narcotics dollars and a growing source of embarrassment to Panamanian authorities, the bank, owned by an indicted Colombian dope dealer, was closed by the government in March.

Rafael Arosemena, vice president of Citibank and president of the powerful Banking Association here, smiles when he recalls the event.

"It was," he said in an interview, "the first time in history that a bank was closed down because it was too liquid."

Concerned about Panama's "image of a center for laundering," he said, the association last September adopted a code of ethics that set a limit of \$100,000 on any single cash deposit a bank can accept. And the government's Banco Nacional, which acts much like a central bank, also agreed to the \$100,000 limit when accepting cash from the banks.

That is the good news.

The bad news is that since all of this happened, the laundering of narcotics dollars through the city's banks appears to be increasing.

A senior Treasury Department official said that excess cash flow from the Banco Nacional to the U.S. Federal Reserve Bank has increased dramatically over the past several months — a clear indication that

large amounts of cash continue to be deposited in Panama despite the self-set \$100,000 limit.

And most of that cash, officials assert, comes from narcotics traffickers.

In a typical drug deal, a cocaine wholesaler is paid, say, \$2 million in cash — normally in small bills — for a hypothetical shipment.

U.S. banks must report all cash deposits of more than \$10,000 to the Treasury. That leaves a paper trail. To avoid that, the dealer arranges for the cash to be delivered to Panama.

The money usually is smuggled out of the United States, because anyone taking more than \$10,000 out of the country must report it to U.S. Customs. The transaction is facilitated because Panama uses U.S. bills as its paper currency, although it calls them Balboas instead of dollars.

Once it arrives in Panama, the cash is taken by armored truck to a local bank and deposited in a prearranged, secret account. The local bank needs only a limited amount of cash for its daily use, so it delivers its surplus dollars to the Banco Nacional.

Since the Banco Nacional, too, cannot use the cash, it ships it to the U.S. Federal Reserve Bank. The records kept of those transactions indicate the sharp increase in the cash flow of Panama's banks.

Panama's legitimate annual cash need, according to the Treasury official, is about \$100 million, the same amount the Federal Reserve delivered to Panama last year in fresh bills.

But last year, according to Treasury records, the Banco Nacional transferred \$1.1 billion to the Federal Reserve.

Based on first-quarter records, this year's total will be \$1.3 billion to \$1.4 billion. April's delivery to

the Federal Reserve, ironically, was larger than in March — when the First Interamericas Bank was closed.

The trend is disheartening. In 1980, only \$250 million was delivered to the Federal Reserve; in 1981, \$593 million; in 1982, \$1 billion; it dipped slightly in 1983, to \$840 million, after the arrest of a major courier, Ramon Milian Rodriguez.

Most of the \$4 billion-plus in cash that has flowed into the local banks since 1980 is believed to have come from narcotics wholesalers. It therefore represents an estimated \$20 billion to \$40 billion in retail narcotics sales in the United States, according to Treasury sources.

And that is just cash. It does not take into account the hundreds of millions of narcotics dollars that are transferred here by wire from other offshore banking centers.

"All of this has to be stopped," said Carlton Turner, the White House special assistant for drug-abuse policy. "These bankers who are laundering money are probably more despicable than the local dealer because the laundering affects all of us."

Citibank's Arosemena agrees.

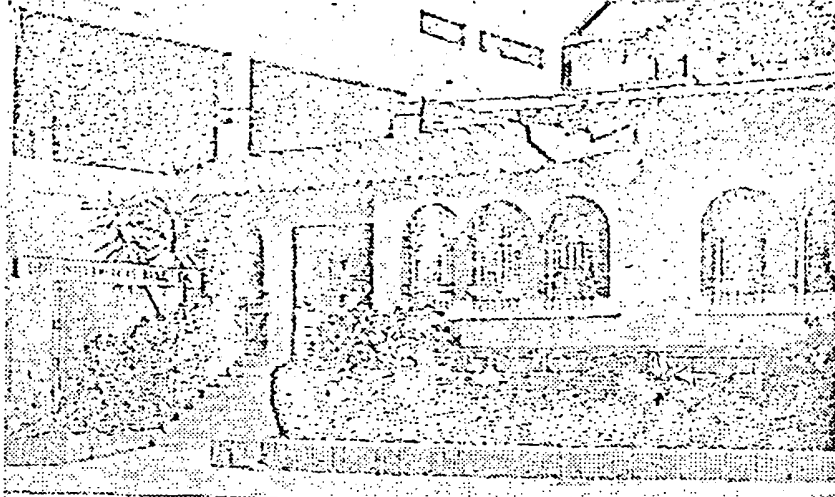
"It is very clear we want to assist to help in stopping these proceeds of laundering," he said.

