PANAMA

POLITICAL AND MILITARY RELATIONS OF THE UNITED STATES AND PANAMA; IMPACT OF THE SUEZ CANAL CRISIS

116. Special National Intelligence Estimate

SNIE 84-55


CONSEQUENCES OF THE ASSASSINATION OF PRESIDENT REMON OF PANAMA

The Problem

To estimate the probable short-term consequences of the assassination of President Remon with reference to: (a) internal stability of Panama and the Caribbean area; (b) international relations in the Caribbean area; and (c) relations between Panama and the United States.

Conclusions

1. Remon's death will not significantly affect the fundamental relationship between the United States and Republic of Panama, but

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1 For previous documentation, see Foreign Relations, 1952-1954, vol. iv, pp. 1391 ff.
2 Source: Department of State, INR-NIE Files. Secret. Special National Intelligence Estimates (SNIEs) were high-level interdepartmental reports appraising foreign policy problems of an immediate or crisis nature. They were produced more quickly than the companion National Intelligence Estimate series, which dealt with subjects of wider scope. SNIEs were drafted by officers from those agencies represented on the Intelligence Advisory Committee (IAC), discussed and revised by interdepartmental working groups coordinated by the Office of National Estimates of the Central Intelligence Agency (CIA), approved by the IAC, and circulated under the aegis of the President, to appropriate officers of Cabinet level, and the members of the National Security Council. The Department of State provided all political and some economic sections of SNIEs.
3 According to a note on the cover sheet, the following intelligence organizations participated in the preparation of this estimate: the CIA and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and the Joint Staff. All members of the IAC concurred with the estimate on Jan. 11 with the exception of the representatives of the Atomic Energy Commission and the Federal Bureau of Investigation, who abstained on the grounds that the subject was outside their jurisdiction.
4 Remón was shot to death on January 2.
will almost certainly set off troublesome developments both in Panama and in the Caribbean area.

2. Guizado,⁵ Remon's successor as President of Panama, lacks Remon's political stature. His regime will probably be marked by a struggle for political leadership, with a consequent revival of the family and factional politics traditional in Panama.

3. The rulers of the Caribbean republics, increasingly concerned for their personal safety, will probably adopt more repressive measures against their political opponents. Somoza (Nicaragua) and Pérez Jiménez (Venezuela) will probably intensify their clandestine efforts to eliminate Figueres (Costa Rica), whom they regard as the focal point of revolutionary leftist movements in the area. They are not likely to be deterred by Figueres' appeal to the Organization of American States, but will take care to avoid the appearance of direct intervention. Figueres will continue to press the United States for protection against external threats to his security.

Discussion

4. The identity and motivation of the assassins of President José Antonio Remon have not as yet been established. The assassination could have been politically motivated, but it could as well have been related to Remon's private life, or to a behind-the-scenes struggle for the control of lucrative business operations. In any case, the assassination will almost certainly have troublesome domestic and regional repercussions.

5. The Panamanian authorities have apparently acted on the suspicion that Remon's assassination may have been instigated by Arnulfo Arias, whom Remon deposed from the presidency of Panama in 1951, and the fear that, in any case, Arias might become a rallying point for revolutionary action. They have arrested Arias; most of the others arrested to date have had some connection with him. Arias is a mercurial character who has been implicated in almost every plot against the government in recent times. There was, however, no apparent attempt at a coup in connection with the assassination, nor has there yet appeared any tangible evidence implicating Arias in the crime. His arrest, therefore, appears to be entirely presumptive and preventive.

6. The assassination will adversely affect political stability in Panama. Remon was the country's dominant political figure. Although he achieved power through control of the National Police (now called the National Guard), he later, as constitutionally elected President, succeeded in building up a large popular following.

⁵José Ramón Guizado, the First Vice-President and Foreign Minister of Panama, succeeded Remón as President on January 2.
Throughout his administration he paid greater attention to democratic forms than had any of his recent predecessors. He instituted a social and economic program directed toward all sectors of the population. The treaty he negotiated with the US—as yet un-signed—brings important concessions to Panama and had already enhanced Remon's popular position.  

7. José Ramón Guizado, the first vice president, has been sworn in as Remon's successor. The National Guard, the only armed force of Panama, has decided to support him, for the time being at least. However, Col. Vallarino, commandant of the Guard, and Lt. Col. Flores, deputy commandant, do not trust Guizado. They apparently fear that he might later connive with Arnulfista elements to break their control of the Guard and possibly to restore Arnulfo Arias to the presidency. If convinced that such a coup was in the making, they would displace Guizado, probably in favor of Ricardo Arias, the second vice president, whom they regard as their friend.

8. Guizado lacks the political stature of Remon and may not be able to control the situation throughout his term in office (until October 1956). The political coalition which Remon had formed is likely to dissolve into personal factions contending for leadership, with a consequent revival of traditional family and factional politics. As in the past, the stability of the government will depend on the continued support of the National Guard and control of the Guard will be the key to the political situation. Within the Guard, differences may develop between Vallarino and Flores. Of the two, Flores is the stronger character, with probably greater command over the loyalty of the rank and file. However, the fact that Flores is a Negro is a personal political handicap which would probably confine him, at least initially, to the role of kingmaker.

9. Although Panamanian politics may thus become chaotic, it is not likely that any strongly anti-US group could gain sufficient strength to seize control of the country. The Communists are not strong numerically and have been closely circumscribed by measures taken against them during the Remon administration.

10. The assassination of Remon, following the attempt (in April 1954) to assassinate President Somoza of Nicaragua, will cause the more authoritarian rulers in the Caribbean area (Somoza, Pérez Jiménez in Venezuela, Trujillo in the Dominican Republic, Batista in Cuba, and Castillo Armas in Guatemala) to be increasingly concerned regarding their personal safety. They may be expected to take

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6 The United States and Panama began negotiations in September 1953 to revise the Panama Canal Treaty of 1903 (33 Stat. 2234). On December 17, 1954, President Remón accepted the modified texts of the proposed new treaty and the accompanying memorandum of understanding.
action designed to tighten their personal control over their respective countries and to adopt even more repressive measures against opposition elements than those currently in effect.

11. The assassination of Remon will heighten existing international tensions in the Caribbean area. It coincides with an increasing volume of reports of an impending revolutionary attempt against the Figueres regime in Costa Rica, with Venezuelan and Nicaraguan support. Remon was generally identified with the authoritarian alignment (Venezuela, Nicaragua, Guatemala, Cuba, and the Dominican Republic), particularly with Venezuela. Somoza and Pérez Jiménez will make every effort to link the murder of Remon with the attempt to assassinate Somoza and to attribute it to an “international leftist conspiracy” involving President Figueres of Costa Rica and exiles from Venezuela, Nicaragua, Cuba, and the Dominican Republic. Reports to this effect from Venezuelan and Nicaraguan sources have already begun to circulate.

12. Somoza and Pérez Jiménez will probably redouble their efforts to convince the United States that an “international leftist conspiracy” threatens stability and security in the Caribbean, and that the murder of Remon presages an intensification of subversive activity throughout the area. They will direct such charges primarily against Figueres, whom they dislike because of his assistance to and friendship for exiled groups and his bitter condemnation of dictatorships, notably those of Nicaragua and Venezuela, and whom they denounce as a Communist.

13. Somoza and Pérez Jiménez will probably argue that US “restraints” on them have prevented them from taking effective action against subversive elements in the region. They will cite the murder of Remon as a new argument for a re-examination of this US attitude. They will in effect demand that the US either take such action in the area as would assure their security or give them a free hand in dealing with those persons and movements that, in their opinion, threaten regional stability.

