PANAMA

GENERAL RELATIONS BETWEEN THE UNITED STATES AND PANAMA

711.19/1-2048

Memorandum by the Assistant Chief of the Division of Central America and Panama Affairs (Wise)¹

SECRET

[WASHINGTON,] January 20, 1948.

Subject: General Relations Between the United States and Panama

The attached study is a list of topics of significance in our relations with Panama. They are numerous and varied. Mr. Daniels will recall that many of these matters were discussed at the time of the negotiations of the 1936 Treaty ² as well as before and afterwards. Problems in our relations with Panama are perennial. There never seems to be any complete settlement of most of them. Only certain phases of settlement are reached and after a while some new aspect of the problem presents itself and calls for renegotiation.

Each item is briefly described and insofar as possible the status of pending matters is given.

[Annex]

SECRET

January 20, 1948.

GENERAL RELATIONS BETWEEN THE UNITED STATES AND PANAMA

The following study is a brief review of outstanding matters which have entered into our relationships with Panama since 1903. Some of the items referred to can be considered settled, others are still pending and will be important in future negotiations with Panama.

¹ Addressed to the Assistant Secretary for Political Affairs (Armour), the Director for the Office of American Republic Affairs (Daniels), the Chief, Division of Central America and Panama Affairs (Newbegin), and W. Tapley Bennett, Jr., Area Specialist, CPA.

² For the general treaty of friendship and cooperation signed at Washington March 2, 1936 (accompanied by sixteen exchanges of notes, and additional exchanges of notes signed February 1 and June 25, 1939), see Department of State Treaty Series No. 945, or 53 Stat. 1807.
Convention of 1903 and Treaty of 1936

The Convention of 1903 was negotiated with Panama in order to facilitate the construction of the Panama Canal. This was a tremendous undertaking and one for which we lacked experience. Also, Panama’s institutional stability remained to be consolidated, following her achievement of independence from Colombia by revolution. Accordingly, as a safeguard for the Canal project, we obtained in the provisions of the Convention certain far-reaching rights. Among them was the power to intervene in Panama to preserve public order. The decision as to what constituted the necessity for such intervention was left entirely to us. We also acquired the right to take additional lands or adjacent waters which we might need for Canal purposes over and above those comprised in the Canal Zone without consulting the Government of Panama.

In 1936 the Good Neighbor Policy was set forth and in accordance with its principles the United States and Panama signed and ratified the Treaty of 1936 which modified the former convention and placed relations between the two countries on a status consistent with the new concept of international policy. The Treaty of 1936 renounces most of the special rights enjoyed by the United States under the Convention of 1903 and substitutes for those rights the principle that in all matters relating to the operation, maintenance, sanitation and protection of the Panama Canal the two countries are on a partnership basis, and have a joint and vital interest which will cause them to consult together and adopt by common accord the measures necessary to protect that common interest.

Defense Sites Agreement of May 18, 1942

Pursuant to the provisions of the 1936 Treaty the two Governments at the outbreak of the recent war consulted together and agreed that Panama would grant to the United States the temporary use for Canal defense purposes of certain lands (which totaled 134 sites before the war was terminated) in territory under the jurisdiction of the Republic of Panama. The provisions of the understanding reached were set forth in the Defense Sites Agreement of May 18, 1942. It provided that “These lands shall be evacuated and the use thereof by the United States of America shall terminate one year after the date on which the definitive treaty of peace which brings about the end of the present war shall have entered into effect. If within that period the two Gov-

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For the Isthmian canal convention (the John Hay–P. Buneau-Varilla treaty) signed at Washington, November 18, 1903, see Department of State Treaty Series No. 431, or 33 Stat. 2234.

For text of the agreement for the lease of defense sites, signed at Panama on May 18, 1942, see Department of State Executive Agreement Series No. 359, or 57 Stat. (2) 1232.
ernments believe that, in spite of the cessation of hostilities, a state of international insecurity continues to exist which makes vitally necessary the continuation of the use of any of the said defense bases or areas, the two Governments shall again enter into mutual consultation and shall conclude the new agreement which the circumstances require."

An effort was made by the United States in 1946 and 1947 to replace the 1942 Agreement with a new one designed to meet peacetime requirements for the adequate safeguards of the Panama Canal. Although an agreement was signed on December 10, 1947 it was rejected by the Panamanian National Assembly and as a result the United States ordered the evacuation of its armed forces from all sites obtained in Panama under the 1942 Agreement. No plans have been made concerning further negotiations with Panama on the matter.

**Twelve-Point Agreement of 1942**

Simultaneous with the signing of the 1942 Defense Sites Agreement, an understanding was reached between the two Governments concerning the settlement of twelve outstanding problems in the relations between the two countries. The three most important of these, upon which action has already been taken, are the following: (Two other important matters, still pending action, are treated in the next section of this report.)

1. **Waterworks and Sewerage Systems in Panama City and Colon.** Pursuant to Public Law 48 of May 3, 1943 the United States transferred to Panama free of cost all of its rights, title and interests in the system of sewers and waterworks in the cities of Panama and Colon. Also, the United States renounced the right which it obtained in the first paragraph of Article VII of the Convention of 1903 as modified by Article VI of the Treaty of 1936 to acquire lands, buildings, water rights or other properties necessary for purposes of sanitation, such as the collection or disposal of sewerage and the distribution of water in the cities mentioned. The United States likewise renounced the authority contained in Article VII of the Convention of 1903 to impose and collect water rates and sewerage rates in those cities for the payment of interest and amortization of the principal and the costs of said works.

2. **Railroad Lots in Panama and Colon.** Pursuant to Public Law 48 of May 3, 1943 the United States transferred to Panama free of cost all of its rights, title and interest to the lands belonging to or of which the Panama Railroad Company had ushurfract in the cities of Panama and Colon which were not currently or prospectively needed for the maintenance, operation, sanitation and protection of

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*For documentation on this subject, see Foreign Relations, 1947, vol. viii, pp. 881 ff.

*Department of State Executive Agreement Series No. 452, or 59 Stat. (2) 1289.
the Panama Canal, or of its auxiliary works or for the operation of
the Panama Railroad.

(3) Cost of Rio Hato Highway. By Public Law 48 of May 3, 1943
the United States liquidated the credit of $2,500,000 made available
to Panama by the Export-Import Bank for the construction of
Panama’s share of the Chorrera–Rio Hato Road.

Principal Pending Problems

(1) Claims. Our El Encanto claim against Panama arose thirty
years ago as a result of the expropriation by Panama of land owned
by United States citizens. The United States has agreed to a cash
settlement of $400,000 or to arbitrate in the original amount of
$1,409,000 plus interest.

Six soldiers of the United States Army were injured during dis-
turbances which occurred in Panama in 1915 and resulted in our so-
called Soldiers’ claim, amounting to $7,150. We have agreed to settle
for $3,156.

Panama’s Malambo Fire claim against the United States arose in
1906 as a result of a fire in Colon caused by alleged negligence of
United States Government employees. Panama has expressed a will-
ingness to reduce the original claim from $125,000 to $53,800.

In the interest of an en bloc settlement of these three claims, the
United States has presented a proposed draft convention whereby
Panama would agree to pay to the United States in cash the balance
of the three claims, a sum amounting to $349,356. Before the defense
sites issue became so complicated Panama informally had agreed in
principle to this procedure and to settlement in the amount stipulated.
There have been no recent negotiations on the settlement of these
claims. This Government’s position consistently has been that Panama
must settle the El Encanto claim before serious consideration will be
given by the United States to meeting Panama’s requests concerning
other pending problems of significance.

(2) Aeronautics Agreement. This Government has drafted a pro-
posed agreement, the provisions of which would establish a permanent
United States–Panama joint aviation board to provide for the co-
ordination, supervision and regulation of air traffic in Panama. This
board would be the sole agency for prescribing rules and regulations
relating to civil and military air traffic in Panama, giving due con-
sideration to the special needs of both Governments.

Recently, our draft was discussed informally with the Panamanian
Foreign Office which considers that its provisions are written too much
in the same tone of the defense sites agreement just rejected by the
National Assembly.

(3) Moving of the Railroad Station at Panama. As an important
item of the Twelve-Point Agreement reached in 1942, the United States
agreed to remove from their present site the terminal facilities of the Panama Railroad in Panama, including the station, yards and other appurtenances. This agreement was subject to the making available without cost to the United States by Panama of a new site deemed suitable for the purpose by the two Governments.

This Government is to receive no important benefits from the change and as long as Panama does not urge compliance with this agreement the matter should lie dormant. There are many details with respect to the proposed removal of the station which have not been defined and it will take considerable negotiation to determine the rights and responsibilities of each Government with respect to disposition of the old site and construction projects at the new one.

(4) *Tunnel or Bridge Under or Over the Canal at Balboa.* As another important item of the Twelve-Point Agreement of 1942, the United States expressed its awareness of the importance to Panama of constant and rapid communication across the Canal at Balboa and stated its willingness to agree to the construction of a tunnel under or a bridge over the Canal at that point. This commitment was to be satisfied following the end of World War II. In the meantime the United States agreed to improve the present ferry service.

Recently Panama has shown more interest in our financial assistance toward completing the Inter-American Highway with a cement surface to the Costa Rican border than in the construction of additional crossing facilities at Balboa. No negotiations have been undertaken concerning this interest of Panama. The United States has been unwilling to begin any serious consideration of a tunnel or bridge until plans for the modernization of the Panama Canal have been completed and approved. A bridge would be much cheaper than a tunnel. It has been estimated that the latter would cost some $30,000,000.

(5) *Racial-Labor Discrimination in the Canal Zone.* Panama persistently charges that United States citizens are given better treatment in the Canal Zone than are its own citizens. Our obligations under the 1936 treaty require a policy of equality of opportunity and treatment for Panamanians employed in the Zone. Although the State Department in its relations with Panama endeavors to place into actual practice the treaty commitments of this Government with respect to the exercise of a policy of non-discrimination in employment practices in the Canal Zone, full cooperation from all sectors of this Government has not been obtained.

Arrangements were made by the State, War, Navy and Labor Departments for a labor relations adviser to be assigned to the Canal

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*For previous documentation on discussions of alleged discriminatory treatment in the Canal Zone, see *Foreign Relations*, 1947, vol. viii, pp. 948 ff.*
Zone Governor for the first four months of 1947. On June 1, 1947, he submitted a lengthy report on labor relations which offered evidence of both official and unofficial discrimination against Panamanians in the Zone and made definite recommendations for reforms.

Although the Governor during the past two years has taken steps to eliminate some of the causes for the charges against us for discrimination practices, the racial-labor policy of the Canal Zone needs thorough revision. Accordingly, this Government should take more positive steps than it has in the past to adopt necessary measures to eliminate discrimination and to coordinate labor policies of the various agencies of this Government working in the Canal Zone. Adoption of the recommendations of the report of the labor relations adviser would be a significant step in the right direction. To bring this about will require the full cooperation of the Secretary for National Defense and of the Governor of the Canal Zone.

(6) Imported Labor in the Canal Zone. Although the immigration of laborers into the Canal Zone rests solely with this Government, the United States is willing to cooperate to the extent feasible in satisfying the immigration policy of the Republic of Panama. Specifically, the United States in 1942 agreed, so far as practicable, to fill the needs for labor in the Canal Zone with classes of persons whose immigration is permitted by Panama and to forbid the entry into the territory of the Republic, except as might be necessary on brief routine business, of those persons (whom Canal Zone authorities have found or may find it necessary to introduce into the Canal Zone) whose immigration into the Republic is prohibited by Panama. We agreed to repatriate such persons when their services were no longer required.

Although those laborers brought into the Canal Zone for wartime projects have been repatriated, the Panamanians complain that our cooperation with the Republic with respect to the prohibition of undesirable immigration for continuing Canal Zone work is not as close as it should be.

(7) Competition of Canal Zone Commissaries and Post Exchanges with Panamanian Commerce. Panamanian merchants complain bitterly that Canal Zone commissaries and Army post exchanges offer them unjust competition. They complain that there exist sales of luxury and tourist articles in the Zone contrary to the provisions of the 1936 Treaty.

The civilian and military authorities of the Canal Zone maintain that the Panamanian complaint is for the most part unjust and charge that the difficulties lie largely with Panamanian merchants who place exorbitant prices on their merchandise in order to make big profits from tourists.
In an exchange of notes accompanying the 1936 Treaty and in the Twelve-Point Agreement of 1942, the United States agreed to afford regular and continued opportunity “for mutual conference and helpful exchange of views bearing on this question”. Panamanian authorities have not taken advantage of our agreement to enter into a thorough study of the situation. Panama’s standard of living is definitely improved through the presence of Canal Zone stores. During the war Panamanians depended greatly on the Canal Zone for food supplies.

(8) Permanent Market in the Canal Zone for Panamanian Merchandise. The Panamanian Government requests that the United States guarantee a permanent market in the Canal Zone for Panamanian produce at pre-established prices and quantities. While much Panamanian produce is bought by the Canal Zone and while steps have been taken recently to increase the market for Panama, Canal Zone authorities are reluctant to work out with Panama any guaranteed market because of Panama’s inability to reciprocate with a guarantee for the quality and quantity of produce required and at prices equal to those obtained in other parts of the Caribbean or in the United States. Panama has insisted on a price guarantee equal to that which would be paid for the same produce in New Orleans.

