

STAFF STUDIES

11/27/59Slightly out of  
date but  
accurate

TO : Under Secretary for Political Affairs.  
 THROUGH : S/S  
 FROM : ARA - Mr. Rubottom  
 SUBJECT : Recent Developments in United States-Panama Relations.

During the past several months our relations with Panama have been noticeably deteriorating and as a result of incidents arising from uncontrolled mob action in Panama on November 3 and 4, they have been subjected to severe strain. If demonstrations scheduled for November 28 are not directed against the Canal Zone and no further violence occurs, our relations may be improved.

The main point at issue between the two governments revolved around differing interpretations of the 1955 Treaty, but a new element has now been added - the flying of the Panamanian flag in the Canal Zone. Panama alleges that we are not complying with certain of our commitments, i.e. (1) continuing discrimination against Panamanian labor employed by Canal Zone agencies, (2) continuing imports of merchandise from "third country" sources, (3) sales of so-called "luxury items" in Canal Zone sales outlets, and (4) unfair competition to Panamanian enterprise by Canal Zone agencies. Panama has never been satisfied with the 1955 Treaty and has sought to obtain by diplomatic action what it failed successfully to negotiate. The Panamanian Foreign Minister both at Santiago in August and at the UNGA in September aggravated the situation by public attacks against us alleging non-compliance with our Treaty undertakings. We had been aware of some inequities but were deterred from acceding to Panamanian demands by intransigence on the part of the Panama Canal Company - Canal Zone Government and its principal, the Department of the Army. On October 12, the President, at a White House meeting, directed that certain changes be made in the operating policies of Canal Zone agencies and implementation was commenced. President Eisenhower called in Panamanian Ambassador Arias just after the meeting and told him of his personal interest in our Panamanian relations, alluding in a general way to certain changes which could be anticipated. We assume that Arias, who was departing for Panama where he is a candidate for the presidency in national elections to be held in May 1960, informed his president of the interview with President Eisenhower.

The Panamanian campaign, although in its early stages, is populated by politicians of widely varied views. Among them are Aquilino Boyd and Ernesto Castillero who although former Foreign Minister and Vice Minister, respectively, have by demagoguery called for ever greater benefits to Panama from the United States presence in the Canal Zone. About four months ago, Boyd and Castillero started promoting a "peaceful invasion" of the Canal Zone coincident with Panama's Independence Day, November 3, to reaffirm Panama's sovereignty over the Zone. All available information indicated no wide acceptance of this proposal, recognized as a political maneuver by these two extremists. The Embassy and the Canal Zone viewed the march with misgiving and so told the Government, but the Panamanian authorities minimized its importance. The Embassy by Aide Memoire, October 21, called Panama's attention to the march once more, and asked the Government to take all action to avoid untoward incidents which might occur. Notwithstanding assurances, the Zone authorities made plans to protect the security of the Zone and Canal.

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On November 3, after a peaceful demonstration by Boyd, Castellero and a small group of sympathizers, an unruly mob attempted to force entry of the Zone to plant the Panamanian flag and apparently spontaneous violence took place at the Canal Zone border. Rebuffed at the Zone, about 150 people went to the Embassy and desecrated the United States flag causing damage to other United States installations, public and private. When Zone police and firemen were overrun by the mob, Governor Potter called on CINCARIB to protect the Zone. No further incidents occurred, but approximately 80 people were injured on both sides. Our Embassy protested the flag incident and Panama counter-protested that a prior analagous incident to its flag caused the mob to get out of control. Analysis of the events disclosed that Panama's Guardia Nacional, its sole law enforcement agency, was conspicuously absent from the scene of violence until late on November 3, but from then on controlled Panamanian crowds well. Radio intercepts made on November 3 reveal that the Guardia was instructed to avoid the areas where the crowds were rioting. The Government apparently was unwilling or unable, or both, to control the situation. From November 4 on the Panamanian press and radio undertook a massive vilification campaign against us, which the Government felt would be turned against it, if attempts were made to tone it down. The highly emotional populace was apparently in command of the situation and reports were received of further riots against the Zone scheduled for November 18 and 28. (None materialized on the 18th.) In spite of demarches to President de la Guardia and to Ambassador Arias (who had returned to Washington), it was still apparent that the Panamanian government feared for its future if it were to act forcefully to prevent further anti-United States demonstrations, fanned by press, radio, and demagogues. In order to strengthen President de la Guardia's resolve and for other reasons, Mr. Merchant went to Panama November 20-24, and discussed outstanding issues with Panama. A device for the Government to attempt a pacification of the people was afforded by the statement reaffirming titular sovereignty, and press and radio have been calling for calm and non-violence on November 28. De la Guardia made a statesman-like radio address last night and we anticipate that violent demonstrations are now less likely to occur than at any time since November 3. The Zone Government and CINCARIB are prepared for any eventuality. If violence does occur, there would be casualties, and we could anticipate strong charges in public forums, particularly in view of UNGA's vote to consider the Hungarian case.

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 With regard to flying the Panamanian national flag in the Canal Zone, we are not willing to accede to such a request from Panama at the present time.

We can look forward to continued Panamanian pressure for ever greater benefits from our presence in the Canal Zone.

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