But it is equally clear that the banks do not want to pull all the stops. Any agreement, Arosemena said, would have to be constructed so that "the position of Panama is not weakened with regard to other banking centers."

It is not just losing the dope dollars that worries most Panamanian bankers; it also is the psychological effect.

Shedding light, however slightly, on narcotics dollar transactions could have other depositors — an

(more)



FOCUS OF PROBE: The First Interamericas Bank in Panama City, Panama, owned by a Colombian narcotics trafficker under indictment in the United States, was shut down by Panama in March. The bank is the focus of a drug money laundering investigation in New York.

American tax evader, a corrupt Bolivian public official or Israeli businessman forbidden from holding foreign accounts — worry that he, too, might get overexposed.

The United States, aware of these concerns, has a couple of trump cards for the negotiations.

Administration sources say that the government may not press for recovery of the illicit funds as it has in other criminal drug cases. Rather, those proceeds could go directly into the Panamanian treasury, which would be a windfall for a nation that has one of the world's highest per capita foreign debts — \$3.7 billion — and a deeply troubled economy.

Consider the case of Ramon Millian Rodriguez. Acting on a tip from Panamanian authorities, U.S. officials arrested Millian at a Fort Lauderdale, Fla., airport on May 4, 1983, as he was ready to take off for Panama with \$5.4 million in cash.

A federal indictment returned in Miami last year alleges that Millian, over an eight-month period in 1982 and 1983, made weekly and sometimes twice-weekly trips to Panama in his private Lear jet and deposited \$151 million in cash into local bank accounts that he had set up for dozens of clients.

That \$151 million is nearly three times the \$54 million in U.S. aid for budgetary support for Panama for fiscal 1985 and about a fourth of what Panama currently needs to service its debt.

The other U.S. trump card is a Supreme Court ruling last January that upheld a federal grand jury's subpoena served on the Miami branch of the Bank of Nova Scotia for records held by the bank's branches in the Bahamas and the Cayman Islands.

If the negotiations fall, according to sources, the Justice Department will execute more than 20 subpoenas for records in Panamanian banks with branches in the United States.

What makes Panama such a magnet for narcotics dollars is the anonymity of locally based corporations — there are 150,000 active ones on file — and the use of U.S. currency, as well as the tight secrecy of Panamanian banks and the fact that Colombia is accelerating its prosecution of narcotics agents.

Also, most of the narcotics wholesalers are Latin Americans who prefer Hispanic Panama to the decidedly Anglo Bahamas and Cayman Islands, or the Dutch Antilles.

For about \$1,200, a local law firm will design a paper corporation or appoint nominee directors to conceal the identity of true owners.

Arosemena said that the Panama Banking Commission, which regulates the banks, for several years was unaware of who owned First Interamericas. Started in the 1970s by seven former officers of the Chase Manhattan Bank to deal mostly in trusts and commodities, the venture failed.

He said that the bank then was transferred to a bearer corporation held by indicted Colombian narcotics dealer Gilberto Rodriguez Orejuela.

To be sure, only some of the local banks, and only some of the officers in them, routinely deal with narcotics cash.

In addition to the First Interamericas Bank, U.S. authorities point to several others.

Among them: the Banco Cafetero, whose special account in a New York bank was used by First Interamericas as part of its alleged laundering operation; the Banco de Iberoamerica, where Millian deposited much of his cash; the Banco Ganadero; the Banco Interoceanico de Panama; the Banco Real; the Banco de Colombia; and the Banco de Occidente.

It not only is cash that gets brought into the country by narcotics traffickers. Over the past couple of years a new word has emerged in the drug enforcement lexicon — the smurf.

The smurf is a middleman who, for a fee, takes a large amount of dope cash, goes to several U.S. banks — and sometimes several tellers at the same bank — and buys cashier's checks for less than \$10,000 each. The checks are written out to fictitious names.

This eliminates the need for bulky suitcases or boxes, making the money easier to smuggle into Panama. And the cashier's checks escape U.S. scrutiny because there is no system for keeping track of them when they are returned to the United States.

A relaxation of the banks' tight secrecy laws clearly would cause ripples in the banking system. It also would run counter to a long tradition of minimal interference in the free market place.

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