14. Hitherto, the assassination of chiefs of state has not been an accepted mode of Caribbean political warfare. If Remon’s assassination was in fact the result of an international conspiracy (which has not been established), this, in conjunction with the attempt to assassinate Somoza, might indicate that opposition elements in the Caribbean have adopted terrorism as a method of political action. Should such a pattern be established, the Caribbean governments would respond with commensurate violence and a marked deterioration in Caribbean political practices would have set in.

15. The events in Panama are likely to complicate the already difficult position of José Figueres in Costa Rica. He has formally demanded action by the Organization of American States to restrain
Nicaragua. At its meeting on 10 January the Council of the OAS postponed action until the 12th, but called on both Costa Rica and Nicaragua to avoid in the meantime any step which would aggravate the existing situation. Nevertheless, Somoza and Pérez Jiménez are likely to intensify their efforts to eliminate Figueres by providing further clandestine support to Costa Rican exiles and by encouraging opposition elements within Costa Rica, although they will take care to avoid the appearance of direct intervention. Figueres will continue to press for US protection against external threats to his security.

16. It is not likely that relations between the United States and Panama will be significantly affected by the assassination of Remon. The still unsigned treaty may become an issue in Panamanian politics, but its eventual acceptance by Panama will not be seriously endangered. It is likely also that the uncertain political situation created by the murder of Remon will again inject local politics into relations between the US and Panama. There is small chance, however, that these irritants will importantly affect US security interests in Panama.⁷

⁷ At the 230th meeting of the National Security Council, January 5, Director of Central Intelligence Allen W. Dulles briefly discussed the Remón assassination. According to the memorandum of discussion, Dulles remarked as follows:

"With respect to the assassination of President Remón of Panama, Mr. Dulles indicated that there were two possible speculations. One was that the assassination was the result of a personal vendetta by the followers of Arnulfo Arias. The other possibility was that the dictators of Nicaragua and Venezuela may insist that the plot was connected with efforts by democratic President Figueres of Costa Rica to destroy them and their dictatorial governments. Mr. Dulles doubted if Figueres had had the capability of accomplishing the assassination of Remon, and was inclined to believe the former speculation." (Memorandum of discussion by Gleason, January 6; Eisenhower Library, Whitman File, NSC Records)
117. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State


SUSPECT

Political Developments in Panama

Fast moving political developments in Panama have placed a new man in the Presidency over the weekend. The most recent changes have resulted from the cracking of the hitherto unsolved murder of President Remón on January 2. An attorney in Panama City has confessed to the crime and has implicated President Guizado and two of his business associates. The assassin was heavily in debt from gambling and allegedly had been promised a Cabinet post for carrying out the deed. The National Assembly rejected President Guizado’s request for leave of absence pending an investigation of the charges against him and has instituted impeachment proceedings. Guizado has been suspended from office and placed under arrest. The Second Vice President, Ricardo Arias Espinosa, was sworn in as President early Saturday morning, January 15. The new President appears to have the support of the National Guard and there have been no disorders or disturbances.

The new President is 43 years old, a scion of one of Panama’s wealthiest and most influential families. He was educated in the United States at the Shenandoah Military Academy and Georgetown University. He has widespread business interests in Panama and has held a number of high Government posts, chiefly by appointment. He was Minister of Agriculture, Commerce and Industry under Arnulfo Arias from 1949–1951 and Minister of Labor, Social Welfare and Public Health under Colonel Remón from 1952–1955. He is believed to be friendly toward the United States and the Embassy reports that he wishes to push ahead with the signing of the treaty. The new President is regarded by most observers as being much preferable to his immediate predecessor from the viewpoint of the welfare of Panama and U.S. interests on the Isthmus, in view of the tainted reputation of the latter and his past history of anti-Americanism. No question of recognition arose as Constitutional procedures were followed. Ambassador Chapin is conducting relations normally. Dr. Fabrega, who was chief spokesman of Panama’s Special Negotiating Mission here last year, has been named Foreign

1 Source: Department of State, Central Files, 719.00/1-1755. Confidential. Drafted by Sowash.
2 Ruben Miró.
Minister and we are proceeding with the engrossing of the treaty. Barring adverse developments, it is hoped that the treaty can be signed before the end of the month.³

³ A handwritten note on the source text reads as follows: "Neither Sec nor Under Sec had time to see."

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118. **Letter From the Ambassador in Panama (Chapin) to the Assistant Secretary of State for Inter-American Affairs (Holland)¹**

Panama City, January 19, 1955.

DEAR HENRY: It has occurred to me that it might be useful to you to have a brief summary of the recent political events in Panama and I therefore enclose a memo prepared by Roy Davis.²

Remón's death left a serious power vacuum in Panama. Guizado filled the job by virtue of being next in line, but with no real political strength of his own to sustain him.

In the first days following the assassination the principal dynamic forces in Panama were either directed elsewhere or temporarily impotent. The National Guard devoted itself to taking precautions against an expected coup d'état or public disturbances, neither of which materialized, and to a confused search for Remón's assassins. Although the National Guard has generally been considered competent as a body to maintain law and order in Panama, it was baffled by such a unique problem as the assassination of a President. Many clues were overlooked for days or even destroyed through carelessness.

It appears that Guizado's crucial error was his determination to run the government on his own terms, evidenced by his refusal to take Alejandro "Toto" Remón³ into his cabinet and also by reportedly contemplating certain changes in the governmental makeup, particularly those related to financial institutions which were in control of Remón's friends. Guizado did not have the requisite political backing either by the National Guard, Mrs. Remón or a

¹ Source: Department of State, ARA Files: Lot 60 D 667, Panama 1955—Political Local. Secret; Official-Informal.
² Not printed.
³ Brother of the late President, José Antonio Remón.
strong personal following. At the same time there existed an unfavorable public attitude towards him ranging from apathy to outright distrust of his abilities and integrity. The result was that the first breath of scandal, even though it consisted and still consists only of the unconfirmed allegations contained in the conflicting statements of a self-confessed assassin, was sufficient to topple Guizado from power. It is to be noted that Guizado was apparently kept in ignorance by his own police force of the contents of this confession until after he had actually been placed under house arrest.

Ricardo Arias, who up until now has been more or less regarded as "Pancho Arias' boy Dicky" who someday might grow up to fulfill his dead father's life-long ambition, is now unexpectedly President. He is demonstrating considerable poise and maturity. In general people are taking a second look and realizing that he has grown up. He is popular, for the present enjoys the support of the National Guard, and has been publicly endorsed by Sra. Remón as a trustworthy heir of her husband's aims and ideals. His social position and family connections tie him closely with the traditional ruling classes of Panama and he is apparently willing to play along with existing political forces. He also seems to be personally honest and sincere. In a conversation which I had with him Sunday during the finals of the Panama Open Golf Tournament, Arias told me of his complete bewilderment at the sudden change of events and his incapacity to believe that Guizado was involved to the extent claimed by the self-confessed assassin Miró.

The main stabilizing factors here now appear to be: (1) The chief political figures in Panama who, incidentally, are some of the wealthiest citizens and which include many of the people who were not in the Remón Government and who might even be said to be in opposition, do not desire any serious political disturbances which might endanger life and property. (2) The apparent loyalty of the National Guard to the memory of Remón as embodied in his widow and his brother and their support of Sra. Remón's desire to continue her social and welfare work. (3) The prospect of the forthcoming signature of the highly desirable new treaty with the United States which no one wishes to jeopardize. Consideration of this factor has constantly colored the decisions of the men in power as well as influenced the various sectors of public opinion. All have repeatedly stressed the necessity of following orderly constitutional procedures in order not to prejudice the position of Panama vis-à-vis the United States.