We have expressed our willingness to continue conferences already begun with a view to working out arrangements whereby Panama could set up a central agency to accumulate produce from small operators in order that sufficient quantities can be assembled to justify purchase by the Canal Zone.

(9) Importation of Alcoholic Beverages into the Canal Zone. By Executive Order of March 25, 1935 the direct importation of hard liquor into the Canal Zone was prohibited. Since then, all hard liquor has entered the Canal Zone through the Republic of Panama, resulting in about one hundred per cent increase in cost per case. The Executive Order was issued as a result of Panamanian claims that direct importation of liquor from the United States or elsewhere was in direct competition with the local Panamanian industry and prevented Panama from taking advantage of the economic opportunities inherent in its geographical location.

Civilian, Army and Navy employees in the Canal Zone have tried unsuccessfully on various occasions since 1935 to have this Executive Order rescinded. Panama insists that the present policy of the United States be maintained. This Government at present is reviewing this question with a view to possible cancellation of the Executive Order. Such an act, of course, will arouse violent protest from Panama.

(10) Revision of Monetary Agreements. Panama has requested a revision of the Monetary Agreement of 1904 as modified by subsequent
exchanges of notes. Inasmuch as the present language of these agreements represents somewhat of a paternal attitude toward Panama, the Department agrees that a review is in order.

(11) Commercial Treaty. Panama suggests that an appropriate way for settling a number of matters which are claimed to afford unjust economic competition with Panamanian business would be through the negotiation of a commercial treaty. The United States would be glad to consider any suggestions made by Panama regarding the negotiation of a treaty of friendship, commerce and navigation which would have the effect of establishing commercial relations between the two Governments on a permanent basis. However, the commercial treaty which this Government would be disposed to negotiate would be along the lines of treaties of a standard type already negotiated with other countries. This Government would be unwilling that such a treaty contain provisions relating to special problems in our economic relations with Panama which are considered to be outside the scope of a commercial treaty.

(12) Readjustment of Colón Corridor. Panama has requested a substantial readjustment in the route of a road which passes through the Canal Zone and joins the Panamanian city of Colón with the Republic proper. The realignment as contemplated deviates considerably from the Corridor plan as set forth in the 1936 Treaty. A new convention between the two Governments will be necessary to modify legally the 1936 Treaty. In the meantime, the two Governments have effected an exchange of notes which state that the readjustment is desirable from the standpoint of both Governments and provides that work on the realignment of the Corridor may be undertaken pending the negotiation of a convention.

Panama has requested technical assistance in the planning and building of an overpass at Randolph Road (within Canal Zone jurisdiction) to connect the Trans-Isthmian Highway with the Colón Corridor. We have agreed to build this overpass provided Panama provides the necessary funds.

(13) Realignment of Inter-American Highway around Río Hato Air Base. The Department feels that Panamanian complaints concerning Army interruption of traffic on the Inter-American Highway at the Río Hato Air Base have been justified. The Army was requested to take immediate steps to re-route the Highway in such a way as to bypass the airstrip and thus to eliminate interference with Panamanian traffic. The Army had prepared to initiate measures to realign the Highway when the defense sites issue became so complicated. With the evacuation of all defense sites in Panama, this question may be academic.

(14) Coordination of Radio Communications. Panama has invited
the United States to furnish both general and private service radio communications for all commercial aviation on the Isthmus. It is important to the United States Army that there be one central communications control. Accordingly, the interested departments of the Government are endeavoring to find an arrangement whereby the Panamanian request can be acted upon favorably.

(15) **National Aviation Code.** The Panamanian Government has requested assistance in the drawing up of new civil aviation regulations for the Republic. Inasmuch as Panama’s aviation regulations directly concern United States activities on the Isthmus, this Government is willing to cooperate, once an aeronautics agreement had been reached, by sending an expert to the Panamanian Government under Public Law No. 63.

(16) **Transfer of Cristobal Dock.** In connection with its plans to establish a free trade zone, Panama has asked for one of the Cristobal docks suitable for international navigation. It is believed that the Canal Zone authorities definitely object to such a transfer, since it would give rise to many complications in the control of the bay and dock area now under our exclusive administration.

(17) **Dock at Coiba.** The Panama Canal has expressed its willingness to construct at cost for Panama a dock at the Coiba penal colony.

(18) **Transfer of Cativá Naval Hospital to Panama.** Panama has been rather persistent in requesting that the Naval Hospital at Cativá be transferred to the Republic for Panamanian use, together with jurisdiction over the land on which it stands. The Navy Department just as persistently has taken the position that it has no intention of abandoning the use of the Hospital and has no interest in considering its transfer to Panama. The Department supports this position.

(19) **Telephone and Cable Circuits.** Panama has asked that the Army provide, in so far as military requirements permit, certain circuits in various existing telegraphic lines and cables. Before evacuation of the defense sites the United States had made available certain circuits and was willing to provide certain additional circuits consistent with military requirements.

(20) **Transfer of Paitilla Point to Panama.** Paitilla Point is no longer needed as a military reservation either for defense purposes or for the peacetime operation of the Canal. Accordingly, if the authority of the Congress could be obtained therefor, the United States would transfer to Panama free of cost all of its rights, title and interest in Paitilla Point.

(21) **Transfer to Panama of Tracts known as Aspinwall, Violette and Huerte San Dovol.** Inasmuch as these land tracts are no longer needed for Canal Zone military purposes, the United States, with the
authority of its Congress would transfer to Panama free of cost all
of its rights, title and interest in these three tracts.

(22) Visa and Immigration Matters. Panama has asked for an
agreement with us for reciprocal issuance of visas to merchants and
in general for border cooperation in immigration matters. The Depart-
ment at an appropriate time will request the Congress for general
legislation which will authorize the Secretary of State to nego-
tiate bilateral or multilateral agreements relating to the movements of
non-immigrants.

(23) Proposed Radio Convention. 8 During the negotiation of the
1936 Treaty the executive branches of Panama and the United States
agreed on the provisions of the Radio Convention for the regulation
of radio communications in Panama and the Canal Zone. The conven-
tion was ratified by the Republic of Panama but not by the United
States Senate. This Government continues to feel the desirability of a
convention of this nature and, accordingly, is preparing in draft form
a new proposal which is to be submitted to Panama in due course.

Other Panamanian Requests

In addition to the foregoing, Panama has indicated that it wishes
to discuss with the United States the items mentioned below. Panama
has presented no detailed description of its desires and the definite
scope of these requests is not understood. No consideration has been
given to them to date. They are:

(1) Revision of conventions on extradition and other agreements
existing today covering the surrender of persons wanted or pursued
by police, judges or prosecuting attorneys of the Republic of Panama
and of the Panama Canal, respectively;

(2) Mutual assistance in the administration of justice between
Panama and the Canal Zone. A revision of the existing policy regard-
ing the admission into hospitals and asylums of the Republic of Pan-
amo and of individuals who work in the Canal Zone who are not
Panamanians;

(3) A revision of existing agreements on the use of hospitals and
doctors in the Canal Zone by persons residing in Panama;

(4) Negotiations of agreements regarding the cooperation of mili-
tary forces and police of Panama with corresponding organizations of
the United States, especially in the Canal Zone; and

(5) Negotiation of agreement tending to avoid interference or dif-
ficulty of any nature between the broadcasting stations established in
the Canal Zone and Panamanian broadcasting stations.

For previous documentation on the regulation of radio communications in
Panama and the Canal Zone, see Foreign Relations, 1947, vol. viii, pp. 967 ff.

Miscellaneous Cooperation Already Extended

During the past year the following Panamanian requests were agreed to and action was effected:

(1) The United States eliminated the 25% differential granted by the Panamanian Railroad Company in favor of cargoes from the United States consigned to the United States Government agencies in the Canal Zone. This differential was eliminated with the reservation that nothing in the agreement would prohibit the United States from reinstating this or any other differential if special conditions in the interest of the United States, not prejudicial to business interests of Panama, so warrant.

(2) Construction of Tocumen Airport. The assistance of United States engineers and equipment or the facilities of the Public Roads Administration were made available to Panama in order that the construction of the new international airport at Tocumen could be completed rapidly. Engineering assistance was provided on a reimbursable basis and road equipment on a rental basis. Administration of the project was in the hands of Panamanians.

(3) Service of Agricultural Technicians. The United States agreed to designate under Public Law No. 63 the services to Panama of technicins in various fields of agricultural science. Two of these experts have already been selected and one has gone to Panama. A third is to be found.

(4) Coinage of Additional Silver Currency. The United States agreed to coin for Panama one million balboas in silver currency provided Panama would purchase and deliver the necessary amount of silver to the Treasury mint.

General Economic Policy Toward Panama

The United States' economic policy toward Panama is based primarily on the Treaty of 1936. The policy in general is "to enable the Republic of Panama to take advantage of the commercial opportunities inherent in its geographical situation". This policy specifically is not to permit the establishment in the Canal Zone of private business enterprises other than those directly related to the Canal and to guarantee opportunity of employment and treatment in the Canal Zone to Panamanians on the same basis as to United States citizens.

819.00/7–2148: Telegram

The Ambassador in Panama (Davis) to the Secretary of State

CONFIDENTIAL URGENT PANAMA CITY, July 21, 1948—11 a. m.

577. The Embassy has kept Dept currently informed of efforts by various factions involve US officials in local political affairs.\(^1\) Embtel

\(^1\) Arnulfo Arias Madrid and Domingo Díaz Arosemena were candidates in the presidential election of May 9; although Arias claimed the largest popular vote, the Panamanian administration refused to concede him victory; the electoral jury declared Díaz Arosemena winner on July 30; President Enrique A. Jiménez remained in office until the inauguration of Díaz Arosemena on October 1, 1948.
558, July 14 and previous reports. The most recent example is proposal made by Arnulfo Arias yesterday to President in his interview reported Embtel 574, July 20 and published in last night’s Panama American. It was to effect that the electoral jury invite the American, Argentine and Mexican Ambassadors to sit as a board to observe the vote count and decide points in dispute. According to press account President stated matter would be for jury decide. President has accordingly addressed proposal to jury, which will make reply this afternoon. Apparently the proposal is not being taken seriously by either the govt or the public. This Embassy’s position is so well known to the officials and the press that no one has made any inquiry on the subject thus far, and Embassy believes suggestion will be rejected as inconsistent with the national dignity.

Davis

*Not printed.

819.00/7-2148: Telegram

The Ambassador in Panama (Davis) to the Secretary of State

PANAMA CITY, July 21, 1948—1 p. m.

379. Upon insistent request of local press for comment on PRA proposal (Emtbel 577, July 20 [21]) I have issued following statement:

“The Embassy of United States has been asked to comment on the proposal appearing in yesterday’s press as having been made by the directorate of one political party to the electoral jury that the diplomatic representatives in Panama of the US and two other countries be invited to act as observers of the deliberations of that body.

“In the absence of any official notification from Panamanian Government that the matter in question has been duly acted upon by appropriate authorities and of any specific request for the views of the US Government, this Embassy considers it inappropriate to express any opinion on the subject matter of the proposal. It feels that any such comment might properly be regarded as an intrusion in a purely domestic matter and therefore contrary to the widely known and well established policy of the US Government regarding non-intervention in the domestic affairs of the sovereign countries of this hemisphere. This Embassy attaches great importance to the complete and consistent implementation of this policy.”

Above views have been communicated orally to my Mexican and Argentine colleagues who are in agreement therewith.

Davis
The Ambassador in Panama (Davis) to the Secretary of State

SECRET

No. 480

Panama, July 30, 1948.

Sir: I have the honor to refer to the air mail letter of the Secretary of State dated July 2, 1948 enclosing a copy of the Department's June 1948 Policy Statement on Panamá, and as requested to submit the following comment and recommendations. Before discussing details, however, I wish to say that this mission considers the statement excellent in organization, directness and practical helpfulness. It is a most valuable summary and directive, which cannot but contribute materially to the handling of questions of policy relating to Panamá and the Canal.

Entire agreement is expressed with the importance attached to the need for winning the effective collaboration of the Republic of Panamá as a corollary to our basic policy of respect for the juridical equality and sovereignty of this country and non-intervention in its internal affairs. The promptness and finality of our action after the National Assembly disapproved the proposed defense sites agreement achieved two important results: it supplied convincing evidence that we really mean to respect this country's sovereignty, and it has tended to induce some feeling of responsibility on the part of those long accustomed to attack the United States for local political purposes.

An improvement in the general attitude toward the United States has been the net result. It is noteworthy that throughout the recent bitter political campaign no major party made its appeal on an anti-American platform; and while it is too much to say that no criticism has appeared in the press, none of the leading newspapers has had a consistently anti-American attitude and none has indulged in campaigns designed to inflame public opinion against the United States or its policies. Although the American action after December 22, 1947 was an important factor in bringing about this improvement, there is no doubt that the deterioration in the international situation in general and recent happenings in nearby countries in particular have had a sobering effect and have tended to discredit our political opponents. In fact one of our principal policy objectives, namely, the isolation of the Communists and other anti-American elements in Panamá has been achieved to a large degree; and while leftist groups un-

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1 Not printed.
2 See telegram 577, July 21, p. 657.
3 The National Assembly unanimously rejected the defense sites agreement on December 22, 1947.
4 For documentation on this subject, see pp. 153 ff.
friendly to the United States are still strong in University and labor circles and represent a potential danger, they are quiescent for the time being, sensing that the time is not opportune for them to gain public support for attacks against the policies of the United States.

