

DEPARTMENT OF STATE

ASSISTANT SECRETARY

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TO : The Secretary
THROUGH : The Under Secretary
S/S
FROM : ARA - Mr. Snow *wpd*
SUBJECT : United States-Panamanian Relations

In view of the President's desire to discuss the Panamanian situation with you, this paper is presented in order to set forth ARA's views concerning the state of our relations with the Government of Panama.

Discussion:

As a result of the exercise by the United States of sovereign rights over a ten-mile wide strip of land bisecting the Republic of Panama, relations between the two governments have, from the beginning, habitually and inevitably, been subject to some strain.

The United States position in the Canal Zone is based on a complex structure of treaty arrangements and agreements, the principal elements being the Convention of 1903 and the Treaties of 1936 and 1955. The rights and obligations which the United States and Panama have under these agreements have traditionally been subject to differing interpretations.

While the Panamanians almost from the date of signing of the 1955 Treaty have attempted on a continuing basis to wrest from the United States by diplomatic action, benefits which they were unsuccessful in negotiating, (and this is admitted privately by some of the Panamanian negotiators), it is felt that the Canal Zone authorities have interpreted this Treaty to the letter.

Unfortunately, Panamanian reaction to the presence of foreign jurisdiction astride its national territory is, by and large, emotional. Panama's political figures play on easily aroused public opinion and use the United States presence in the Canal Zone to whip up this emotion. The present campaign against the United States, in which members of the de la Guardia Government have taken the lead, although the President himself is moderate and is considered by some of his Cabinet and Panama's elder statesmen as too vacillating, has been primarily designed to extract economic concessions from the United States which the Government of Panama failed to achieve by negotiation. While the relations between the two countries have been characterized by Panamanian clamors for increased benefits from the Canal Zone and United States resistance to those desires, recent public denunciations of the United States, both at the Santiago

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Foreign Ministers' meeting and in the United Nations General Assembly on September 23 by the Panamanian Foreign Minister, have brought these differences sharply into public focus. A consideration which contributes to the present increase of Panamanian pressure on the United States, is the current political campaign which will culminate in a presidential election in May 1960. Further public statements appealing to nationalistic sentiment against the Canal Zone can be anticipated throughout the coming months. Critical observers of the scene have often held the view that Panamanian emotionalism toward the Canal Zone is further aroused by the legalistic approach of our Panama Canal and Zone authorities, the quasi-colonialist attitude of many of its United States employees, and the somewhat inflexible attitude of the military in the Zone, but it is only fair to say that even if these attitudes did not exist, the Panamanians would be hard to get along with.

Since its economic life is to an important degree dependent upon the provision of goods and services to the Canal Zone, Panama seeks at every turn to increase its participation in that enterprise.

In fact, no matter what other economic benefits the United States might offer for its well-being, Panama's interest in gaining further Canal Zone benefits would probably persist and politicians would make use of the issue.

While the peculiar relationship between the two countries does not lend itself to complete harmony, there is something to be said for both sides in the present situation. Panama accuses us of non-compliance with the Treaty of 1955, and the Canal Zone authorities, basing their action on the precise wording of the Treaty, can usually prove they are living up to the letter of the agreement. The United States has admittedly been somewhat slow in implementing some of its undertakings under the Treaty, but Panama has failed to realize that obtaining the passage of enabling legislation is, perforce, a slow and difficult process.

Under the terms of the Treaty the United States has, however, (a) increased the annuity paid to Panama by \$1.5 million to nearly \$2.0 million; (b) returned real property valued at \$28 million; and (c) appropriated \$20 million for a high level bridge across the Canal on which construction has already commenced. Unfortunately, these and other efforts on the part of the United States to assist Panama are soon forgotten in the emotional reaction to our presence in the Canal Zone. In all candor, thoughtful Panamanians will admit that the over \$61 million per annum, which Panama derives from the Canal Zone, must remain as the life blood of the economy, but the apparent inequality of opportunity for Panamanian labor employed in the Zone and other friction points blind the mass of Panamanians to the true advantage of the Canal's physical location in their territory.

For political reasons, Panama has steadfastly held that notwithstanding the understandings agreed to in the Treaty of 1955, the United States has

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not complied with its obligations and repeatedly has cited the following allegations:

1. The new "single wage" scale, established in compliance with Item 1 of the Understandings Reached in the 1955 Treaty, continues the historic discrimination against Panamanians who work in the Canal Zone.
2. "Third-country" purchases continue to be imported into the Canal Zone for consumption there, rather than limiting supplies to those of United States or Panamanian origin, as called for under Item 8 of the Understanding.
3. So-called "luxury goods" continue to be imported for sale in Canal Zone commissaries and post exchanges at prices lower than those obtaining in United States or Panamanian commercial outlets;
4. The Panama Canal Company, in operating commercial activities in the Canal Zone, causes serious detriment to the Panamanian economy.

After repeated recourse to ordinary diplomatic action, direct appeals to our President and public denunciation, Panama apparently feels that further such efforts will be unproductive and has threatened, without particularization, to bring this dispute before the International Court of Justice.