It is obvious that if the present Government is to survive it must obtain a conviction of someone for the assassination of Remón. It is here that I sense danger. The evidence against Guizado is indeed tenuous. As stated before, it is based entirely on the statement of a
self-confessed assassin who although reportedly a clever lawyer has recently been undergoing treatment by a local psychiatrist. Mr. Chatham, the American polygraph expert, feels that his lie detector test of Miró was worthless since Miró had been kept up all night and at the time of the test was surrounded by policemen with tommy guns. Chatham told me in confidence that the test run yesterday on Guizado’s partner, St. Malo, and Guizado’s son left no doubt that the two men were telling a straight story and were completely guiltless. Whether Chatham will be allowed to make another run on Miró or whether he will be allowed to examine Guizado Sr. remains to be seen. Chatham feels that U.S. standards of justice would require that Miró be examined by a panel of psychiatrists.

It is difficult to make any prediction. Unless new evidence is adduced it would seem impossible to convict Guizado of implication in Remón’s death. It could even be that Miró might disavow his confession as obtained under duress. It is clear, however, that even though there is some slight sympathy beginning to build up for Guizado, he is dead politically and could not, if acquitted, reassert the Presidency with any hope of continuing in office for more than a few days. On the other hand, such an acquittal might discredit the men presently in power and the police force and make them even [appear] ridiculous in the eyes of the people. This would certainly appear to lead to a considerable period of political uncertainty and instability in Panama. Possibly something similar to a Scotch verdict of “not proved” will be reached by the Assembly; Guizado allowed to reassert the Presidency for a nominal period to clear the record and vindicate his honor and then resign; Dicky Arias or less likely some other person would then finish out Remón’s term with the support of the Guard and Mrs. Remón.

I believe in the circumstances our own attitude must be one of “hands off” while going ahead with the treaty. We have properly continued our relationships with the present Panamanian Government since constitutional processes have been adhered to and since the Government enjoys the support of the people. Since, happily, with the departure of Mr. Lipstein no American interests appear to be involved in the judicial processes now going on, I do not feel that we could properly interfere in the trials or even offer any advice to the Panamanian Government as to how they should proceed. I state this even though it may be possible that we will witness a miscarriage of justice. It is to be hoped that the good sense of the Panamanian people and of Dicky Arias will rise to meet the situation. In the circumstances, however, I am sure you will understand
that I am unfortunately not yet in a position to advise either for or against the Vice President’s proposed visit to Panama.⁴

Sincerely,

Selden Chapin⁵

⁴ See vol. vi, Document 195.
On January 28, Holland replied to Chapin’s letter in part as follows:
“I am completely in agreement with your recommendation of a ‘hands off’ policy. You mentioned the forthcoming signing of the treaty as being a stabilizing influence. I hope that now that the signing is accomplished, its stabilizing effect will not dissipate and that there will not be a scramble for power without regard to the constitutionality of method. It will behoove us all to consider in what ways we can help to maintain the momentum toward political and economic stability which Remón had generated. What you say about President Arias is encouraging in this respect. Let us continue for the present to watch carefully and to hold our peace.” (Department of State, ARA Files: Lot 60 D 667, Panama 1955—Political Local)

⁵ Printed from a copy which bears this typed signature.

119. Editorial Note

On January 25, representatives of the United States and the Republic of Panama signed a Treaty of Mutual Understanding and Cooperation and Memorandum of Understandings reached concerning relations between the two countries arising from the construction, operation, maintenance, and protection of the Panama Canal by the United States in accordance with existing treaties. The agreements, which were signed in Panama City by Ambassador Chapin and Panamanian Foreign Minister Octavio Fábrega, resulted from negotiations between the United States and Panama which began in September 1953. For texts of both the treaty and the accompanying memorandum, see Department of State Bulletin, February 7, 1955, pages 238–243, or 6 UST (pt. 2) 2273.
120. Telegram From the Ambassador in Panama (Chapin) to the Department of State

Panama City, March 17, 1955—6 p.m.

364. During past week rumors have been circulating with increasing intensity that real motive behind Remon's assassination was his sudden interference with drug traffic and names of certain high Panamanian officials are being whispered widely. Last night's Nacion after featuring headlines stories re Panama's reputed position as center western drug traffic quotes associate attorney for prosecution, Doctor Jose Lasso de la Vega as stating "Guizado and Miro were used by those who really planned the crime in order remove the obstacle to the realization of their nefarious business."

As date of Guizado trial March 21 approaches it becomes more evident that forces in government and in control of National Assembly are making every effort to make trial cut and dried and are determined by hook or crook to find Guizado guilty. This belief strengthened by today's press reports of President Arias' insistence in speech last night that those guilty of conspiracy against Remon be punished severely and announcement that Assembly trial would run continuously with only minor recesses. See Memminger's letter March 16 to Sowash. 2

Defense, already handicapped by inability to subpoena and examine witnesses and by an apparently conscious withholding of certain existing evidence available but damaging to prosecution will be hamstrung by fact only written testimony will be admitted in trial and witnesses not permitted appear in person. This procedure for example would seem to throw out Miro's later retractions and repudiations of earlier confessions involving Guizado. According to certain Panamanian legal opinion, believed reasonably unbiased, above "procedure" not illegal although certainly unique.

In conversations with prominent Panamanians and local businessmen and with diplomatic colleagues, I find cynical and apathetic acceptance of belief that real authors of crime will not be brought to book and that Guizado and Miro will be made scapegoats since the alternative, acquittal, at least might completely discredit police force and present government and at most would call for arrest and

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1 Source: Department of State, Central Files, 719.11/3-1755. Secret; Priority.
2 In this letter, Memminger discussed recent developments in the Guizado trial. "The trial of Guizado by the Assembly," he suggested in part, "could have far wider and deeper repercussions than are dreamed of here at present. It seems to me that the 'fix is in' and that the very best Guizado can hope for is a suspended sentence. At the worst he might get ten years at Coiba where he would be unlikely to live for more than six months." (Ibid., ARA Files: Lot 60 D 667, Panama 1955—Political Local)
prosecution of powerful forces who might anticipate such action by armed seizure of government.

It is possible that all evidence against Guizado has not yet been made public and that trial could possibly result in conviction based upon just and correct procedures. Embassy has neither sufficient knowledge of Panamanian legal procedures nor of the evidence in this case to pass upon guilt or innocence of accused. Admittedly Guizado enjoys no widespread popularity and hence is unlikely receive much general sympathy unless proceedings utterly abominable.

In circumstances and although I believe we shall in fact witness a miscarriage of justice which in effect might result in illegal government in power, I do not see how we can make representations here officially without opening ourselves to charge of political interference in domestic affairs of Panama. Moreover I suggest that most Panamanians including those in responsible positions have no realization that such a star chamber proceeding will be viewed abroad as evidence of denial of freedom and justice according to straight totalitarian principles. Should trial proceed as I think it will and should it be reported accurately in US press, there might ensue such reaction as could well prejudice ratification of treaty by Senate.

Department might wish consider whether it wishes pass on friendly and informal word of warning to Panamanian Embassy Washington.

Chapin

121. Telegram From the Acting Secretary of State to the Embassy in Panama

Washington, March 18, 1955—8:01 p.m.

290. Department cognizant potential dangers in Panamanian situation outlined Embtel 364 but believes Embassy’s suggestion not feasible for following reasons:

1. Trial strictly internal matter.
2. This Government not in position judge validity of charges against Guizado and others involved.

1 Source: Department of State, Central Files, 719.11/3-1755. Secret. Drafted by Sowash. Initialed by Newbegin indicating his approval.
2 Supra.
3. If plot engineered by others in high positions still unchanged, fate of Treaty not likely now to be deterrent in effort avoid disclosure by railroading others for crime.