High officials of the Government, newspaper editors and other prominent Panamanians have taken occasion to express the view publicly that cooperation with the United States is necessary and desirable, and that influences to the contrary are inimical to the best interests of both countries. There is also a quite general recognition among the leaders that the lack of realistic cooperation in the defense of the Canal might have most serious consequences. This view needs to be stressed further, however, in order to become a part of the thinking of the whole population, and so make more difficult future appeals to old fears and prejudices by the Communists.

Of less importance but still of some significance as indicative of better feeling, I might cite the evidences of public affection and esteem shown General Willis D. Crittenden, upon his departure from Panamá in June, and the extremely cordial welcome extended to me as the newly arrived American Ambassador. The reaction to the trip made to the Interior, at the Department's suggestion, to visit the National Agricultural Institute was surprisingly favorable, resulting in much public notice, even the at times severely critical Panamá American of Harmodio Arias, making the trip the subject of complimentary editorial comment. The stressing of the importance of agriculture to the basic economy of Panamá and our disposition to be helpful in the way of supplying technical advice struck a responsive cord and did much to divert public opinion from negative complaints to more constructive channels. The approval by the Export-Import Bank of the Panamanian application for credit for the hotel project was also timely and constructively helpful, and the beneficial effect was intensified by the manner in which it was announced. The Embassy was given the opportunity to inform the Foreign Minister and the President of this approval personally, and to make a public statement for the press.

The most important single problem of course concerns arrangements with Panamá necessary for the protection of the Canal. In view of

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5 Commanding General, Caribbean Defense Command.
6 Former President of Panama.
7 In instruction 145, October 19, 1948, not printed, the Acting Secretary of State transmitted a copy of the agreement signed September 17, 1948 between Panama, Hoteles Interamericanos, S.A., and the Export-Import Bank of Washington establishing a line of credit of $2 million in favor of the Hotel Company to finance the purchase in the United States of materials, equipment and services required for the construction of a hotel in Panama (51.618 Export-Import Bank/10-1948).
8 Ernesto Jaen Guardia, and Domingo Díaz Arosemena, respectively.
the critical international situation, it is considered advisable that the United States Government determine at an early date but without any public announcement whatsoever what facilities would be needed from the Republic of Panamá in the event an outbreak of hostilities should take place or become imminent. It would be desirable to have such a determination made at a high policy level, and it should be reasonable. It would be advantageous to have adequate preparation for negotiations in advance and to have ready for possible use statements for publication if needed. Instead of stressing the joint obligation of both Governments under Article II of the General Treaty of 1936, Panamá might prefer to place greater emphasis on its obligations as one of the signers of the Rio de Janeiro Treaty of Reciprocal Assistance. It might also prove quite helpful in this connection if nearby countries were to take a serious interest in the practical aspects of the defense of the Canal and the effect on them were the Canal to be damaged or destroyed. For example, it might be productive of good results if Colombia were to raise the question whether the defending forces would be able to detect the approach of a hostile force from the Pacific or oppose it in time with fighter planes without radar stations and landing strips at some distance from the Canal itself. In this connection reference is made to despatch No. 448 of July 16, 1948 to the Department from the American Embassy at Bogotá.

Although public attention has been distracted to some degree from the question of labor relations, this still remains a most troublesome problem and one on which critics feel we are most vulnerable. It is believed that the problem should be reviewed in the light of recent developments with a view to determining precisely the degree to which present practices may be at variance with our announced policy in implementation of the General Treaty of 1936, and that the appropriate authorities should be afforded an early opportunity to state what steps have been and are being taken to carry out the letter and spirit of our commitments. At the same time the aggressive attitude by a section of the Panamanian press which places its own interpretation on the pertinent treaty provisions and accuses the United States of violating its commitments should be opposed by appropriate official statements. As to any respects in which there may be a clear failure to carry out our commitments, however, it is believed the Department should take the position either that they should be fully respected or that those responsible for any adverse decision should take the onus for initiat-

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9 For the Inter-American treaty of reciprocal assistance, signed at Rio de Janeiro, September 2, 1947, see Department of State Treaties and Other International Acts Series No. 1838, or 62 Stat. 1681.

10 Not printed.

428-406—72—48
ing steps to have denounced the provisions with which the Government will not comply. A firm attitude should continue to be taken toward the recurrent attempts by pressure groups to secure passage of legislation inconsistent with and directly contrary to the provisions of existing treaties. As the Department knows, these do great harm. Serious criticism of the American Government would have resulted had such legislation not been averted this year, and even as it was the attempt to enact it resulted in the most serious criticism that has taken place during the past six months.

As to the El Encanto and other claims, it was made clear to the Foreign Minister at the time he was informed of the approval of the hotel credit that we would wish Panamá at its own initiative to take favorable action on the claims of long standing not because of any pressure or representations but because it is just and in the best interests of both countries. On a later occasion the Foreign Minister indicated that he had been studying these claims with a view to making a recommendation to the incoming General Assembly that it approve the proposed claims convention and appropriate funds to settle the balance due from the Republic of Panamá. He indicated that because of the recent experience with the National Assembly as now constituted it would probably not be feasible for the President to call it into special session to act on this or any other matter. The Foreign Minister was given to understand that while anything the Administration might do in an attempt to bring about the early settlement of these claims would be appreciated, the United States Government did not wish to conclude an agreement that did not provide at the same time for funds to cover the entire claim.

As to an air agreement, the present Administration is especially anxious to see the Tocumen Airport in full operation before October 1948. I have proposed that a bilateral air agreement be concluded as soon as possible and that all pending matters in that connection, such as communications facilities between the Canal Zone and Tocumen Airport and the use of the latter port by American flag lines, be resolved at the same time. A proposed draft agreement has been cleared with representatives of the Armed Forces and the Panama Canal administration, and the approval by the Department of suggested changes is now being awaited. It is hoped a tentative draft may be submitted to the Panamanian authorities in the very near future.

It is possible that the Executive Order preventing the direct importation of alcoholic beverages into the Canal Zone went too far and perpetrated an injustice on the personnel of the Armed Forces and the Panama Canal administration. However, that may be, the ill effects of withdrawing such a concession when once made should be carefully evaluated, and if a change is contemplated it should be preceded by
appropriate discussions with the Panamanian authorities and the announcement of the change should be timed to reduce to a minimum the ill effects, which are inevitable.

The only part of the June policy statement with which this Embassy is inclined to disagree is the sentence on page 5 to the effect that the increased cordiality of Panamá toward Argentina has been inspired in part by a desire “of Panamá to develop a counter-balance to United States commercial influence”. The officers at this mission are unanimous in expressing confidence in the friendliness of the President and his present Cabinet, and in feeling that their attitude has been very correct as far as relations with both the United States and Argentina are concerned. The initiative in recent moves has been taken by Argentina, and the Panamanian officials have given the officers of this Embassy no reason to feel that they are seeking any counter-balance to American commercial influence. The Embassy has taken the attitude that good relations between all the American Republics are desirable and that there is no reason why the investment of Argentine funds in useful Panamanian enterprises should be regarded as contrary to the interests of either the United States or Panamá. There has been some stress laid on economic as well as political and cultural relations with the so-called Gran Colombia countries, but the Embassy has detected a quite definite realization on the part of the Panamanian Government that it would be impractical and undesirable for Panamá to adopt the proposed economic program of this group, particularly in so far as the customs union and certain other economic projects are concerned.

In conclusion it is recommended that every effort be made to retain the gains since last December and consolidate official and public confidence in our policies and in the officials charged with their implementation. To this end it is proposed that a special effort be made to most [meet] issues promptly and adequately, that a frank and open policy with the press be followed, that acts or pronouncements inconsistent with our basic policy be avoided, that care be exercised to accord Panamanian officials the recognition due them because of their positions, that the United States Government continue to take a constructive interest in the basic economic problems of Panamá, supplying experts to assist in improving agricultural production, etc., and that advantage be taken of the present improved relations to dispose of as many as possible of the pending problems and points of potential future friction. The problems listed roughly in the order of the priority given them at this mission are as follows:

1. Aviation Agreement, establishment of communications between Canal Zone and Tocumen Airport, and arrangements for American flag lines to utilize latter.
2. Settlement of El Encanto and Malambo claims.
3. Disposal of remaining obligations under Twelve Points Agreement by negotiation of substitutes or by initiation of action to comply with the following undertakings:

(a) Tunnel under or bridge over the Canal.
(b) One-third maintenance cost for highways used habitually and frequently by Armed Forces.
(c) Panamá Railway Station.
(d) Petroleum pipe line right-of-way in Balboa.

4. Access to military installations on islands of Taboga and Taboguilla.
5. Ownership of certain buildings along the Rio Hato road.
6. Formalization of agreement to realign Colón Corridor.

As to internal problems, it is believed those representing the greatest danger from a long-range point of view are the generally unsatisfactory situation of the small farmers, and the emotional stress resulting from the race problem, particularly the antipathy between the West Indian Negro element and the remainder of the populace. The latter is especially explosive and there is always danger that political strain may provide Communists and other disruptive forces an opportunity to touch off disorders which might become extremely violent. As to the first, present measures to improve agricultural production as a whole should improve the lot of agricultural laborers. As to the latter problem, it is believed a feeling of responsibility on the part of the Government and people for the maintenance of order is being developed, and that fear of uncontrollable disorders has exercised a powerfully restraining influence on the political factions during the recent elections and post-election difficulties.

Respectfully yours,

MONNETT B. DAVIS

WITHDRAWAL OF UNITED STATES ARMED FORCES FROM DEFENSE SITES; POSSIBILITY OF RENEWED NEGOTIATIONS REGARDING DEFENSE SITES; AND PLANS FOR SECURITY OF THE CANAL ZONE

711F.1914/5-1548

The Ambassador in Panama (Hines) to the Panamanian Minister of Foreign Affairs (De Diego)

No. 566

PANAMÁ, February 16, 1948.

EXCELLENCE: I have the honor to refer to my Note No. 533 of December 31, 1947,¹ regarding the rejection by the National Assembly of Panama of the Defense Sites Agreement signed on December 10, 1947 and informing the Panamanian Government that evacuation of

¹ For previous documentation on rejection by the Panamanian Assembly of the Defense Sites Agreement, see Foreign Relations, 1947 vol. viii, pp. 881 ff.
² Not printed.
the remaining Defense Sites in Panama was under way. Reference is also made to the Notes exchanged between our two Governments with regard to the termination date of the Defense Sites Agreement of May 18, 1942, namely, the Foreign Office's Note D.P. No. 3235 of August 31, 1946, and the Embassy's Note No. 285 of October 12, 1946.

As Your Excellency is aware, that agreement and its implementation, through the full cooperation of the two Governments, assured the effective protection of the Canal and played an important part in bringing about the successful termination of hostilities. Although my Government has maintained the position, as set forth in its Note of October 12, 1946, that it continued to be entitled, under the express terms of the 1942 Agreement, to the use of the defense sites until one year "after the date on which the definitive treaty of peace which brings about the end of the present war shall have entered into effect," it has nevertheless taken the necessary measures to withdraw from those few remaining sites which had not already been returned to Panama under the provisions of the Agreement. These measures, taken in conformity with the understanding expressed in Article XIII of the 1942 Agreement, were adopted in deference to Panamá, following the action of its National Assembly on December 22, 1947.

Inasmuch as the evacuation of the Defense Sites has now been completed, I have the honor, under instructions from my Government, to inform Your Excellency that the Government of the United States of America now considers the Agreement terminated and no longer in effect.

Please accept [etc.]

FRANK T. HINES

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2 Department of State Executive Agreement Series No. 359.
3 For text of note, see Foreign Relations, 1946, vol. xi, telegram 554, September 1, p. 1163.
4 The text of this note was provided Ambassador Hines in telegram 499, September 24, 1946. Hines informed the Secretary of State of its delivery in his telegram 656 from Panama, October 12, 1 p.m.; see Foreign Relations, 1946, vol. xi, pp. 1115 and 1123, respectively.

711F.1914/2-1948: Telegram

The Ambassador in Panama (Hines) to the Secretary of State

NI A CT URGENT PANAMA CITY, February 19, 1948—2 p.m.
CONFIDENTIAL

113. Panamanian Government has no objection release to press of our note (Deptl 105, February 16*), but will at same time give publicity to its reply thereto, reading as follows:

"Mr. Ambassador: I have the honor to refer to Your Excellency's note No. 566 of February 16, 1948, by which you have been good enough

* Not printed.
to communicate to me that the government of the US of America, having evacuated all of the defense sites which had been ceded by reason of the recently terminated international conflagration, considers the agreement of May 18, 1942, terminated and of no future effect.

"The expressions contained in Your Excellency's note have pleased my government in the sense that the agreement and its execution, through the wholehearted cooperation of both governments, assured the effective protection of the Panama Canal and had an important part in the victorious termination of hostilities. On that occasion, Panama offered loyalty and decisively its full cooperation for the defense of this important key to continental security, and my government reiterates at this time its irrevocable intention to cooperate, with all the means within its reach and within its contractual obligations, in the effective protection of this inter-oceanic route, in order to thus assist in the preservation of the democratic ideals common to us both.

