

LEG 2

DRAFT
11/20/64

MEMORANDUM TO: ARA - Mr. Mann
FROM: SR/PAN - Ambassador Newbegin
SUBJECT: Briefing of Congressional Leadership
on Panama

1. In reviewing the Panama problem with Congressional leaders, you will be speaking to three aspects: [1] the proposed sea level canal draft treaty; 2) the nine immediate steps we propose to take before January 9, 1965,] and 3) an interim agreement with Panama which should result from discussions between the Special Representatives.

2. The interim agreement will cover our relations with Panama until a new sea level canal is operational. It will require revision of our present treaty framework in such a way as to retain all our [basic] U.S. rights and yet meet the most pressing Panamanian demands. It is necessary because Panamanians [from the far right to the communists] are unanimous in their conviction that changes must be made. If they are not made, we face a period of constant turmoil in Panama which will make the operation of the Canal increasingly difficult. In return, we would expect certain concessions from Panama listed in paragraph 5

3. Following are treaty revisions I recommend, and which you may care to discuss with the leadership of Congress:

a)

a) Perpetuity

(Cancel) the perpetuity (clause), fixing the termination date of our present treaty rights to coincide with the (opening) of (a) new sea level canal. This will dispose of one of the most controversial problems in our relations with Panama, 11-9-63

b) Annuity

Change the present annuity of \$1,930,000. The Panama Canal Company was created in 1951 to maintain and operate the Canal and to conduct business type operations incident to such maintenance, and incident to the Civil Government of the Canal Zone. Panama resents the "business-type operations," and insists on a greater share of economic benefits. She also regards the present annuity as a pittance. Therefore, I recommend that the annuity be fixed at 10% of the annual total revenue of the Panama Canal Company (less credit for tolls on U.S. Government vessels) In 1963 this revenue amounted to \$102,232,944. 10% would provide an annuity of over 10,000,000 dollars.

Since the net revenue of the Panama Canal Company in 1963 was only \$2,374,862, it will be necessary to obtain approximately \$10,000,000 either from an

Increase

increase in tolls or from appropriated funds.

I recommend it be obtained by a 19% increase in tolls. The arguments in favor of this method are:

- 1) the tolls have never been raised since the opening of the Canal; 2) the rates are 90 cents per net ton, compared to _____ charged by the Suez Canal; 3) it is reasonable that the users contribute to an increased annuity rather than the U.S. Government.

c) Lands

It is reasonable that unused lands in the Canal Zone be ceded back to Panama. These include parcels which will permit the expansion of Panama City and Colon, the unused Shaler Triangle, Fort San Lorenzo, and certain areas along the Canal Zone borders which are suitable for agriculture. If this proposal is approved in principle, we shall prepare an inventory of such land parcels which may be returned, and are not necessary to the operation, maintenance or defense of the Canal nor to the construction of a new sea level canal at the present site.

d) New businesses in the Zone

I recommend we revise Article III(5) of the 1936 Treaty to permit the operation in the Zone of Panamanian companies licensed by the Government of Panama and U.S. companies, both under conditions approved by the Governor. This will meet partially,

the

insistent demand of Panama that we permit its citizens to enjoy more economic benefits from the operation of the Canal.

4. Attached to this paper is a study by Miss Whiteman (L) of treaty language to accomplish the above revisions.

5. In return for the above concessions, the U.S. would expect to obtain from Panama:

- a) Negotiation of a NATO type status of forces agreement to cover U.S. forces in the Republic of Panama.
- b) Provision of a larger training area at Rio Hato and an extension of the present lease which expires in 1970.
- c) Provision of rights at Tocumen and David Airports, to support military operations if required.
- d) Conclusion of a base rights agreement covering U.S. military requirements within the Zone, to become effective when a new sea level canal is opened in Panama or elsewhere. (If we built a Canal in Colombia and gave up rights in the Zone, the military would be left unprotected.)