Department therefore does not believe proposed warning would affect developing situation and might result in embarrassment to this Government if charges more soundly based than suspected.³

Hoover

³Additional documentation regarding the Remón assassination and the Guizado trial is in Department of State, Central File 719.11; ibid., ARA Files: Lot 60 D 667, Panama 1955—Political Local; ibid., Panama City Embassy Files: Lot 63 F 57, 361.1 Remón Assassination; and ibid.: Lot 63 F 59, 361.1 Remón Assassination.

122. Telegram From the Ambassador in Panama (Chapin) to the Department of State¹

Panama City, April 5, 1955—I p.m.

386. This morning I called on Foreign Minister Octavio Fabrega at his request. Fabrega states he wishes visit Washington for one day during week April 11 pay his respects to Secretary Dulles and confer with Assistant Secretary Holland. Purpose visit urge early submission Treaty to Senate. Reasons for early ratification given by Fabrega are: Importance to Panamanian economy, stability of Government and desire that Treaty be completed in "aur" of Remon Administration before next election campaign starts here. I believe most important factor in Fabrega's reasoning is "stability" which he feels would be engendered by demonstration US confidence in Arias Administration by Treaty's early ratification.

I stressed necessity paying Panama Canal water bill² and balance claims before submission Treaty to Senate. Fabrega stated sending notes on both subjects Embassy today.

Fabrega requests Embassy be advised when appointment can be made for him with Holland and if possible with Secretary.

Chapin

¹Source: Department of State, Central Files, 611.1913/4–555. Confidential.

²Reference is to unpaid accounts for water service due to the Panama Canal Company and Canal Zone Government by the Panamanian Government. The water bill issue was summarized in despatch 484 from Panama City, April 14. (Ibid., 611.1913/4–1455)
123. Telegram From the Ambassador in Panama (Chapin) to the Department of State

Panama City, April 6, 1955—3 p.m.

388. Re Embtels 386\(^2\) and 387\(^3\) April 5. Since financial situation as depicted by Fabrega seemed disquieting Embassy conducted further check on technical level and discovers that he apparently is either ignorant of real situation or purposely desires exaggerated difficulties perhaps with hope of obtaining vigorous action by Department in pressing for Senate ratification of treaty before paying of water bill in full. [Garble] call Panama has been consistently reluctant in treating these arrears as genuine obligation and even after the agreement between governor and comptroller Obarrio last fall when funds were in fact available delayed several months before beginning installment liquidation of arrears.

Quarterly figures Panamanian cash position reveal actual receipts by Government 1955 at $9,700,000 or less than 1/2 percent below receipts for first 3 months 1954. This slight drop in receipts explainable by 1 month delay granted for real estate tax payments by action Panamanian Government.

Due to normal seasonal development receipts during first 5 months are low and below 1/12 annual figures and government expenses are abnormally high hence making for actual real deficit. However anticipated revenues for month of June 1955 alone with 2 large payments mentioned Embtel 387 are $8 million which should permit payment in full by Panama of water bill and Claims Commission debt.

Recommend insistence on payment water bill before end of June. I am becoming more and more convinced that present government feels that early ratification of treaty is almost a psychological necessity to counteract bad odor of Guizado trial and to establish another "victory" for the Remon legacy.\(^4\)

Chapin

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\(^1\) Source: Department of State, Central Files, 611.1913/4–655. Secret.

\(^2\) Supra.

\(^3\) In telegram 387 Ambassador Chapin reported further on his conversation with Foreign Minister Fabrega on April 5. Fabrega had explained that Panama’s delay in paying the water bill was due to the fact that tax collections had dropped off substantially in the last 3 months. (Department of State, Central Files, 611.1913/4–558)

\(^4\) Despatch 498 from Panama City reported that Panama had paid all its outstanding bills to the United States. (Ibid., 611.1913/4–2055)
DEAR BOB: In your letter of April 14, you expressed disappointment that you had not received any reactions on the Guizado trial. My silence has by no means been due to lack of appreciation for the Embassy’s very excellent reporting on the subject. Roy did a really masterly job on this. I found the whole spectacle so depressing that there seemed little point in commenting. There have been so many conflicting rumors and reports that at this point I have no idea where the truth actually lies in the whole nasty business. My views can be summed up, I think, as follows: Guizado may, or may not be guilty, I just don’t know. It is obvious, though, that whether guilty or not, he did not have a fair trial. I also believe that if guilty, there possibly were others high up in the government equally so, and whose guilt is being covered up by the authorities themselves. The whole business makes one ache for a breath of good clean air. Panama is not a place where secrets of such consequence can long be kept, and I shall be greatly surprised if this matter rests in this present state.

I do not think that we face the dilemma which you indicate for the very reason that, it seems to me, we have no choice but to go ahead with the treaty, unless the highest officials of the country are publicly charged with high crimes and misdemeanors. In the present very incomplete state of our information regarding the true authors of this crime, we would be guilty of operating on the basis of hearsay and rumor if we did otherwise. Now that Panama has paid its debts, we are going ahead with the treaty, and it will be sent to the President and by him to the Senate next week. Perhaps the lid will blow off in Panama even before the Senate completes its deliberations.

[Here follow personal remarks.]

Sincerely yours,

William B. Sowash

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1 Source: Department of State, ARA Files: Lot 60 D 667, Panama 1955—Political Local. Secret; Official—Informal.
2 Not found in Department of State files.
3 Printed from a copy which bears this typed signature.
125. Memorandum of Conversations Between the Assistant Secretary of State for Inter-American Affairs (Holland) and Foreign Minister Octavio Fábrega, San Francisco, June 23 and 24, 1955

SUBJECT

Panama Treaty

I had two talks with Fábrega. In each of them he expressed his deep concern at the fact that the Panamanian Treaty had not yet gone before the Senate and his earnest hope that it would before the end of this session. The arguments which he used included:

1. The very difficult political problems which would be caused domestically if the treaty were not approved at this session. He pointed out that failure to approve the treaty would be interpreted widely in Panama as a demonstration of lack of confidence in the present administration on the part of the United States.

2. He said that Panama had undertaken financing arrangements and obligations on the assumption that the treaty would be approved at this session of Congress, and that they would receive for the ensuing year the new and increased annuity. He said that postponement for a year of this increased receipt would put the Panamanian Government in an embarrassing financial position.

3. He pointed out that the Panamanians were counting on the increased annuities to meet their obligations in connection with the accelerated program regarding completion of the Inter-American Highway.

4. Finally, he urged that the Panamanians felt that the approval of the treaty in a sense marked approval by the United States of the general program and policies of the late President Remón.

It is my impression from everything that Fábrega said that the real reason for his great concern is the obvious one that the present administration feels that failure to approve the treaty in this session of Congress will create exceedingly difficult problems for it in the forthcoming presidential elections.

I told Fábrega that on two occasions the Department of State had expressed its interest in early consideration of the treaty, and that we would continue to do so. I asked him if he was aware of any opposition to the treaty. He said that he was not. I said that I had heard rumors to the effect that any opposition to the treaty would probably come either from the sector of organized labor or from United States shipping interests. I suggested that he might well

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1 Source: Department of State, Central Files, 611.1913/6-2355. Confidential. Drafted by Holland. Holland and Fábrega were in San Francisco for the special session of the United Nations, June 20–26, commemorating the tenth anniversary of the founding of that organization.
try to keep himself informed as to the possibility of any such opposition.

He said that he was going to New York on Monday of the coming week and would be in that region for about seven days. I agreed that I would look further into the present situation of the treaty and, if I could, would give him a ring in New York.