"Without referring to the difference of interpretation concerning the termination date of the agreement of May 18, 1942, I wish to inform Your Excellency that my government has taken due note of the statements of the government of the United States with regard to the termination of the above-mentioned agreement.

"I take this opportunity to reiterate to Your Excellency the assurances of my highest and most distinguished consideration.

"Mario de Diego, Minister for Foreign Affairs."

Under the circumstances, Embassy believes above reply could with difficulty have been couched in more acceptable terms. Leaving to Department's discretion publication in US of Panamanian note, I recommend advising Foreign Office that simultaneous release our note will be made tomorrow afternoon. This procedure was approved by President Jimenez at dinner he gave me last night.

Please instruct soonest. 2

Hines

2 The exchange of notes between the United States and Panama, February 16 and 20, was released to the press on February 20, 1948. In despatch 308 of May 21, 1948, not printed, the Embassy in Panama transmitted a copy of Foreign Office note D.P. 544 dated May 15, 1948 acknowledging receipt of United States Treasury check of May 12 for $39,307.25 which represented final payment due the Panamanian Government for occupation of defense sites in the Republic by the Armed Forces of the United States (711F.1914/5-2148).
ernment be approached with view to its authorization of use of Canal Zone police in plainclothes for protection of new Cristobal district during coming elections.²

Request will be based on location within that area of large number of Americans essential for operation of Canal and who fear to leave their dependents during working hours with allegedly inadequate Panamanian police protection. There is also involved large amount of US Government owned housing, Washington Hotel, Cristobal High School, and Colon Hospital.

Despite chronic complaints of American dwellers this district has lately been receiving satisfactory police protection from Panama. But there is little doubt that the maintenance of this protection during elections cannot be counted on.

Appeal to Foreign Office might be made on basis of Article 10 of 1936 treaty.⁴ However, I gathered in brief conversation with Secretary Marshall twenty-third that we should by no means consider intervention of any kind unless warranted by circumstances and until we are satisfied Panamanian Government has exhausted all measures at its command. Request could also be made confidentially and informally and would probably be refused for political reasons and because of our recent refusal to sell armored cars to Panamanian Government. Even if refused, we might expect, as result of this representation, continued and perhaps improved protection by Panamanian police.

Please instruct urgently.

HALL

³ Presidential elections, May 9.
⁴ For the general treaty of friendship and cooperation, signed at Washington March 2, 1936, see Department of State Treaty Series No. 945, or 53 Stat. 1807.

819.00/4-2748 : Telegram

The Chargé in Panama (Hall) to the Secretary of State

SECRET

PANAMA CITY, April 27, 1948—5 p.m.

329. In case of riot or revolution attending elections, probability of which will be discussed in report tomorrow, question of possible US intervention will inevitably arise. From conversation with Secretary Marshall (Embtel 321, April 26) I understand that while we will not permit conditions to reach a stage that could produce another Bogotá, we will not pull anyone’s chestnuts out of the fire to maintain a government in power.

Crittenberger has had a brief (which I have not seen) prepared for him by his Judge Advocate, Colonel Miller, covering the possi-
bility of intervention after consultation with Panama, as foreseen by Article 10 of the 1936 treaty, and of emergency intervention under the provisions of paragraph three of the notes exchanged by US and Panama on February 1, 1939, the latter as interpreted by Crittenden, to take place only under instructions of President Truman.

Colonel Miller called on me today to ask (1) whether preliminary conversations with Panama could not take place anticipating consultation, and (2) what would be my attitude in the case of extreme emergency, with regard to the note cited.

To first question I replied negatively because (a) it would give Panamanian Government a false sense of security and not lead it to extend its full efforts to reestablish order, and (b) the administration could use our request as an excuse to declare a state of emergency and postpone elections, leading to charges against US of intervention in internal affairs.

To second question I answered that I intended, with the help of Crittenden, to arrange in case of need thereof for evacuation of all American citizens to Canal Zone; to lodge those unable to reach Zone in the residence; to maintain communications and operate Embassy with skeleton male staff indefinitely; to keep Department informed constantly of conditions developing and, in case of breakdown of communications and extreme urgency endangering Canal, to request Crittenden to take adequate measures.

I explained to Colonel Miller that I believe our position may well be disagreeable if time or facilities do not permit us to request instructions from Washington, since the primary responsibility for deciding on intervention might rest on me, and the ultimate responsibility on Crittenden for effecting the same.

The Department's comments would be much appreciated.

HALL

1 Department of State Treaty Series No. 945.

819.00/4–2748: Telegram

The Secretary of State to the Embassy in Panama

SECRET

WASHINGTON, April 29, 1948—2 p. m.

338. It is assumed that military authorities are in position to protect Canal Zone and safeguard Canal itself whatever internal situation may develop in Panama (urtel 329, Apr 27).

It would be difficult for US to maintain that Art X of 1936 treaty and paragraph 3 of notes exchanged by US and Panama on Feb 1, 1939 contemplated intervention in instance of internal unrest, however
great, as distinct from external threat or aggression. Will be recalled that paragraph 3 of Art VII of Convention of 1903\(^1\) giving US right and authority maintain public order in Panama was abrogated by Art VI paragraph 2 of treaty of 1936.

Armed intervention on part of US could have extremely serious repercussions throughout hemisphere and in effect jeopardize work of years in strengthening inter-American system.

In spite of above, if in opinion of Emb and Crittenberger some action on our part becomes essential, Dept should first be consulted. If impossible consult none but purely defensive measures should be taken. Subject reservation previous sentence Dept in complete accord paragraph 4 and 5 telegram under reference.\(^2\)

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\(^1\) Department of State Treaty Series No. 431.

\(^2\) In telegram War 80941, April 30, not printed, the text of this telegram (excepting the final sentence) was transmitted to General Crittenberger by the Director of Plans and Operations, General Staff, United States Army (General Wedemeyer). The last paragraph of War 80941 stated: "Dept Army emphasizes desirability of prior consultation with Dept of State should not however preclude your taking appropriate and timely defensive measures when in your opinion emergency so justifies" (819.00/4-3048). See memorandum of April 30 on this subject, p. 670.

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819.00/4-2648: Telegram

**The Secretary of State to the Embassy in Panama**

**SECRET**  **US URGENT**  **WASHINGTON, April 29, 1948—6 p.m.**

341. Dept agrees with Emb that outright request for assignment Canal Zone police in New Cristobal district during elections would be unwelcome to Panamanian Govt urtel 21 Apr 26, 1948, especially view our recent decision resale armored cars. Dept believes Emb should confine its approach to Govt to request for additional Panamanian police protection. Emb should endeavor phrase its request so that Govt, in event it replies insufficient police available to increase New Cristobal force, may come forward with suggestion that Panamanian contingent in New Cristobal district be supplemented by police from Canal Zone. Please keep Dept informed.\(^1\)

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\(^1\) The Chargé in Panama (Hall) stated in telegram 341, April 30, 7 p.m., not printed: "With complete cooperation Caribbean Command, which I commend, all measures for protection of US citizens and continued operation of Embassy will be in effect by tomorrow noon and will be reported upon at first opportunity" (819.00/4-3048), and, in telegram 342, the same date, not printed: "Foreign Minister approached this noon and government now promises to double present police force assigned New Cristobal. Comptroller General has authorized necessary funds" (819.00/4-3048).
Memorandum to the Secretary of State, by the Deputy Director of the Office of American Republic Affairs (Woodward)\(^1\)

**TOP SECRET**

[WASHINGTON,] April 30, 1948.

**Subject:** Defense Plans of General Crittenberger in Canal Zone and Possibly Panama.

General Crittenberger has summarized his apprehension concerning the possibility of political disturbances in Panama in the attached telegram.\(^2\) He feels that such disturbances might so endanger the Canal that it would be necessary for him to move United States forces into Panamanian territory under the provision of Article X of the 1936 Treaty. Article X provides "In case of an international conflagration or the existence of any threat of aggression which would endanger the security of the Republic of Panama or the neutrality or security of the Panama Canal, the Governments of the United States of America and the Republic of Panama will take such measures of prevention and defense as they may consider necessary for the protection of their common interests". The authority of the United States to intervene in Panamanian territory to maintain public order, granted by the 1903 Treaty, was specifically abrogated by the 1936 Treaty.

The Department's view on the possibility of moving United States forces into Panamanian territory was covered in the Department's telegram no. 338 of April 29, 1948, in reply to a query from the Embassy. The Department of the Army has repeated our telegram to General Crittenberger stating that the Department of the Army is in accord with this position of the Department of State and adding that the message does not prevent the taking of defensive measures.

This memorandum is sent to you in the belief that you will be interested in knowing that the Department of the Army has expressed this agreement with the Department of State.

ROBERT F. WOODWARD

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1. Initialed by the Secretary of State: "G[orge] C. M[arshall]". Handwritten marginal note, unsigned: "Mr. Lovett has seen."

2. Not printed.

711F.1914/10-948

Press Statement on Defense Sites, by the Ambassador in Panama (Davis)\(^1\)

PANÁMÁ, MAY 25, 1948.

"I am convinced that the basic interests of the Republic of Panamá and of the United States of America do not conflict, and that the

1. Transmitted to the Department under covering despatch 605, October 9, from Panama, printed on p. 676.
security of this hemisphere depends to a large extent on the success of our relationships right here on the Isthmus. Our task therefore is a real challenge to the sincerity of understanding of the officials and the citizens of our two countries. Recognizing fully the seriousness of the responsibilities which rest upon us, I shall put forth every effort to promote and maintain that spirit of cooperation and friendly collaboration which made the construction of the Canal possible and which has marked our long and close association.

"As to the action of the Panamanian National Assembly last December in rejecting the defense sites agreement which had been signed by the Executive branches of the two countries, the United States Government accepted immediately and without question the wishes of the people of Panamá as expressed by their representatives in the National Assembly, and withdrew from the areas which remained in use under the provisions of the former agreement. Since that date the United States Government has taken no further steps with respect to defense sites, and I have no instructions to reopen negotiations. It is the basic policy of my Government to respect the sovereign will of other nations and the action taken in this instance has been in keeping with that policy.

"The protection of the Canal is a practical matter that is a joint responsibility of our two Governments under the Treaty of 1936. Hence both countries have a common interest to be served which will cause them to consult together and adopt the measures that are necessary. I am confident therefore that public opinion in both countries will support such measures as our Governments may determine to be essential to insure the proper maintenance and protection of this waterway, which is of such vital importance to the security and well-being not only of our two nations but also of the entire hemisphere."

811F.812 Protection/5-2548

The Secretary of the Army (Royall) to the Secretary of State

TOP SECRET

WASHINGTON, May 25, 1948.

DEAR MR. SECRETARY: The current unrest in Central America which is allegedly partly due to communistic activity coupled with the apparent irregularity of action of Russian ships passing through that area has aroused considerable concern for the security of the Panama Canal. General Crittenden has felt obligated on occasion to invoke his wartime powers with respect to the security of the Canal in order to inspect Russian ships prior to entry into the Canal and to keep them under surveillance while in the area.
Recently, the War Council considered the question of searching vessels before they pass through the Canal. The decision reached was to authorize the Department of the Army at its discretion to search all non-American-owned vessels prior to passage through the Canal, the degree, character, and frequency of inspection or search of the vessels of any particular nation to be a matter for the discretion of the Department of the Army or of the appropriate commander. It was recommended that before this decision be implemented, I clear any general policy with you.

Therefore, I would appreciate an opinion as to whether or not the exemption of American-owned vessels from inspection is in violation of the Hay–Paucekfote Treaty. Also, as to whether or not, in your opinion, the possible political repercussions from this contemplated action would be so serious as to outweigh the security value to be gained by it.

Sincerely yours,

KENNETH C. ROYALL

1 May 4, 1948.
2 Department of State Treaty Series No. 401, or 32 Stat. (pt. 2) 1903.

311F.812 Protection/5-2348

The Secretary of State to the Secretary of the Army (Royall)

TOP SECRET

WASHINGTON, June 4, 1948.

MY DEAR MR. SECRETARY: I have received your letter of May 25, 1948 requesting this Department’s opinion whether American-owned vessels transiting the Panama Canal may be exempted from inspection without violating the Hay–Paucekfote Treaty.

It is the Department’s opinion that the exemption of American-owned vessels from inspection would probably result in representations by the British Government on the basis of the Hay–Paucekfote Treaty. In any event, this Department believes that we would encounter serious legal and political difficulties if we applied inspection measures to British and other vessels and exempted American vessels transiting the Panama Canal.1

1 In a memorandum of June 28, 1948 to Mr. W. Tapley Bennett, Jr., of the Division of Central America and Panama Affairs, not printed, Mr. Bryton Barron, Assistant for Treaty Affairs, Office of the Legal Adviser, indicated that the treaty staff confirmed its approval of the statements made in Secretary Marshall’s letter of June 4, 1948 to Secretary of the Army Royall and cited Article III of the treaty between the United States and Great Britain to facilitate the construction of a ship canal, signed at Washington on November 18, 1901 (Hay–Paucekfote treaty, Department of State Treaty Series No. 401, or 32 Stat. (pt. 2), 1903); Article XVIII of the Isthmian Canal convention with Panama, signed at Washington on November 13, 1903 (Treaty Series No. 431, or 33 Stat. (pt. 2), 2284); and Article X of the general treaty of friendship and cooperation between the United States and Panama, signed at Washington on March 2, 1866 (Treaty Series No. 945, or 53 Stat. (pt. 3), 1807).
The degree, character, and frequency of inspection or search of the vessels of any particular nation, or of any particular vessel, should be subject to the exercise of reasonable discretion by the Department of the Army or the Commander in the Canal Zone. While it might be necessary in practice to make what could be little more than a pro forma search of American vessels, a somewhat more thorough search of British and other friendly vessels and a thorough search of Soviet and satellite vessels, it is the view of this Department in principle that the regulations would have to be the same.2

Sincerely yours,

G. C. MARSHALL

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2In A-499, July 20, 1948 to the Department, not printed, Ambassador Davis reported that the local press had published figures the night before to the effect that only 23 Russian vessels had transited the Canal during the fiscal year just ended (811F.812 Protection/T-2048).