While the United States position on the single wage scale is technically and legally correct, it barely complies with what seems to be our moral obligation. A wage scale on a curve that jumps abruptly from the manual type of labor, which is almost entirely Panamanian, into the white-collar group, consisting mainly of United States workers, still in effect preserves a distinction between Panamanian and United States workers, specially because the manual scale is on a local pay level whereas the white-collar workers are paid at United States rates. It is believed that the present single wage plan can be defended on the ground that it establishes equal pay for equal work throughout the curve and that it opens opportunities for Panamanians in higher positions, but it is certain that the Panamanians will not accept this system gracefully. On the contrary, they will use it to press for an elimination of what they feel is discrimination against them.

There are other points of friction which might be minimized if not eliminated administratively. The cessation of "third country" imports and "luxury goods" sales would remove long-standing grievances and should help to ameliorate our relations with Panama. On these points the United States position is not strong. Narrow construction of the word "feasible", as set forth in Item 8 of the Understandings Reached in the Treaty of 1955, to permit purchases in third

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countries should be re-examined. The military establishments imports consumer goods, such as beef from New Zealand and beer and canned dairy products from the Netherlands, relying on the word "feasible", the meaning of which is not entirely clear in the context used. The intent of the Treaty is to effect purchases, for resale in the Zone, either in the United States or Panama unless, in some exceptional cases, it is not feasible to make the purchases in either country. If Canal Zone consumers insist on consumer goods of a quality not produced in the United States or Panama, importations of these goods could be made through one of the two countries. The extent to which luxury goods are sold in Canal Zone outlets is being re-examined.

Panama charges that the ancillary commercial activities of the Panama Canal Company, not directly connected with the operation of the Canal itself, are not necessary "for the construction, maintenance, operation, sanitation and protection of said Canal..." (Article II, 1903 Convention), and operate to the detriment of Panamanian enterprises. It is believed that means should be sought to eliminate to the extent possible "government in business" operations when local enterprises can meet the requirements of the Canal Zone market. As an example, once Panamanian dairy operators can meet accepted sanitary standards and assure a continuing availability of dairy products, there seems to be no reason for the Panama Canal Company to continue a full-scale dairy operation.

Our Embassy at Panama has over the years attempted to reconcile the Panamanian desire for ever-increasing Canal Zone benefits with the resistance of the Panama Canal authorities to further such encroachments.

Early this month, and after the Panamanian Foreign Minister's Santiago speech, the Ambassador, together with the Governor of the Canal Zone and the commander of the military establishment in the Zone, met with President de la Guardia and two members of his Cabinet informally, at which time agreement was reached to attempt to solve outstanding problems in a practical manner without further recourse to public denunciations or notes of protest by Panamanian representatives. Any hope for an improvement in relations, however, was removed when first, a critical note, dated September 10, was handed to the Embassy, and later, on September 23, Foreign Minister Moreno renewed his attack on the United States in the United Nations General Assembly.

Certain members of the de la Guardia Government, as well as other extremist public figures in Panama, feel that, since diplomatic action has failed to achieve Panamanian aims, an incident is required to bring its allegations against the United States into focus. To this end, certain recognized anti-American leaders have called for a "peaceful invasion" of the Canal Zone scheduled to take place on November 3, to coincide with Panama's National Independence Day. While this march into the Zone may be peaceful, we cannot be sure that violence will not occur, and, in the circumstances, the Governor of the Zone and the military commander would be required forcibly to restrain such violence. Although present intelligence would indicate that the rank and file

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of the "student" groups look on the march as a political maneuver and have little sympathy with it as such, those responsible for the operation of the Canal and the security of the Zone cannot base their plans on this conjecture. If violence occurs and there are physical injuries, we can expect a further deterioration in our relations.

One additional consideration must be added to the present review. Studies are now underway which examine the feasibility of a sea-level canal at some other place in the Central American area, to be constructed with the aid of nuclear explosives. Should such a canal be feasible and be constructed, it is almost certain that Panama would have to seek other areas of endeavor to balance an economy so heavily dependent upon the present Canal Zone and all that the Panama Canal operation entails.

To recapitulate: Panama, with a per capita Gross National Product of some \$250 per annum, receives one quarter of this from Canal Zone activities. It is dependent on the operation of the Panama Canal for its economic well-being, and loses no opportunity to attempt to obtain increased benefits from the United States. However, the Panama Canal Company, by adhering to the strict letter in interpretation of our treaty position does not enhance United States prestige in Panama. Effective steps to eliminate the more tangible causes of friction and to remove the feeling of discrimination, could, with proper attribution, herald an improvement in the mutually necessary relationship between the United States and Panama.

Recommendations:

In your discussion of the Panamanian situation with the President, it is suggested that you take the following line:

1. With regard to the "single wage" scale, it is believed that the Panamanian Government should be induced to allow the new system, in effect only since February 1959, to operate for the period of a year or so, at which time a better judgement can be reached as to the effectiveness of the system and the shortcomings it may have. Meanwhile, the Panama Canal Company should provide additional training opportunities to Panamanian workers and review the number of positions now given "security" classification with a view to reducing them further.
2. With regard to "third country" purchases and "luxury goods" sales, it is believed that the Panama Canal Company and the military establishment in the Canal Zone should re-examine their present policies and practices in order to remove, insofar as possible, these causes of friction in the relations between the United States and Panama.
3. With regard to the Panama Canal Company's operation of commercial enterprises, it is believed that, as far as possible, these should be rapidly and progressively diminished wherever a Panamanian enterprise can offer comparable goods or services at comparable costs.

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