In the course of the second of our two conferences, he gave me a copy of a cable which he said he had just received from President Arias, of which a copy is attached to this memorandum.²

² Not printed.

126. Editorial Note

On July 15 Assistant Secretary Holland testified before the Senate Foreign Relations Committee on behalf of the Treaty of Mutual Understanding and Cooperation and the Memorandum of Understandings reached between the United States and Panama, signed at Panama City on January 25. For text of his remarks, see Department of State Bulletin, August 1, 1955, pages 185–188. On July 29, the Senate formally ratified the treaty.

On August 23 in Washington, Secretary of State Dulles and Panamanian Ambassador to the United States Joaquín José Vallarino exchanged the instruments of ratification with respect to the treaty and the accompanying memorandum of understanding. Under the terms of the treaty and the memorandum, they entered into force immediately upon the exchange of the instruments of ratification.
127. Instruction From the Acting Secretary of State to the Embassy in Panama

A-71


SUBJECT

Acquisition of Radar Stations in Panama

The interest of the Army in obtaining two hill-top areas in Panama for radar stations for the defense of the Canal, reported by the Embassy in its telegram No. 64 of September 16, is the subject of a letter addressed to the Department on October 19 by the Department of the Army. A copy of this letter is attached for the information of the Embassy. (OSA, C&R Control No. 4170.)

The Embassy will note that the request of the Caribbean Command for negotiations for the use of these stations has been approved by the Department of the Army. It is, of course, unfortunate that the need for these stations could not have been foreseen in time for inclusion in the recent negotiations with Panama which culminated in the treaty signed last January. The Department of the Army states that the original planning for this program was based upon the utilization of stations within the Canal Zone but that subsequent studies have shown the greater desirability of stations outside the Zone for the reasons stated in the first paragraph of the attached letter.

The Department concurs in the opinion of the Department of the Army that a request for the use of these stations in perpetuity would meet with strong opposition in Panama. Moreover, the Department of the Army considers that the rapid pace of developments in weapons and concepts of defense make unnecessary a request for the use of these stations in perpetuity. The Department, therefore, concurs in the recommendation that these stations be obtained on the same terms as the grant of the Rio Hato area in the 1955 Treaty.

1 Source: Department of State, Central Files, 611.1913/10-1955. Secret. Drafted by Sowash on October 28 and approved by Newbegin.

2 In telegram 64, Ambassador Harrington recommended that he be authorized to approach Panamanian Foreign Minister Alberto Boyd with a view to obtaining the use of lands required by the Department of the Army for radar sites. (Ibid., 611.1913/9-1655) Harrington was appointed Ambassador to Panama on July 27; he presented his credentials to the Panamanian Government on August 30.

3 In this letter to Holland, George H. Roderick, Assistant Secretary of the Army for Civil-Military Affairs, stated “currently approved Army programs provide for the deployment of a Surface to Air Guided Missile Battalion (Nike) to the Caribbean Command during Fiscal Year 1957.” He stated further that Lieutenant General William H. Harrison, USA, Commander in Chief, Caribbean (CINCARIB), had requested that authority be obtained from the Panamanian Government to establish two radar sites on a permanent basis in the Republic of Panama.
that is, for a period of fifteen years subject to extension thereafter as agreed to by the two Governments. Article VIII of the 1955 Treaty contains additional terms of occupancy and the Embassy should consult with CINCARIB with a view to determining which of those terms may be pertinent and necessary in connection with these new stations. The requested authority to construct necessary access roads with power, cable and water line rights of way may present difficulties. This was one of the thorniest problems encountered in the 1947 defense sites negotiations.⁴

In view of the very generous treatment accorded Panama under the Treaty of 1955, and of the fact that the defenses of the Canal are not only a mutual concern of the Republic of Panama but also afford protection to Panama City as well, the Department believes that Panama should be asked to grant the use of these stations without cost to this Government, if the lands in question are public lands. If, however, the Government of Panama should find it necessary to extinguish private titles in order to make these lands available, consideration might be given by this Government to reimbursing the Government of Panama to this extent. However, this possibility should not be mentioned at this time to the Government of Panama and if private land titles are found to be involved, the Embassy should report this fact at once to the Department.

The request for these stations and related rights undoubtedly will not be welcomed by the Government of Panama. Nevertheless, it is precisely this type of unforeseen contingency which was provided for in Article II of the 1936 Treaty⁵ and it is upon this Article that the request should be based. The Article provides full and sufficient grounds for the request and under it Panama is obligated to agree.

The Embassy is requested to initiate conversations at once with the Government of Panama for the use of these two stations, on the terms indicated above and in the attached letter. The Embassy should, of course, work in close collaboration with the Canal Zone authorities in this matter and should keep the Department fully informed of the course of the negotiations.

The Department desires that the term “defense sites” be studiously avoided in all references to this subject. The expression “radar

⁴ For documentation, see Foreign Relations, 1947, vol. vii, pp. 881 ff. The text of the proposed Defense Sites Agreement of 1947, signed but not ratified, is ibid., pp. 932–941.
⁵ For text of the treaty, see 53 Stat. 1807.
stations" not only is more accurate but is free of the unhappy connotations of the former term in Panama. 6

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6 On November 29, Ambassador Harrington presented an aide-mémoire to Panamanian Foreign Minister Boyd which formally requested that the United States be granted sites in Panama for radar equipment to be used in connection with the installation of Nike defenses in the Canal Zone.

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128. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Ambassador in Panama (Harrington) 1


DEAR JULIAN: The intricacies of our relations with Panama always are a surprise to the uninitiated, and not always a pleasant one at that. 2 I think I have a pretty good insight into some of the problems which confront you there, for the Panamanian negotiations were among the first order of business for me when I came to Washington and I had to spend many a weary hour on some of these same problems. I agree that, in coping with these problems, the situation on the Isthmus is such as to emphasize the importance of personalities. I am delighted, therefore, to learn of your high opinion of and close working relationships with the Governor 3 and General Harrison. With you as our representative on the team, I think we have a combination that, with patience, can lick these problems.

I am sorry that the liquor matter has come to the pass that it has. I have tried to impress upon Ambassador Vallarino my view that Panama's attitude in this matter is extremely short-sighted. The only logical explanation of the Panamanian position would appear to

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1 Source: Department of State, Central Files, 611.19/12-1355. Official Use Only. Drafted by Sowash.

2 A letter from Harrington to Holland, December 13, reads in part as follows: "I never suspected that a place as pleasant and peaceful as Panama could have so many headaches. It looks as if the honeymoon of the treaty is over, if our difficulties over the liquor tax issue are an example. I can only ascribe this Panamanian attitude on this question to the fact that they got off on the wrong foot. Now they either do not know how to alter their position gracefully or they are unwilling to do so under pressure." (Ibid., 611.19/12-1355)

The liquor matter was summarized in despatch 146 from Panama City, October 11. (Ibid., 611.1913/10-1155)

3 Brigadier General John S. Seybold, Governor of the Panama Canal Zone.
be that they are convinced we are bluffing in our talk about reconsideration of Executive Order 6997\textsuperscript{4} and will settle for less than what we are entitled to under the agreement. We propose to ask the Secretary for authorization to take the preliminary steps toward rescission of the Order. If he approves, we will authorize you to inform the Panamanian Government of the steps we are taking, in order to dispel any doubts they may have as to the seriousness of our intentions. If they remain adamant, then we shall proceed with cancellation of the Order. In making your recommendation to this end, you and the Zone authorities have, I am sure, weighed its possible effect upon some of our pending requests of Panama.