711F.1914/9-848

Memorandum of Conversation, by the Director of the Office of
American Republic Affairs (Daniels)

SECRET

[WASHINGTON,] September 8, 1948.

Yesterday Ambassador Vallarino said he wished to talk to me confidentially. Accordingly, I dropped by his Embassy residence late yesterday afternoon. Among other matters he broached the question of the defense sites in Panama. He said it would be fine if he and I could work out a new formula permitting a “settlement” of this problem. He suggested as a possible formula a five-year lease on the bases, including Rio Hato, with five-year renewals to be agreed by both parties; and a United States credit to finance the construction of a military highway from the Canal Zone, to, I think, Rio Hato, David and the Costa Rican border. He seemed to think that through some sort of “gentleman’s agreement” that credit might subsequently be diminished or cancelled, although without direct reference to the defense sites arrangement.

I thanked Ambassador Vallarino for his frankness and manifestation of confidence in talking to me on this important matter. I said I shared his hope that there would always be full agreement between Panama and the United States in regard to their joint responsibilities for the defense of the Canal. I furthermore expressed the following views:

1) That Panama, as well as the United States, shared responsibilities for maintaining adequate defense of the Canal, including cooperation in military matters, adequate bases, etc.

2) That I did not consider these matters a subject for bargaining
in return for credits or other economic or commercial benefits to Panama.

3) That I was afraid Panamanian public opinion had been misled in regard to the foregoing, and I would welcome the time when public men in Panama might clarify and explain the joint responsibilities of the two countries in line with the provisions of the 1936 treaty.

4) That the United States was naturally desirous of cooperating with Panama in economic matters the same as it desires to do with other American republics; and that I believe adequate evidence had been given of this policy. In this connection I referred to the recent Export-Import Bank credit for a hotel in Panama. ¹ I pointed out that I had for a short time hesitated to express my own approval of this credit because of the still unsettled El Encanto claim,² but that at no time had it occurred to us to associate it with our broad responsibilities and those of Panama under the 1936 treaty. (Ambassador Vallarino indicated in passing that he favored a settlement of the El Encanto claim and understood that it was about to be provided for by including a corresponding appropriation in their budget.)

5) I said that the five-year limit on a major investment in Rio Hato had been considered by our responsible officials as too short a time to justify a major expenditure which might run into millions of dollars. I said it seemed logical to me that in such a case it would be reasonable to provide unquestioned security of tenure for a longer period of time, as had been agreed by the two Governments before the Panamanian Legislature took a different view. I said I was not aware that opinion in the State Department or the Service Departments had changed in this regard. I said I failed to understand why questions of sovereignty or dignity, etc., should arise because of a few years difference in the lease due to purely practical considerations, involving grave responsibilities on the part of officers responsible for expenditure of official funds.

6) With reference to Ambassador Vallarino’s suggestion that he and I discuss the matter further in an effort to reach a new formula, I said I would be very glad to consult with a few people and have a further conversation with him. I said that it would afford me great pleasure to reach an understanding with Panama within the limits of the policy set forth above. I suggested that our conversations be maintained secret and not divulged to very many at this time, in order to avoid premature and unwise speculation and possibly agitation. Ambassador Vallarino agreed.

Before leaving I told the Ambassador that I planned to discuss his initiative with Mr. Barber and Mr. Bennett ³ of my office, and General

¹ On July 21, 1948 a credit of $2,000,000.00 was authorized by the Export-Import Bank for construction material, equipment, and services for Hoteles Interamericanos (Republic of Panama).
² See memorandum by the Assistant Chief, Division of Central America and Panama Affairs (Wise), January 20, 1948, p. 647.
³ William Tapley Bennett, Jr., Area Specialist, Division of Central America and Panama Affairs.
Crittenberger. This was quite satisfactory to Ambassador Vallarino.

Comment: Ambassador Vallarino said that he had no instructions to initiate this discussion of defense sites. Whether or not this is true, I formed the impression that he would consider it useful to him to work out some sort of a deal here in Washington, as contrasted with the usual procedure of handling such matters between our Embassy in Panama and the Panamanian Government. This view was substantiated by his expressed willingness to make a quick trip to Panama with any mutually agreed formula. I see no reason for refraining from discussing this matter with Ambassador Vallarino, but believe that Ambassador Davis at Panama should be kept fully and currently informed to avoid the slightest possibility of confusion or crossed wires.

810.20 Defense/9-3048 : Telegram

The Ambassador in Panama (Davis) to the Secretary of State

SECRET

PANAMA CITY, September 30, 1948—11 a. m.

789. At request of Commander in Chief Caribbean 1 Embassy approached Minister Gobierno in order ascertain what Panama is prepared to do, with regard to subversive persons and possible attempts at sabotage, in event outbreak of hostilities. Meeting was subsequently arranged between Chief of Staff Caribbean, Minister Gobierno, high Panamanian police officers and representative of Embassy at which time Panamanian officials gave categorical assurances of complete cooperation.

In accordance with procedure followed at outbreak of last war, Panamanians agreed to incarcerate immediately all persons deemed dangerous by Caribbean command. All non-Panamanians will be turned over to US custody. . . .

Our military authorities were well pleased with result of these interviews.

Davis

1 Ambassador Davis reported in telegram 844, November 1, 9 a. m., that the Commander in Chief, Caribbean Command (Ridgway) had expressed an interest, in view inauguration new President on October 1 and appointment of new Cabinet, in the attitude of the then Minister of Gobierno on this subject. Ambassador Davis stated: "Accompanied by Chief of Staff, Caribbean, I called upon Minister of Gobierno and high Panamanian police officers this morning. The minister gave assurances of complete willingness his Ministry and Panamanian Government to cooperate in every way in the interest of security of Canal, and confirmed details of understanding reached with his predecessor." (810.20 Defense/11-148)
The Ambassador in Panama (Davis) to the Secretary of State

SECRET

No. 605

Panamá, October 9, 1948.

Sir: I have the honor to refer to earlier correspondence regarding the possibility of reopening the question of defense sites because of the international situation, and to recommend that, unless the military authorities consider it essential to national defense to establish additional military areas in the Republic of Panamá in the near future, the Department release in Washington or through this Embassy a statement to the effect that the United States has no immediate intention of reopening negotiations for defense sites in Panamanian territory. The statement might take the form of an amplification of that made upon my arrival last May, a copy of which is enclosed for convenient reference. The timing of the release of this statement should, I believe, be left to my discretion and should occur whenever the Panamanian Government officially or publicly broaches the subject.

Ever since the rejection by the National Assembly last December 22 of the defense sites agreement negotiated with the United States, this question has been treated in Panamá as a political issue. Following the adverse action by the Assembly, the opposition to the Jimenez Administration claimed that the United States Government would not be disposed to consider negotiating another agreement with “the weak Administration in power.” It will be recalled that Arnulfo Arias, after his official candidacy was announced, capitalized on “his willingness to cooperate with the United States and reopen negotiations for defense sites immediately after he became President.” More recently, following the official announcement of the results of the elections, the incoming Díaz Administration also has been stressing its desire to resume forthwith negotiations for a satisfactory settlement of the defense matter, with “compensations”, of course. President Díaz has himself so indicated to me personally and to a member of my staff. Probably because Panamá’s economy is rapidly deteriorating, the belief is growing that it is now necessary for Panamá’s economic salvation and the maintenance of cordial relations with the United States to negotiate an agreement as soon as possible after October 1.

If our Government does not intend to renew negotiations for new defense sites at this time, it would seem desirable to say so publicly and now, in order to disabuse the Government of Panamá and the Panamanian people of any false hopes they may entertain in that

1 Printed on p. 670.
direction. While such hopes persist they will continue to impede any negotiations our Government may initiate on other matters.

Needless to say, such a declaration should be so phrased as not to be mistaken as an indication of displeasure on the part of the United States Government or of its desire to apply pressure upon the Panamanian Government.

Respectfully yours,

MONNETT B. DAVIS

711F.1914/10-1248
The Acting Secretary of State to the Secretary of Defense (Forrestal)

CONFIDENTIAL

WASHINGTON, October 12, 1948.

DEAR MR. SECRETARY: On October 1, 1948 a new administration came into office in the Republic of Panamá with the inauguration of Domingo Díaz Arosemena as President.

President Díaz has indicated in informal conversations with Ambassador Davis at Panamá that he considers solution of the problem of United States bases in territory of the Republic as one of the primary tasks of his administration. In his inaugural address on October 1 he referred to the matter publicly with a statement to the effect that Panamá is ready to make any sacrifice consistent with her dignity and sovereignty for the purpose of cooperating in the defense of the Canal.

In as much as it seems likely that the Government of Panamá will shortly approach this Government formally on the issue of a new defense sites agreement, the Department would appreciate having an expression of the current views of the National Military Establishment with respect to the need for such an agreement with the Republic of Panamá and provisions desirable for inclusion in an agreement.¹

Sincerely yours,

ROBERT A. LOVETT


711.19/12-1048: Airgram
The Ambassador in Panama (Davis) to the Secretary of State

PANAMÁ, December 10, 1948.

A–919. In view of the importance of public relations here, the Commander-in-Chief Caribbean and Governor of the Panama Canal have followed the practice of discussing with the Embassy proposed press releases contemplated to have an effect on relations with Panamá. For
the information of the Department there are quoted below the ques-
tions and answers of interviews given by the Cominch Carib to the
representatives of two local newspapers. The proposed replies to these
questions were discussed informally with the Embassy prior to the
interview.

Q: Does the Caribbean Command maintain any installations in
Panamanian territory outside the Canal Zone? A: The Caribbean
Command does not maintain any installations in Panamanian terri-
tory other than areas occupied and controlled by the United States
Government at the time of the 1936 Treaty. Q: Has the Caribbean
Command replaced at other locations any of the installations it main-
tained in Panamá at the time of the evacuation of defense sites last
December? A: Yes. Q: It is reported that the San José Project, for
example, has been transferred to St. Thomas. Is this true? A: Yes. Q:
And if so, are there other similar instances of local installations trans-
ferred elsewhere? A: Yes. Q: Have the Canal defense requirements
changed radically or even appreciably in the last year? A: No.

Q: In the event that the bases negotiations with Panamá should
be renewed, would the Caribbean Command seek the same or com-
parable sites as were occupied last December? Or would an entirely
new system of bases be sought? Would any bases be asked? If no bases
were needed, what defense requirements would be negotiated with
Panamá? A: The United States policy concerning bases in Panamá
will be formulated by the proper policy-making agencies of our Gov-
ernment in Washington. I refer you particularly to the excellent state-
ment of the U.S. Ambassador to Panama made on 26 May 1948.¹ I
have nothing to add to his statement as it is still a valid expression of
the attitude and policy of the United States Government. (For con-
vienent reference the statement is attached.) Q: Regardless of
whether or not bases in Panamá are obtained in the near future, are
the present defenses of the Canal considered adequate? If not, would
bases in Panamá be regarded as a contribution to improve the Canal
defenses? A: As the Commander responsible for the defense of the
Panama Canal, I am in no position to express my views concerning
the adequacy of this defense except confidentially through military
channels. Q: Has the Caribbean Command submitted any recom-
mandations within the last year to its Department in Washington con-
cerning the bases question? A: I consider this an improper question.

Q: Does the General consider the present defense installations of
the Panama Canal sufficient to defend the waterway in the event of
a surprise attack by any enemy power, similar to Japan’s blow against
the United States at Pearl Harbor? Q: Has the withdrawal of United

¹ See press statement of May 25, p. 670.
States forces from the former Panamanian bases weakened to any extent, the strategical defenses of the Panama Canal? Q: What steps are necessary to place the Canal's defenses on such a footing that any sudden onslaught by an enemy power against the waterway could be successfully repulsed? Q: Does the General favor a sea-level canal as being easier to defend in the event of any sudden enemy attack than the present waterway? A: As the Commander responsible for the defense of the Panama Canal I am in no position to express my views concerning the adequacy of this defense except confidentially through military channels.

Q: Does the General favor a re-opening of bases negotiations between the United States and Panamá? A: The United States policy concerning bases in Panamá will be formulated by proper policymaking agency of our Government in Washington. I refer you particularly to the excellent statement of the U.S. Ambassador to Panamá made on 26 May 1948. I can add nothing to his statement. (Statement attached.)

A similar questionnaire has been received by the Embassy and will be made the subject of a separate airgram.²

₂ A–923, December 15, infra.

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711.13/12-1548 : Airgram

The Ambassador in Panama (Davis) to the Secretary of State

PANAMÁ, December 15, 1948.

