

~~SECRET~~

TAB A

COMMERCIAL AND ECONOMIC SIGNIFICANCE OF PANAMA CANAL

1. The Canal is of great, and increasing, commercial and economic significance to the US and Latin America, notwithstanding that it will be inadequate to the traffic demands of the mid-1970's, by which time it is estimated that present tonnage figures will have doubled, unless extensive improvements are made. Even so, since the shipbuilding trend is toward larger ships which the Canal cannot accommodate, it will be unable to transit many ships now being built. At present some 260 commercial ships valued at \$10 billion are now unable to transit the Canal, including the larger tankers and ore-carrying ships.

2. However, the Canal is utilized by only four to five per cent of the world's ocean-going traffic and it accommodates only about one-third the traffic carried by the Suez Canal. Its principal user is the US merchant marine (about one-third of total tonnage, although a more accurate figure would be obtained by adding in ships of Panamanian, Honduran, and Liberian registry controlled by US interests).

3. Of the eight trade routes which in recent years have accounted for more than 75 per cent of the Canal's traffic, five terminate in US ports and a sixth constitutes US inter-coastal trade. Altogether, 62 per cent of the trade through the Canal originates or terminates (or does both) in US ports.

Of the

~~SECRET~~

~~SECRET~~

-2-

Of the total tonnage involved, only the relatively small amount of four million tons represents US inter-coastal traffic.

4. In a relative sense Panama and other Latin American countries are more economically dependent on the Canal than we. Panama receives a \$1.9 million annuity payment from the US under the treaty of 1955 but depends on the Canal otherwise for roughly 16 per cent of its annual GNP of ^{366 ?} ~~\$350~~ million. More than 8100 Panamanians are employed by the Panama Canal Company and more than 1100 work for the Canal Zone administration. In return for goods and services furnished to the Zone, Panama can import and consume far more than it exports. There is truth in the statement of a former Panamanian president that "Panama exists by and for the Canal" under conditions now prevailing.

5. It has been estimated, furthermore, that the countries of the west coast of South America rely on trade moving through the Canal for more than half their export income. Copper and iron ore exports from Chile and Peru, bananas from Ecuador and the Central American Republics, and oil from Venezuela are among the principal Latin American commodities transiting the Canal in terms of tonnage.

6. Abandonment of the Panama Canal in favor of a sea-level canal in Panama or elsewhere would visit serious economic dislocations

~~SECRET~~

SECRET

-3-

dislocations on Panama. Panama would be required to readjust economically to the loss of a very large portion of the income now received from goods and services furnished to the Zone and to transiting ships, since transit time through the new canal would be rapid and maintenance of the canal could be accomplished with a minimum of labor. The Report estimates, for example, that the proposed Panamanian sea-level canal could be manned with a labor force of 350, in contrast to the 13,000 force which now mans the present Canal.

7. The Canal was placed on a pay-as-you-go basis in 1951 by Congress, is operated by the Panama Canal Company without direct cost to the American taxpayer, has maintained the same rates since 1914, and collected record tolls of \$41.8 million in 1958.

SECRET