In spite of the problems which seem endemic there, I have always found Panama a most interesting place and I hope that I shall have the opportunity of visiting there soon.

My wife and I thank you for your holiday greeting and we wish you and Alys a most happy and successful New Year in your important post.

Sincerely yours,

Henry F. Holland\textsuperscript{5}

\textsuperscript{4}This order, signed by President Franklin D. Roosevelt on March 25, 1935, prohibited the direct importation of hard liquor into the Canal Zone.

\textsuperscript{5}Printed from a copy which bears this typed signature.

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129. Memorandum From the Director of the Bureau of the Budget (Hughes) to the Special Assistant to the President (Adams)\textsuperscript{1}

Washington, March 1, 1956.

SUBJECT

Sea level canal in Panama

This is in response to your memorandum of February 8\textsuperscript{2} requesting information as to whether or not there are any plans which indicate the interest of this Administration in a sea level canal in Panama.

\textsuperscript{1}Source: Eisenhower Library, Project Clean Up Records, Panama Canal. Top Secret.

\textsuperscript{2}Not found in Department of State or Eisenhower Library files.
The most recent and complete study of the merits of constructing a sea level canal along the existing route was completed in 1947. The report also considered several alternatives. The Governor of the Canal Zone at that time recommended construction of the sea level canal at an estimated cost of about $2.5 billion. The report containing this recommendation was submitted to the Congress on December 1, 1947, by President Truman without comment or recommendation. The Bureau of the Budget subsequently obtained the views of interested agencies on the proposal, all of which were generally non-committal. No action has been taken by the Congress and the report has not been printed.

In February 1955, the Bureau of the Budget recommended adversely on legislation (H.R. 3335, 84th Congress) to create an Interoczeanic Canals Commission for the purpose of making a comprehensive investigation and study of all problems involved in interoceanic canals. The recommendation was based on the fact that the results of a lengthy study of this subject were available in the 1947 report. Further study of the question on the scale contemplated in the legislation did not appear to be necessary.

You will recall that the subject of a sea level canal was brought up by the President in April of last year. Shortly thereafter, you requested that the cost estimates and traffic forecasts presented in the 1947 report be brought up-to-date and that we obtain the current views of the other interested agencies. This information has recently become available and is highlighted below:

Panama Canal Company

Present estimate of cost is $3.6 billion as compared with $2.5 billion in the 1947 report. Level of traffic in year 2000 presently estimated at 65 million net tons as compared with 86.3 million net tons in 1947 report. Present lock canal, with improvements now underway, will be adequate until last decade of this century except for "Queen" vessels, one ore carrier, and Forrestal and modified Essex class aircraft carriers.

Department of Defense (Joint Chiefs of Staff)

Panama Canal is strategically important. Its uninterrupted use is necessary to conduct of a war for movement of troops and strategic commodities. However, conversion to sea level canal should be

3 Reference is to a report by the Joint Chiefs of Staff, JCS 1778, "Security Aspects of Possible Canal Routes in Central America," dated May 16, 1947. (JCS Records, CCS 821.1 (5–12–47))
4 J.C. Mehaffey.
5 For additional information on this proposed bill, see Congressional Record, 84th Cong., 1st Sess., p. 3607.
considered of lower priority than military projects and activities required for security of nation. Entire question should be considered by Presidential Commission.

Atomic Energy Commission

A sea level canal with adjacent terrain appropriately graded would be less vulnerable to the effects of nuclear weapons than the present lock canal.

Department of Commerce

If sea level canal involved an increase in present toll structure, there might be serious economic dislocations and it would be exceedingly harmful to the intercoastal segment of the American Merchant Marine Industry.

Department of State

Negotiations with Republic of Panama would be required if changes in boundary between that country and the Canal Zone are involved, but relations with other countries would not be significantly affected by the sea level canal project.

On the basis of information presently available and particularly in the light of the expressed views of the Joint Chiefs of Staff on relative priorities, we do not believe that the Administration has an active interest in a plan for a sea level canal at Panama at this time. Furthermore, since any decision to build a sea level canal would necessarily stem almost entirely from defense considerations, we believe that creation of a Presidential Commission, as suggested by the Joint Chiefs of Staff, would serve no useful purpose in arriving at the decision. If, however, a Presidential Commission is considered desirable for other reasons, the scope of the duties of the Commission should be limited to consideration of conversion of the present canal to a sea level waterway, taking full advantage of data contained in the 1947 report.
130. Memorandum of a Conversation, Department of State, Washington, April 12, 1956

SUBJECT
Call of Governor Seybold

PARTICIPANTS
Governor Seybold of the Canal Zone
Mr. Holland, Asst. Secretary of State for Inter-American Affairs
MID—Mr. Sowash

General Seybold, Governor of the Panama Canal, called upon Mr. Holland by appointment today. Since the Governor's term expires next month, this was probably the Governor's last official call at the Department.

After a few pleasantries, the Governor stated that, as his swan-song, he would like to urge the importance of making every effort to ensure submission of the draft legislation for the implementation of the 1955 agreements with Panama to the Congress in time for action during the current session. Mr. Holland declared that he fully agreed and said that he had talked to Assistant Secretary of the Army, Mr. Roderick, about it this morning and that Mr. Roderick had informed him that he hoped to obtain a final decision today on the position of the Armed Forces with respect to the manner of implementation of the labor provisions of the agreements. The Governor said that Mr. Roderick was surrounded by a variety of pressures in this matter and that the differences within the Pentagon on the subject could most effectively be resolved by pressure for a decision from without. He thought that Mr. Holland was in the best position to do this. Mr. Holland said, unless he heard from Mr. Roderick in the meantime, he would call Secretary Brucker in an attempt to expedite action.

The Governor, in an oblique reference to State's recommendation of a wage increase for locally recruited workers adversely affected by the Treaty and to other related problems, urged that no changes be made in or amendments be added to the implementing legislation drafted by his office. He stated that the present language of the bill is sufficiently broad to permit the grant of a raise and other steps deemed desirable and that these matters should not be written into the legislation itself. He considers the timing of a wage increase most important and feels that it should not be granted until after the new system has been in effect for a time. It is important, in his view, that the timing be such as to make it clear that it is done

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1 Source: Department of State, Holland Files: Lot 57 D 295, Panama. Confidential. Drafted by Sowash.

2 Wilber M. Brucker, General Counsel, Office of the Secretary of Defense.
as an act of grace on our part and not seemingly as an obligation or a correction of an injustice in the Treaty, otherwise Panama, and not the United States Government, will receive credit for obtaining the raise. Mr. Holland indicated his view that this was good advice.

Governor Seybold then congratulated Mr. Holland on his able handling of our relations with Panama. He expressed the opinion that these relations were now on a far more realistic basis than before, to the mutual advantage of the two countries. Mr. Holland said that he believed the Governor had made an important contribution in accomplishing this. Mr. Holland declared that he believes that this more realistic basis of our relations is now accepted by and is understood by the Panamanians.

After a brief discussion of the local political situation in Panama, the Governor took his leave.

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131. Letter From the Ambassador in Panama (Harrington) to William B. Sowash of the Office of Middle American Affairs

Panama City, May 21, 1956.

DEAR BILL: Another indication of the Panamanian attitude toward the Canal Zone is the way in which Governor Seybold was allowed to depart without a single word of thanks for his unfailing helpfulness to Panamanians. When the Caribbean baseball series was played here who but Governor Seybold supplied the extra bleacher seats, at the personal request of President Arias, and did the hauling and installing as well. Seybold was constantly called upon for favors of that sort and complied willingly. Yet when he took his leave of President Arias and the Foreign Minister (I was present on both occasions) neither had an appreciative word to say, merely "bon voyage". On the other hand they pinned a medal on Admiral Miles whose contributions to Panama were boat rides to Porto Bello once a year and picnics to Toboquilla.