A–923. With reference to the Embassy's airgram 919, December 10, there are quoted below questions submitted by Mr. Luis Noli, prominent local newspaper man on the staff of the Star & Herald, who acts as correspondent in Panamá for the AP, together with proposed replies:

Q. What is the status of the defense sites question from the US viewpoint? Q. Have any discussions been held, formally or informally, with Panamá on the resumption of negotiations? Q. What requirements must be fulfilled, from the US viewpoint, before negotiations can be resumed? Q. Has the United States drafted any list or plan of defense requirements that would be asked of Panamá if and when the negotiations are resumed? Q. If so, are these requirements radically different from those that existed at the time of the evacuation of the defense sites last December?

A. As to the foregoing five questions, reference is made to my statement to the press of last May 26, which is still a valid expression of
the attitude and policy of the US Government with respect to defense sites. (For convenient reference the statement is quoted in full below.)

Q. What would happen if a sudden emergency arose and no negotiations had yet been undertaken? A. It is believed such a contingency is covered by Articles II and X of the General Treaty between the United States and Panamá, of March 2, 1936.

Q. Assuming that bases in Panamá will be negotiated for sooner or later, are the negotiations being delayed in any way pending Congress' decision on the proposal for the conversion of the present Panama Canal to sea-level? Or is the delay solely a question of waiting for Panamá to request the resumption of the negotiations? A. While it cannot be assumed that bases will be negotiated for, the reply to both the above questions is in the negative.

Q. Is the United States testing sentiment towards it before undertaking new bases negotiations—for example, would the approval or rejection by Panamá of the proposed aviation agreement have any bearing on US readiness to enter negotiations for bases? A. The purpose of the United States Government in proposing an air agreement is to resolve outstanding aviation questions. While the negotiations may be a test of our ability to conclude an agreement believed to be to the mutual advantage of both countries, the purpose of the negotiations is not to provide such a test. The Embassy in fact has no instructions to take up the question of defense sites irrespective of the outcome of the negotiations regarding aviation.

Davies

1 See press statement of May 25, p. 670.

STEPS TO IMPROVE LABOR RELATIONS OF THE UNITED STATES GOVERNMENT IN THE CANAL ZONE

The Secretary of State to the Secretary of Defense (Forrestal)

CONFIDENTIAL

WASHINGTON, September 7, 1948.

DEAR FORRESTAL: You will recall that, pursuant to the interest of the President, arrangements were made by the State, War, Navy and Labor Departments for Brigadier General Frank McSherry (ret.) to spend four months last year in the Canal Zone studying problems arising from United States Government labor relations. On June 1, 1947 General McSherry submitted a detailed report which offered evidence of both official and unofficial discrimination against Pana-

1 For documentation on discussions of alleged discriminatory treatment of certain labor classes in the Canal Zone, see Foreign Relations, 1947, vol. viii, pp. 948 ff.
manians in the Zone. In his report General McSherry made definite recommendations for reforms, emphasizing that his proposals were confined to those deemed practicable and capable of early implementation without undue shock to the established patterns of social and economic relations.

I have been impressed by the objectivity of the McSherry report and, through personal conversation with General McSherry, by his conviction that continuance in the Canal Zone of outmoded labor practices is harmful to the national interest. Moreover, I have become convinced that Panamanian resentment over certain United States Government employment practices in the Canal Zone is a primary cause of difficulty in this Government’s political relations with the Republic of Panama and an important background factor in the rejection last December by the Panamanian Assembly of the Defense Sites Agreement signed by our two governments.9 The attitude of resentment and feeling of discrimination on the part of the Panamanians concerning certain of the existing employment regulations also have the effect of making more difficult other negotiations with Panama, such as arrangements for adequate security control over civil aviation and radio on the Isthmus.

Complaints on this subject presented officially by Panama at international conferences have embarrassed this Government, and the Panamanian Government has recently renewed its charges that the United States Government employment practices in the Canal Zone not only admit discrimination but are also at variance with the General Treaty of 1936 8 wherein the United States agreed to maintain equality of opportunity and treatment for Panamanians in the Zone. Not only the Republic of Panama, but all the other American republics regard United States activities on the Isthmus of Panama as an example of our treatment of citizens of other nationalities. The importance of the effect of our policies in the Canal Zone on our international position in this Hemisphere and in the United Nations should impel us to make every effort to make the Zone a showplace of American democracy in practice.

I am enclosing with this letter a memorandum which sets forth certain specific steps which I believe this Government can and should take without undue delay to carry out certain of the recommendations made by General McSherry. This action would not only reduce the basis for hostile criticism of United States administration on the Isthmus of Panama and contribute materially to the security of our position in Panama but it would eliminate the validity of the unfriendly charges made on this subject against the United States by anti-American elements throughout the Western Hemisphere. These

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9 Department of State Treaty Series No. 945, or 53 Stat. 1807.
changes would also bring Canal Zone labor practices into closer accord with our treaty commitments and with proclaimed national policies. Faithfully yours,

G. C. MARSHALL

Enclosure

MEMORANDUM

Subject: United States Government Labor Relations in the Panama Canal Zone.

Action has recently been taken in the Canal Zone to improve United States Government labor relations, principally by hourly wage increases for alien employees—granted to more than 15,000 of the 18,200 local employees of The Panama Canal and Panama Railroad—and the admission of Panamanian citizens to examinations for certain civil service positions in line with United States treaty commitments. In a sensitive area such as the Canal Zone, reforms must of course be gradual, and progress could probably not take place rapidly enough to satisfy the more willful critics of the United States. However, there are certain further steps which the United States Government should be able to take without undue delay in a forthright program to remove the basis for hostile criticism of United States administration on the Isthmus of Panama.

There follows a brief summary of some of the more apparent evidences of discrimination which now exist in United States employment practices in the Canal Zone, as discussed in the McSherry report. It would be very desirable to have these discriminations corrected as soon as practicable with full consideration for the possible advisability of carrying out some of these reforms gradually.

Gold—Silver Roll. According to the McSherry report, at present the principle of equal pay for equal work is not used in the Zone, particularly in the organizations of The Panama Canal and The Panama Railroad. The following comparisons of monthly pay rates for gold and silver roll employees (practically speaking, United States citizens and alien employees) with comparable duties indicate relatively wide inequality.

<table>
<thead>
<tr>
<th></th>
<th>Gold</th>
<th>Silver</th>
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<tbody>
<tr>
<td>Carpenter</td>
<td>$300 plus</td>
<td>$95</td>
</tr>
<tr>
<td>Painter</td>
<td>300 plus</td>
<td>95</td>
</tr>
<tr>
<td>Policeman</td>
<td>300</td>
<td>80</td>
</tr>
<tr>
<td>Foreman</td>
<td>250</td>
<td>100</td>
</tr>
<tr>
<td>Motion Picture Operator</td>
<td>250</td>
<td>95</td>
</tr>
<tr>
<td>Chauffeur</td>
<td>240</td>
<td>95</td>
</tr>
<tr>
<td>Baker</td>
<td>225</td>
<td>100</td>
</tr>
<tr>
<td>Watchman</td>
<td>210</td>
<td>75</td>
</tr>
<tr>
<td>Saleswoman</td>
<td>175</td>
<td>75</td>
</tr>
<tr>
<td>Teacher</td>
<td>325</td>
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</tr>
</tbody>
</table>
In many of these categories there appears to be little room for differences in skill of performance. The United States is criticized frequently and bitterly by foreign officials and individuals for maintaining this system. Allegations are frequent that the purpose is primarily to enable national and racial discrimination, and the situation provides opportunity for exploitation by communist and other anti-American elements. The Department has been informed by the American Federation of Labor's expert on inter-American labor matters that the discrimination in the gold and silver roll is the one point of criticism of our labor policies in the Canal Zone on which the Federation has no adequate answer to communist attacks.

General McSherry has recommended that The Panama Canal and The Panama Railroad abolish gold and silver roll titles and establish a single wage structure. This appears technically practicable and would accomplish more in the way of eliminating criticism of United States personnel practices in the Canal Zone than any other single step. Such a change need not mean the payment of United States wages to all silver roll employees, nor does it envisage the abrupt elimination of segregation in a manner offensive to established social patterns, but would merely mean that equal performance would be rewarded with equal compensation. It would be anticipated, of course, that due allowance would be made for the more economical circumstances of those living at home in their own national environment as compared with those who have gone abroad from the United States to work in the Zone.

Leave Privileges. According to the McSherry report, the gold roll employees receive 40½ days of leave per annum cumulative to 90 days. Silver roll employees are credited with 24 working days of sick leave per annum. Silver roll employees are not allowed to take rest leave until they have accumulated in excess of 30 working days, and then only to the amount of their credit above 30 days. General McSherry recommended that leave privileges of silver roll employees be adjusted to equal those of United States Government employees elsewhere.

Retirement. The Canal Zone Retirement Act is somewhat more liberal than the United States Civil Service Retirement Act, but it applies only to gold roll employees. The McSherry report indicates that silver roll employees receive no retirement benefits and that even those few non-United States citizens on the gold roll are treated for retirement purposes as silver roll employees. The latter participate in a cash relief program which provides monthly payments of $1.00 for each year of service with a $10 minimum and $25 maximum. General McSherry recommended that silver roll employees be placed under the Civil Service Retirement Act. The Act authorizes such action and the taking of this simple step would mean that charges of discrimination in the matter of retirement would no longer have real basis.
The Secretary of Defense (Forrestal) to the Secretary of State

WASHINGTON, October 29, 1948.

Dear Mr. Secretary: This is with further reference to your letter of 7 September 1948 concerning labor problems in the Canal Zone, and to my acknowledgment of 15 September. As I indicated in that letter, I felt it was necessary to obtain the recommendations of the Departments of Army, Navy, and Air Force, and of the Panama Canal, since all four agencies have a direct interest in this matter.

A complete report on this subject is not yet available, but I am forwarding for your information a copy of a memorandum dated 21 October 1948 from the Governor of the Panama Canal to the Secretary of the Army, which may be of interest. This gives, in a preliminary fashion, some indication of the action which is being taken and the consideration which is being accorded to these various questions. In transmitting this memorandum to me, the Secretary of the Army stated that he was expecting a complete report from the Canal Zone in the near future and would make this available as soon as it had been received.

Sincerely yours,

James Forrestal

[Enclosure]

Memorandum by the Governor of the Panama Canal (Newcomer) to the Secretary of the Army (Royall)

WASHINGTON, October 21, 1948.

Subject: Labor Relations in the Canal Zone

Reference is made to memorandum of 15 September 1948 on the above subject to you from the Secretary of Defense in which he requested an appropriate answer that he could send to the Secretary of State in reply to certain criticisms voiced by the latter with respect to labor conditions in the Canal Zone. Accompanying the Secretary of State's letter was a memorandum in which there were enumerated three particular items described as evidences of discrimination in the Canal Zone that should be corrected as promptly as possible.

My purpose in writing this memorandum during my present visit in Washington is to place before your office information in the nature of an interim report that may be helpful pending the receipt of a more complete report from the Isthmus. I am informed that the Commander-in-Chief, Caribbean, has referred the subject to the Canal Zone Personnel Board for consideration and preparation of a report
that will be coordinated there among the four agencies that are concerned.

By way of general observation on the Secretary of State's letter and its accompanying memorandum it occurs to me that the Secretary of State may not have been fully informed on progress that has been made in labor relations in the Canal Zone since the time that General McSherry made his report to the Governor. That report was submitted to the Governor in June 1947. It was made at the request of the Governor in order that he might have the benefit of the views of a disinterested investigator and has, of course, been carefully studied and the recommendations contained in it have been or are being implemented to the extent justified or feasible. A Canal Zone Personnel Board has been created by the Commander-in-Chief, Caribbean, to keep him advised of labor conditions in the Zone and to accomplish such coordination in labor matters among the four governmental agencies as is practicable. An extensive survey of the 18,000 positions filled by aliens in the service of The Panama Canal-Panama Railroad was completed early this year by The Panama Canal and a new wage schedule which effected material increases in the compensation of a large portion of these workers was made effective at the end of February 1948. The work was planned and conducted with the aid and advice of several of the best qualified experts of the United States Department of Labor and the completed task resulted in the establishment of a wage schedule and the compilation of job analyses which are in conformity with modern practices in this respect. The minimum wage for alien employees previously fixed at 16 cents per hour was advanced to 26 cents and the maximum rate was advanced to $1.40 per hour. A grievance procedure patterned on that followed in industry in the United States has been established and is working well. Leave privileges of alien employees have been liberalized within the past year and further changes are presently under consideration. Additional examples of improvements that have been effected could be cited but the foregoing will suffice to indicate that the policy of the Canal administration is sympathetic toward labor and is not static.