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1 Source: Department of State, ARA Files: Lot 60 D 667, Panama 1956—Relations. Confidential; Official—Informal.
2 Brigadier General William E. Potter had recently replaced Seybold as Governor of the Panama Canal Zone.
3 Rear Admiral Milton E. Miles, Commandant, 15th Naval District, Panama Canal Zone.
Whether the Panamanians liked Seybold personally is unimpor-
tant but as Governor of the Canal Zone he was entitled to a few
friendly words of appreciation. He did not get them. He, of course,
personified the forces that are frustrating Panama’s aspirations and I
am convinced that the Panamanian attitude toward him was planned
at a high level to be consistent with the Panamanian attitude
generally toward the Canal Zone and treaties in force. The only
Panamanian officials at the station to see him off were Bobby
Heurtematte and Levy Salcedo.

The time is ripe to take our gloves off and indulge in some
verbal fisticuffs. What the Panamanians need is a good scare such as
the threat of a completely independent operation in the Zone with a
fence around it and non-Panamanian people working inside it. To
change their present attitude may call for some drastic surgery.
Without it I see nothing but friction ahead.

I question whether the type of action in connection with the
radar sites, which Bob Memminger mentioned to me yesterday, will
get at the root of the problem. Moreover, it plays into the hands of
the Panamanians to the extent that the U.S. Government drags its
feet in the pending treaty legislation. I am still groping around for
ideas but as a first step I think we should publicize the Panamanian
turndown, stressing the defense aspects of the request, and possibly
inspire a few Congressmen to ask questions about it. However, this
line of action does not get to the heart of the problem which is the
problem of attitude.

You have been dealing with Panamanian problems longer than I
have and may see nothing new in the present situation but to me, at
this time when the atmosphere should be one of cordiality and
friendly cooperation following the treaty of last year, it is just the
reverse. This situation merits serious thought and I will welcome
your views. I find it difficult to keep a proper perspective as well as
my temper.

Sincerely yours,

Julian F. Harrington
Memorandum for the Files, by William B. Sowash of the Office of Middle American Affairs


SUBJECT

Panama’s Rejection of United States Request for Radar Stations

In three separate conversations over the weekend Ambassador Vallarino was informed by Mr. Holland and Mr. Sowash of this Government’s reaction of shock and disappointment to the action of the Panamanian Government last week in rejecting the request of the United States for radar stations in Panama under Article II of the 1936 Treaty. He was informed that this Government could not accept the validity of the arguments advanced by the Panamanian Government in rejecting our request and that the position of this Government remains as stated in the original request. The Ambassador was further informed that the Executive Branch of this Government has worked very hard to achieve the submission of the legislation implementing the 1955 Agreements in time for action by the Congress at this session and that, while we will continue to do what we can to obtain favorable action on this legislation, Panama’s rejection of our request for radar sites has very effectively sabotaged all hope of obtaining the passage of this legislation, since no member of Congress would approve it in the face of Panama's open flouting of its treaty obligations. It was added that an announcement regarding the radar stations is being planned and that Panama’s failure to cooperate was certain to become public knowledge. The Ambassador stated that he recognized the importance of the situation and would communicate with his Government regarding it.

On Monday, May 21, at the request of Mr. Holland, Mr. Neal asked Assistant Secretary Hill to inform the Congressional committees with jurisdiction over the implementing legislation of the situation with respect to the radar stations.

The line taken with Panama with respect to this matter, as above stated, was cleared with the Secretary by Mr. Holland.

WBS

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1 Source: Department of State, Central Files, 611.1913/5-2256. Confidential.
2 On May 16, Foreign Minister Boyd delivered an aide-mémoire to Ambassador Harrington which rejected the U.S. request for radar sites in Panama. The aide-mémoire was transmitted in despatch 401 from Panama City, May 22. (Ibid.) On May 18, Harrington telephoned Sowash to inform him of this development. He stated that he, the Governor, and General Harrington were deeply disturbed and believed that the United States should “throw the book at them.” (Memorandum from Sowash to Holland, May 18; ibid., 611.1913/5-1856)
Panama City, May 22, 1956—3 p.m.

384. I handed Foreign Minister today letter expressing amaze-
ment and disappointment Panamanian rejection our radar sites re-
quest and urging further reflection in effort to avoid consequences
we both would deplore particularly at this time. Letter of which
copies being airmailed pointed out development of high speed
aircraft and atomic weapons is precisely type of unforeseeable con-
tingency envisaged by Article II 1936 treaty and to regard request as
"military convenience" is to disregard judgement of experienced
technicians in field of electronics and guided missiles. Letter added
that oral offer negotiate new treaty was unnecessary in view of
specific terms of 1936 treaty.

Orally I told Foreign Minister his decision looked like deliberate
attempt to avoid cooperation with US on defense matter of vital
importance to both countries and that it raised important points in
our relations with Panama. I expressed surprise that it took 6 months
for Panamanians to decide 1936 treaty afforded no basis for such
request and reminded him that when he personally asked me to
postpone pressing for decision until local elections had passed he
asked me to believe request could be more sympathetically consid-
ered if it were kept out political campaign. I told Foreign Minister
Secretary Dulles was personally interested and disturbed but assured
him in conclusion he could count on our full cooperation and
assistance at Presidential gathering here next month irrespective of
present issue.

Boyd was grateful for opportunity to give problem further
thought and said he would send my letter to Foreign Relations
Council which made decision contained in his aide-mémoire and
would urge early action. I left in friendlier atmosphere than I had
anticipated.

Harrington

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1 Source: Department of State, Central Files, 611.1913/5-2256. Confidential.
2 Transmitted in despatch 401 from Panama City, May 22. (Ibid.)
134. Memorandum of a Telephone Conversation Between the Assistant Secretary of State for Inter-American Affairs (Holland) and the Panamanian Ambassador (Vallarino), Washington, May 26, 1956.¹

SUBJECT

Various Matters Discussed with the Ambassador of Panama

On Saturday, May 26, the Ambassador called me to express his satisfaction at the news that the Department of Defense was going to eliminate advertising from TV films shown in the Zone. I told him that the news had caused us much satisfaction.

He then complained somewhat emotionally about an order for Coca Cola that was being placed by the Zone authorities. He complained that this would cause an adverse reaction which would detract from the success of the Panama gathering of Presidents.² I said that I would ask that the facts on the case be forwarded to me.

I said that, while on the subject of things which could prejudice the Panama meeting, did he have any news on the matter of radar sites. I said that the refusal by Panama of the sites had astounded me. If the decision is to be controlled by the terms of the treaty, then, clearly, the sites should be granted. However, in my judgment, a much more impelling reason for granting the sites is the added protection that they would give for Panama itself as well as the Zone. I said that the decision placed the Department in an impossible position as regards passage of legislation to implement the treaty. We have been pressing for passage of the legislation. If we reveal Panama’s decision on the radar sites the legislation will not have the slightest chance of passage. If we continue for passage of the legislation, but without revealing the Panamanian decision on radar sites, the Department will be bitterly and justly criticized when the fact finally becomes known. I pointed out the great difficulty that any representative of the Department of State would encounter in testifying before Congressional committees on this legislation, since we could not well testify without disclosing the existence of the radar problem.

The Ambassador said that he was doing everything that he could to bring about a reconsideration and a decision granting the sites.

¹ Source: Department of State, Central Files, 919.50/5-2656. Confidential. Drafted by Holland.
² See vol. vi, Documents 109 ff.
On the subject of legislation he said that Senator Green has offered a draft in substitute for that proposed by the Administration. Panama prefers Senator Green’s draft and hopes that it will pass. I told him that I was unfamiliar with the Green draft.