Turning to the specific issues raised in the memorandum accompanying the Secretary of State's letter, the first is that the principle of equal pay for equal work is not used in the Zone. As a statement of general policy, this criticism is not supported by fact. It is true for example that "Gold" carpenters receive a higher wage than do the "Silver". The difference is not due to citizenship, American on the one hand and alien on the other, but to the complete and basic differences in their qualifications. A journeyman carpenter recruited in the United States has certain well defined capabilities based on training, experience, and
an ingrained sense of responsibility for his work. He is needed for cer-
tain purposes. Other so-called carpenters also are needed but they need
not, and do not, have the qualifications of the journeymen. They are
recruited locally. The former are paid at rates based on those prevail-
ing in the United States while the latter’s compensation is based on
rates prevailing in the locality. The same comments may be made with
respect to other categories of employees but would serve no purpose
other than to emphasize that there are two rates of pay based on qualifi-
cations and that this condition is inherent in the Canal Zone and must
be recognized as economically sound. It is no more an evidence of dis-
crimination than would be the statement that all carpenters in the
employ of the Government in the United States do not receive the same
wage, a statement that is obviously correct. In support of General
McSherry’s contention, however, it is desired to state that there are
some two hundred positions in the Canal service the occupants of which
are “Silver” employees paid at local rates and whose work is on the
borderline between that expected of “Gold” employees and of “Silver”
employees. These positions are now being carefully surveyed to insure
that there is no discrimination because of nationality and it is quite
probable that some of these may be changed over to the United States
rate basis.

As indicated above, further liberalization of alien or native leave
privileges is now under consideration on the Isthmus. The McSherry
report recommends that leave privileges of silver roll employees be
adjusted to equal those of United States Government employees else-
where. This recommendation is considered inappropriate for at least
three seemingly sound reasons: first, the employees are reasonably
well satisfied, with some minor exceptions, with the present leave reg-
ulations; second, a rough estimate of the cost of effectuating the rec-
ommendation is $1,200,000; third, there is no basic principle on which
the recommendation can be justified. If the United States is in a
position to invest annually an additional $1,200,000 in the wages of
the alien employees it would, in my opinion, be much more humani-
tarian to raise their rates of pay rather than give them more leave,
which they are not requesting and which they do not particularly
need. This subject is, however, being given further consideration.

General McSherry recommends that the silver roll employees be
placed under the Civil Service Retirement Act and seems to believe
that the Act authorizes such action. Since the passage of the Act the
Canal administration has construed it as being inapplicable to alien
employees of the Canal-Railroad because by its own terms it excludes
those employees of the United States who are subject to any other
retirement laws. The Canal Zone Code was amended in 1937 to grant
certain disability monthly cash payments to alien employees of not
less than ten years service who are removed from the rolls for physical reasons. Additional legislation will be required, therefore, before the present system can be changed. The Civil Service Commission concurs in this construction of the present law. Four possible plans to accomplish desirable modifications in the retirement law have been developed during the past several months and are now being readied for discussion with the Civil Service Commission in anticipation of the introduction of an appropriate bill in the coming session of the Congress. There is little doubt that it will be possible to make beneficial modifications in the present retirement law applicable to alien employees and it is my purpose to carry the matter to early completion.

The foregoing is not intended to be a complete answer to the letter from the Secretary of State but simply to indicate that labor relations in the Canal Zone are receiving active attention and that substantial progress has been made to improve them, with additional progress in prospect. A more comprehensive report will be forthcoming from the Isthmus.

F. K. Newcomer

811F.504/12-348

The Ambassador in Panama (Davis) to the Secretary of State

No. 713

PANAMA, December 3, 1948.

Subject: Army Memorandum Regarding Employment Practices in Canal Zone

SIR: I have the honor to refer to the Embassy’s airgram No. A–793 of October 29, 1948¹ reporting the announcement in the local press that a full-scale study of all labor problems in the Canal Zone was being conducted as a result of a letter addressed to the Secretary of Defense by the Secretary of State and to the Embassy’s despatch No. 672 of November 15, 1948² entitled “Army’s Reclassification Act Affecting Non-United States Citizens in the Canal Zone” and to forward attached a copy of a memorandum, with enclosure,² prepared for and forwarded to the Secretary of the Army by the Commander in Chief, Caribbean Command, subject: “Canal Zone Personnel Problems”, which apparently constitutes a study of present employment and personnel practices in the Canal Zone undertaken as a direct result of the Secretary of State’s letter to the Secretary of Defense.

Respectfully yours,

For the Ambassador:

Edward W. Clark

Second Secretary of Embassy

¹ Not printed.
² Enclosure to memorandum not printed.
Memorandum for the Secretary of the Army

CC(A)2

29 November 1948.

Subject: Canal Zone Personnel Problems

1. On September 15, 1948 the Secretary of Defense sent you a memorandum including with it a letter to him from the Secretary of State of 7 September 1948. The latter dealt with certain Canal Zone employment problems and personnel practices analyzed in a report by Brigadier General F. J. McSherry.

2. In an enclosure accompanying his letter, the Secretary of State listed three “specific steps” which the letter itself stated “this Government can and should take without undue delay to carry out certain of the recommendations made by General McSherry”. These three “steps” relate to wages, leave and retirement.

3. The general nature and scope of this group of interrelated problems is well known to you. The action taken on them here within the past year may not be. It is stated in the enclosure herewith, which summarizes a recent analysis made by the Canal Zone Personnel Board. This summary supplements Governor Newcomer’s interim report to you of 21 October 1948.

4. Every analysis of this group of problems and of their possible solutions is fundamentally affected by two factors which follow:

a. First, the provisions contained in notes accessory to the 1936 Treaty relative to the principle of equality of opportunity and treatment to be accorded employees of Panamanian and United States citizenship (Treaty Series No. 945, Page 56; 53 Stat. (pt. 3) 1807, 1888), pertain expressly to employees of the Panama Canal and Railroad. Those provisions have no application whatever to any elements of our National Military Establishment.

b. Second, the Panama Canal Administration is highly localized. Its labor practices have been and are largely conditioned upon its local environment. It does not employ personnel in other foreign overseas areas. On the other hand, that part of our Military Establishment located within the Canal Zone is but a small fraction of the whole. Its personnel practices, in contrast to those of the Panama Canal Administration, have evolved from and function as a result of labor employment rules and regulations in current use by our Armed Services throughout the world. Major changes in those rules and regulations would inevitably produce major reactions in other overseas employment areas of the Military Establishment, as well as call for appreciably larger appropriations here.

5. The core of this whole problem is the fact that most of the criticism directed at U.S. agencies on this subject is the result of reasoning which begins with two premises—first, that there should be uniformity
between corresponding personnel practices of The Panama Canal and Railroad and other U.S. agencies in the Canal Zone, and second, that all U.S. agencies here should provide equal pay for equal work.

6. Acceptance of either premise has not yet been shown to be in the overall best interests of the United States. In fact, both are at least partly fallacious, by reason of the major dislocations their adoption would provoke in other important United States interests here and in other overseas areas.

7. For the Panama Canal and the agencies of the U.S. Military Establishment in the Canal Zone to attain uniformity in personnel practices, policies and procedures, it will be necessary either to amend those laws and departmental regulations presently binding upon our Military Establishment here and in all other overseas areas merely to meet a problem which concerns only Panamanians in the Panama area, or to negotiate new treaty provisions with Panama so as to permit changes in those in current use by the Panama Canal and Railroad.

8. Neither of these alternatives promises any early practicable solution though both deserve and will continue to be subjected to thorough examination in search of any partial remedies which they may offer.

9. It is hoped that this letter and enclosure may furnish means for eliminating much unjustified criticism and also for replying to criticism which is honest and constructive.

M. B. RIDGWAY
Lieutenant General, U.S. Army
Commander in Chief

811F.504/12-848

Memorandum by the Acting Assistant Chief of the Division of Central America and Panama Affairs (Bennett)

CONFIDENTIAL

[WASHINGTON,] December 8, 1948.

Subject: Labor Practices in the Canal Zone

The Panama Canal has announced that the terms "gold roll" and "silver roll" have been eliminated from the new salary and wage schedules of The Panama Canal and The Panama Railroad. The last "gold" and "silver" signs in public places have been recently removed in conclusion of a program which has been under way for more than a year since the issuance of the McSherry report.

Action with respect to employment terminology was taken in con-

1 The announcement was made on November 20, 1948, according to despatch 691, November 22 from Panama, not printed (811F.5041/11-2248).
nection with an overhaul of salary and wage schedules, which embraces several hundred different positions occupied by more than 23,000 employees of The Panama Canal and The Panama Railroad. The represented "gold" and "silver" terms will no longer have any application or significance in connection with positions and payrolls.

The Embassy reports there has been surprisingly little comment on the action in the Panamá press. While the press announcement put out by The Panama Canal received wide coverage, much of its significance was unfortunately lost to the public due to the fact that the release was of an exceptionally detailed and technical nature. CPA has been in touch with POS to arrange for appropriate press and radio treatment through our official facilities.

Recently the Air Force in the Canal Zone announced that non-U.S. civilian employees may now aspire to all grades up to and including top positions in competition with U.S. citizens on the basis of merit. Formerly, non-U.S. citizens were stopped about half-way up the ladder. There is a joker here, however, in that the rates paid the two groups will differ for the same positions; salaries of non-U.S. personnel are based on prevailing wage scales, whereas salaries paid U.S. citizens are based on laws passed by Congress. In general the pay of non-U.S. personnel amounts to somewhat more than one-half of the total pay received by U.S. citizens in identical ratings. It will be hard to convince Panamanians that this system offers equal pay for equal work.

As regards the other armed services in the Canal Zone, a recent reclassification program has been the subject of critical comment on the part of Panamanians. In answer to inquiries from the Embassy, General Ridgway has replied that the Civil Service Commission has ruled that the 1936 Treaty commitments concerning equality of employment opportunity and treatment are limited to positions in The Panama Canal and The Panama Railroad Co. and do not apply to the establishments of the armed services on the Isthmus. On the basis of that ruling the armed services have not felt it necessary to distinguish between Panamanians and other non-U.S. citizens in the Canal Zone, and in their reclassification program they have been guided by the policy applicable elsewhere outside the continental United States where there are two standards, one for U.S. citizens and one for aliens. Needless to say, this Civil Service Commission ruling 2 strikes at the heart of our recent recommendations to Secretary Forrestal on the McSherry report. While the CSC is technically correct in its ruling that the

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2 Marginal note in original: "I think that Gen. Ridgway uses CSC rulings on minimum rights for Panamanians as his own maximum policy. W. T[apley] B[ennett]"
Treaty commitment applies only to The Panama Canal and The Panama Railroad Co., this sort of double standard is certainly contrary to the spirit of the Treaty. And lumping Panamanians in the same category with all other aliens contravenes the policy in effect since 1908 which has always granted a definite status.

In connection with the reclassification program of The Panama Canal, Governor Newcomer has reported that the minimum wage for alien employees, previously fixed at 16 cents per hour, has been advanced to 26 cents and the maximum rate to $1.40 per hour (these are still substantially below rates for U.S. citizens). Grievance procedures have been instituted, and leave privileges of alien employees have been liberalized within the past year. Plans are under way to improve retirement laws for alien employees of The Canal-Railroad. Thus it appears that some advances have been made in connection with the three points stressed in our letter to Secretary Forrestal, i.e., “gold” and “silver” roll, leave privileges and retirement provisions. The Governor's memorandum makes it clear, however that, while he may have been prodded somewhat by the State Department's emphatic support of the McSherry recommendations, he intends to proceed at his own pace in implementing the report. The Zone administration gives every appearance of being a most reluctant reformer.

It is heartening to note the progress which the abolition of the “gold” and “silver” roll represents. This progress is unfortunately counterbalanced, and possibly overbalanced, by other personnel actions taken in the Canal Zone. The road to reform on the Isthmus has many blind turns and disheartening detours.

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EFFORTS TO SETTLE PROBLEMS OF AVIATION, CLAIMS, AND HIGHWAY MAINTENANCE

419.11 El Encanto Land Tract/5-1848

Memorandum by the Chief of the Division of Central America and Panama Affairs (Newbegin) to the Director of the Office of American Republic Affairs (Daniels)

[WASHINGTON,] May 18, 1948.

Subject: Panama—Settlement of El Encanto Claims

With reference to your memorandum of May 14 1 I submit the following summary of efforts which have been made in recent years to settle the El Encanto Claims with Panama.

In addition to the specific attempts which I set forth below I should

1 Not printed.
like you to know that there have been innumerable informal conversations with Panamanians on this matter which I am not attempting to list.

The El Encanto Claims were originally filed with the General Claims Commission, United States and Panama, in 1932 in the sum of approximately $1,407,000. The claims were thrown out by the Commission on jurisdictional grounds.

In 1935 the Department reviewed the claims, and in a note of December 26, 1935 the Panamanian Government was requested to cooperate with the United States in the prompt settlement of these claims, which by then had been pending some 4 years. Subsequent notes were presented to the Panamanian Government as follows:

January 24, 1936  
October 6, 1937  
April 4, 1938  
August 9, 1938  
March 21, 1940  
November 10, 1940  
May 5, 1941  
Sept. 19, 1941

These notes suggested settlement by arbitration. The Panamanian Government throughout followed the tactics of delay and opposition to any form of arbitration suggested by us.

In 1942 and 1943, during hearings at the Capitol on proposed legislation which later became effective and cancelled Panama's $2,500,000 debt to the Export-Import Bank for the Rio Hato Highway, turned over extremely valuable Panama Railway lots to the Panamanian Government, and turned over the waterworks and sewage systems owned by us to Panama, the question of the El Encanto Claims arose and the legislation was almost defeated by lawyers of the American claimants. The Department gave assurances to the Congress that immediately following enactment of the legislation all efforts would be made to secure an agreement with Panama for the settlement of these claims.

In a note of June 20, 1943 the Department again strongly urged Panama to arbitrate the claims and at the same time submitted an alternative solution by direct settlement through a reasonable lump sum payment by Panama. On October 15, 1943 the Department pressed for a reply from Panama.

In 1944 Panamanian Foreign Minister Samuel Lewis was in Washington and indicated his agreement that lump sum settlement would appear to be advisable, although he felt our asking of $470,000 was too much for "poor Panama" to pay.
In July 1945 Murray Wise² was in Panama and obtained informal promises from the President that he would instruct Foreign Minister Alfaro to dedicate himself first and foremost to the settlement of these claims. Shortly afterwards Ambassador Vallarino arrived in Washington and began talking claims, but on the basis of a $50,000 settlement. No progress was made.

In 1946, at the suggestion of Panama, an agenda of round table conferences on various pending matters between the two governments was drawn up and included settlement of the El Encanto Claims. During preliminary discussions Foreign Minister Alfaro showed no inclination to reach any agreement and spent all of his time criticizing the unfairness of the United States attitude toward the validity of the claims. He disagreed with the Department’s decision that the claims were prima facie valid and that there had been any denial of justice to American claimants by Panama. He was very bitter because he believed the United States had accused the Panamanian Government of “collusion” in denying justice to American claimants.

In December 1946 Alfaro was in Washington and was informed by the Department of this Government’s desire to settle the claims immediately by direct negotiation. He persisted in his belief that the Department’s attitude was unjust. He was then told of our willingness to arbitrate the claims and that if such procedure suited Alfaro better we were prepared to proceed at once toward this method of settlement. It became quite obvious that Alfaro did not wish to arbitrate.

On December 20, 1946 the United States Embassy at Panama presented the Panamanian Government with a proposed convention for the settlement of three pending claims, including the El Encanto group. A lump sum settlement for the latter was proposed in the sum of $400,000.

Murray Wise was in Panama again in February 1947 and upon instruction pressed the President for settlement. Wise learned that the President and his Cabinet, except Alfaro, were willing to settle on our terms and was told that in fact the Comptroller General had instructions to turn over a check for $100,000 representing first payment. However, Alfaro continued to oppose settlement and as a result Panama has been unable to take further steps toward signing the proposed convention. Panamanian Foreign Relations, even though Alfaro is out of office, continues to delay, proposing that while notes would acknowledge Panamanian obligation to pay full amount, rather than put up some $400,000 deposited, drafts would be drawn on Panama as each claim is adjudicated. This is unsatisfactory to the Department, as it shows complete lack of good faith in the United

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²Assistant Chief, Division of Central America and Panama Affairs.
States Government. The United States Government has reduced its original request for $1,407,000 settlement to $400,000 cash settlement or less if payment to the claimant does not reach that amount. All the Department asks is a deposit in advance to show Panama’s good faith in our sincere desire to settle this long pending matter.3

3In airgram A-444 of September 28 to the Embassy in Panama, Acting Secretary Lovett indicated that the Department of State expected Panama to proceed to carry out its frequently expressed intention to make settlement on the already agreed formula, and that agreement must be reached on settlement of the Encanto claim before serious consideration could be given other Panamanian requests (711.19/8-2848).

819.154/6-1748

The Acting Secretary of State to the Secretary of Defense (Forrestal)

CONFIDENTIAL

WASHINGTON, July 9, 1948.

DEAR MR. SECRETARY: It is important that an immediate decision be reached as to whether the interests of the armed forces of the United States would be adversely affected if the Trans-Isthmian Highway were to be turned over to Panama for maintenance. If it is deemed advisable that this Government continue to retain the Trans-Isthmian Highway with the concurrent responsibility of full maintenance, it would be expected that the Army would make appropriate funds available now to the Public Roads Administration for this work as it has done in the past, or would instruct its forces in Panama to continue this work. The cost of maintenance on this Highway for the current fiscal year is estimated by the Public Roads Administration to be approximately $210,000.

On the other hand, if this Government decides to relinquish the Highway to Panama it will be necessary that the Panamanian Government be so notified at least thirty days in advance of any change of the present arrangement. Provided this alternative is chosen, it should be borne in mind that if the armed forces of the United States continue to use the Trans-Isthmian Highway frequently and periodically, this Government will still be obligated to pay Panama one-third of the total annual maintenance cost in accordance with paragraph 5 of the General Relations Agreement signed between the United States and Panama on May 18, 1942.1

By way of background, you may recall that the United States constructed the Trans-Isthmian Highway at its own expense and subsequently has been exclusively responsible for its upkeep. This obligation was assumed under the provisions of both Article VIII of the

1Department of State Executive Agreement Series No. 452, or 59 Stat. (pt. 2) 1289.
Defense Sites Agreement of 1942 \(^2\) and under the provisions of paragraph 5 of the General Relations Agreement of the same date. From the copies of these agreements which are enclosed it will be noted that the language of the aforementioned provisions is practically identical.

The problem which now confronts this Government is set forth in considerable detail in the Department’s telegram no. 405 of May 29, 1948 to Panama and in the Embassy’s reply despatch no. 379 of June 17, 1948, copies of which are also transmitted herewith.\(^3\) Although the Department considers that the Defense Sites Agreement was abrogated by notes exchanged on February 16 and 19, 1948 between the United States and Panama,\(^4\) there has been no change in the applicability of paragraph 5 of the General Relations Agreement which stands as a current commitment to Panama.

While funds provided by the Army to the Public Roads Administration for maintenance of the Trans-Isthmian Highway were exhausted as of June 30, 1948, the Public Roads Administration has consented temporarily, pending a decision on this matter, to continue its operations in Panama on a reduced scale but in a manner adequate to keep the Highway in necessary repair.

I am informed that among the various interested United States departments and agencies there is apparently unanimous agreement that Panama has neither the technical ability nor budgetary stability required to assume responsibility for the maintenance of this highway in first-class condition. In this connection, the tactical value of first-class maintenance of this road to the United States is a question to be answered primarily by the armed forces.

In view of the need for continuing full scale maintenance operations on the Trans-Isthmian Highway if the United States is to continue its present responsibility and in view of the necessity for advising Panama immediately if the status of our obligations is to be changed, I should be greatly benefited by as prompt a reply to this communication as may be possible.

Faithfully yours,

Robert A. Lovett

\(^2\) Department of State Executive Agreement Series No. 359, or 57 Stat. 1232.
\(^3\) Neither printed.
\(^4\) For Ambassador Hines’ note 566 of February 16, see p. 664. February 19 note not printed.

819.154/10-1448

The Secretary of the Army (Royall) to the Secretary of State

CONFIDENTIAL

Washington, October 14, 1948.

Dear Mr. Secretary: Your letter, dated July 9, 1948, to the Secretary of National Defense, in which you recommend that an early
decision be reached regarding the maintenance of the Trans-Isthmian Highway in Panama, has been referred to me with the request that I correspond directly with you on this matter.

The continued existence of the Trans-Isthmian Highway, maintained in a first class condition, is militarily important to the United States. The Department of the Army shares the view that the Republic of Panama lacks financial capability and technical ability to maintain this highway in proper condition. Accordingly, and since the United States must, in any event, bear a part of the cost of maintenance, it is considered preferable that the United States undertake continued maintenance of the entire Trans-Isthmian Highway, subject to certain stipulations indicated below.

I am, therefore, in agreement with the recommendation of Ambassador Davis, that the General Relations Agreement be renegotiated and recommend that negotiations be initiated to this end with the Republic of Panama as early as practicable. It is to be noted that this action has also been proposed by General Fleming of the Federal Works Agency as the most satisfactory solution of United States road maintenance problems in Panama.

It is recommended that the following stipulations be incorporated in the new agreement:

1. That the United States undertake, at its expense, long-term maintenance of the Trans-Isthmian Highway in the Republic of Panama as well as in the Canal Zone.

2. That in return therefor, the Republic of Panama provide maintenance, without cost to the United States, of all other roads lying within the Republic of Panama which are, or may be, used by the armed forces of the United States.

3. That the right to use all roads within the Republic of Panama be assured to the armed forces of the United States.

4. That each government will maintain in a usable condition, roads which are its maintenance responsibility, but that upon failure to do so, the other government will have the right to make essential repairs, charging the cost thereof to the government failing to perform the maintenance in question.

Upon the adoption of a new agreement, the Commanding General, United States Army, Caribbean, will be designated as representative of United States armed forces in road maintenance matters in Panama, and the Federal Works Agency will be requested to supervise the maintenance of the Trans-Isthmian Highway. The Commanding General, United States Army, Caribbean, has been notified of this letter and asked to be prepared to assist in negotiations if called upon.

In the interim, the Federal Works Agency is being requested to continue the present reduced maintenance of this highway pending the completion of negotiations.

Sincerely yours,

KENNETH C. ROYALL
711.1827/11-1748: Telegram

The Ambassador in Panama (Davis) to the Secretary of State

CONFIDENTIAL

PANAMA CITY, November 17, 1948—10 a.m.

875. Foreign Minister¹ told me last night that he now considers time opportune to inaugurate active phase negotiations on agreement in view success Embassy conferences with National Assembly deputies, Cabinet Ministers and press November 11 and 15 (Embte 866, November 12 and Embtel 873, November 16²). . .

We agreed on desirability to reach agreement soon and submit to Assembly for ratification while sentiment favorable and before opposition has opportunity to raise false issues. I pointed out present drafts have been cleared by US Government and Embassy has been authorized proceed with negotiations, which places US in position cooperate fully in endeavor to reach early agreement. The Department will be kept informed of progress.

Davis

¹ Ignacio Molino, Jr.
² Neither printed.

819.7082/1-1449

Memorandum for the files, by Mr. Fred G. Heins of the Division of Central America and Panama Affairs

[WASHINGTON,] January 14, 1949.

The United States Army and the Canal Zone authorities were anxious to see the Panama National Airport completed, in order to relieve the congested traffic at Albrook Field. Ambassador Hines and Lieutenant General Crittendenberger, Commanding General, Caribbean Defense Command, considered the new airport important to the defense of the Panama Canal. The project was financed by the Government of Panama through the sale of bonds. Estimates for the cost of the project varied from $5,000,000 to $12,000,000. In March 1947 it was estimated that the total cost would not exceed $7,000,000.

In June 1945 the Panamanian Government had awarded a contract to the American contractors, F. H. McGraw and Co., for the architectural and engineering design as well as the superintending of the entire project. By December Mr. Harry K. Fisher had been employed by the Government as a technical adviser and consultant. Both of these contracts, however, were terminated long before the completion of the project. Mr. Carl A. Posey, airport engineer, formerly with CAA, was also a consultant during the early stages of construction, and in
December, 1946 after the termination of the McGraw’s [and] Fisher’s contracts, was employed by Panama as Supervising and Managing Engineer in charge of construction of the National Airport.

Upon urgent and insistent requests from the Panamanian Government, the PRA did most of the construction work at Panama’s expense. The highway to the airport was built by PRA under a contract with the Panamanian Government. The clearing, grading, excavation, drainage, paving, etc. on the airport itself were done under an agreement between PRA and Panama. The original agreement was dated May 1, 1946. The agreement provided that, (1) Panama would rent from PRA, with an option to buy, the necessary equipment; (2) Panama would make available for subsequent use on the Inter-American Highway any equipment thus purchased; and (3) PRA would lend to Panama on a reimbursable basis the necessary personnel for the construction of the airport which would be subject to the direction and approval of the Ministry of Public Works. (The Department went along with this arrangement although it clearly indicated that it was in principle opposed to United States Government agencies operating abroad in competition with private enterprises.) The Panamanian Government and our Embassy were convinced that the project would be unreasonably delayed unless PRA did the work, because no contractor in Panama had available the necessary equipment and personnel for such a project. By April 1947 the rentals paid by Panama to PRA nearly equalled the prices quoted on the equipment being used, and Panama then paid the difference and took over the equipment. Although the permanent Administration Building for the airport was not yet completed on June 1, 1947, a temporary building for that purpose had been erected and the airport was formally opened to international traffic on that day.

F[RED] G. H[EINS]

711.1928/1-2749

The Secretary of State to the Embassy in Panama

CONFIDENTIAL

WASHINGTON, January 27, 1949.

No. 8

Sir: Reference is made to the Department’s instruction No. 126, dated August 31, 1948 ¹ and subsequent correspondence concerning aviation matters in the Republic of Panama.

There is transmitted herewith a copy of a revised draft of an aviation agreement.² There is also transmitted herewith a copy of an ex-

¹ Not printed.
change of notes concerning the Communications Cable Agreement and the Technical Aviation Mission.\(^2\) These drafts represent the latest views of the Government of the United States and have been cleared by the Department, the National Military Establishment, the Civil Aeronautics Administration and the Civil Aeronautics Board.

You are instructed to present these revised drafts to the Government of Panama and, if they are acceptable, you are authorized at your discretion to sign the general aviation agreement and effect the exchange of notes. As it is necessary to clear any changes with the various agencies in Washington, the Embassy should refer any proposed deviations from the enclosed texts to the Department for clearance.

Full powers authorizing you to sign this general aviation agreement are being transmitted to you by hand by a member of your staff.\(^3\)

Very truly yours,

For the Secretary of State:

WALTER A. RADUS

\(^2\) Not printed.

\(^3\) For text of agreement respecting air transport services, and agreements effected by exchanges of notes, signed at Panama, March 31, 1949, see Department of State Treaties and Other International Acts Series No. 1932, or 63 Stat. (pt. 3) 2450.