3 Theodore F. Green (D-RI). The administration’s bill was one of a series introduced by the Eisenhower administration during the 2d Session of the 84th Congress in order to implement the 1955 Treaty with Panama. The proposed enabling legislation concerned the establishment of a uniform wage scale in the Canal Zone (S. 1850 and H.R. 6708), the transfer of certain lands from the United States to Panama (S. 1730 and H.R. 6709), and the construction of a bridge or tunnel at Balboa (H.R. 9801).

135. Letter From the Ambassador in Panama (Harrington) to the Assistant Secretary of State for Inter-American Affairs (Holland)

Panama, June 8, 1956.

DEAR HENRY: I strongly suspect that our Panamanian friends are preparing a bill of complaints against the United States for discussion at the forthcoming gathering in Panama either with you or, if possible, with the President. Their unhappiness over the present status of our relations is no greater than mine but until there is a change of attitude on their part I see no prospect of improvement.

As you well know we are confronted with constant efforts to break down our jurisdictional position in the Canal Zone with the eventual objective of Panamanian participation in the management of the Canal and ultimate ownership. One cannot help but have understanding of Panama’s aspirations and sensitivities over a foreign-dominated corridor bisecting their country. Nevertheless, their concerted attempts at encroachment can lead only to deteriorating relations and even bitterness. Succeeding treaties have given Panama greater benefits and under normal circumstances it would be reasonable to assume that each treaty would ensure at least a limited period of happy relations. The honeymoon following the 1955 treaty, as we well know, was painfully short notwithstanding its generous provisions.

1 Source: Department of State, Central Files, 611.19/6-856. Secret; Official-Informal.
Some positive action on our part is needed to reverse the current trend of relations. The meeting here later this month perhaps offers a convenient starting point. Apart from the fundamental premise that we are in the Zone to stay and that the Panamanians would do well to accept that fact, it might be helpful to impress on them that with a different attitude on their part they could without a doubt reap more advantages. I am quite sure that many local arrangements could be made in an atmosphere of good will and cooperation, if we were not constantly reminded of the evident aspirations of the Panamanian Government and the sharp disagreement with respect to our jurisdictional rights. For example, with a different attitude on their part perhaps we could risk reaching an informal understanding whereby their nautical inspectors could board transiting vessels as observers. It is obvious that there would be a greater disposition to cooperate with them if their own attitude were more reasonable and free from the constant threat of their long term objectives. Perhaps it would be well to hint that we can always operate the Canal entirely independently from Panamanian manpower and other resources and that to operate it independently would have many advantages to us. We would all deplore the necessity for indulging in any such extreme action but it is a possibility that could have disastrous effects on Panama’s economy and as such should not be overlooked by the Panamanians.

Cooperation runs in two directions and the Panamanians should not rely too heavily on our traditional generosity and tendency to be soft.

Sincerely yours,

Julian
136. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State

Washington, June 14, 1956.

SUBJECT

Authorization to Negotiate for Lease of Radar Sites in Panama

Discussion:

In November 1955 the Republic of Panama was requested by this Government to make available under Article II of the 1936 Treaty, a copy of which is attached two hilltop sites within the Republic for radar installations connected with the defense of the Panama Canal. The two sites within Panama are desired because they would afford more effective coverage than sites available in the Zone. In May 1955 Panama rejected the United States' request as improper under Article II of the 1936 Treaty, but in doing so intimated that she would be willing to enter into negotiations for a new treaty regarding the use of these sites.

The Department believes the request to have been properly made under Article II and declines to enter into a further formal treaty with Panama on this subject or to offer new concessions to Panama as an inducement to her to fulfill her treaty commitment under Article II. Under Article II of the 1936 Treaty, however, a further agreement with respect to any additional lands made available is envisaged. Accordingly, the Department is prepared to offer to negotiate an agreement limited to a lease governing the use of these sites, as was done in 1942 and 1947 for the acquisition of defense sites in Panama. The Department of the Army is requesting the Department of State to negotiate such a lease under the legislative authorization contained in Public Law 161, 84th Congress, 1st Session which provides: "The Secretary of the Army is authorized to establish or develop classified military installations and facilities by the acquisition of land and the construction, rehabilitation, or installation of permanent or temporary public works, including site preparation, appurtenances, and related utilities and equipment, in a total amount of $223,993,000."

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1 Source: Department of State, Central Files, 719.561/6-1456. Confidential. Drafted by Sowash and concurred by Herman Phleger, the Legal Adviser. Dulles initialed his approval of this memorandum on the source text.

2 Not printed.

3 For the full text of P.L. 161, approved July 15, 1955, see 69 Stat. 324.
Recommendation:

That you authorize the negotiation of an executive agreement with Panama regarding sites for radar installations.\(^4\)

\(^4\) In telegram 361 to Panama City, June 14, the Department stated its belief that the United States could base its request to Panama for radar sites on Article II of the 1936 Treaty and that no further treaty rights would be necessary. The telegram reads in part:

"Department therefore declines enter into further formal treaty on this subject or to offer concessions to Panama as inducement fulfillment her treaty commitments. It does agree however as in 1942 and 1947, to negotiate agreement in form of lease governing use sites which could be subject approval or ratification by Panamanian Assembly. No extraneous subjects will be considered in these negotiations. Panama will be expected demonstrate good faith in matter by granting permission without delay for survey of sites.

Inform Foreign Minister above sense. Department contemplates negotiation such agreement conducted by Embassy on basis CinCarib's drafts cleared by Department." (Department of State, Central Files, 611.1913/6-156)

On June 19, Ambassador Harrington delivered a letter to Foreign Minister Boyd incorporating the points set forth in telegram 361.

137. Memorandum of a Conversation, Department of State, Washington, June 20, 1956\(^1\)

SUBJECT
Radar Sites in Panama

PARTICIPANTS
Mr. Roderick, Assistant Secretary of the Army
Mr. Bacon, Deputy Assistant Secretary of the Army
Mr. Holland, Assistant Secretary of State for Inter-American Affairs
General Harrison, CinCarib
Mr. Sowash, MID

Messrs. Roderick and Bacon brought General Harrison to Mr. Holland's office today for a brief discussion of the radar sites problem, in which General Harrison stressed the importance to the military of acquiring the use of radar sites in Panama for the defense of the Canal. General Harrison stated that he had decided to delay his original timetable for the construction of these radar bases in the hope that the sites in Panama will be made available and thus avoid

\(^1\) Source: Department of State, Central Files, 611.1913/6-2056. Confidential. Drafted by Sowash.
the necessity of using inferior sites within the Zone. He expressed the view that Panama is using our interest in these sites to attempt to acquire new concessions and more dollars from the United States, and he expressed the conviction that Panama's constant goal is to encroach upon our exclusive jurisdiction in the Zone. Discussion of these subjects disclosed that the thinking of the two Departments is closely parallel.

It was agreed that it would be only prudent to retain as leverage, by postponing until the next session of the Congress, the legislation authorizing the return of lands agreed to in the 1955 Agreements with Panama. At the same time it was agreed that efforts should be redoubled to obtain passage of the labor bill and the bridge bill during the current session.

Mr. Roderick and General Harrison also spoke highly of Ambassador Harrington's work and of the close cooperation among the top United States officials on the Isthmus.

138. Editorial Note

In telegram 12 from Panama City, July 6, Ambassador Harrington reported that he had received a letter from Foreign Minister Boyd on July 5 in reply to his letter of June 19. In the letter, Boyd stated that he could find nothing in the record of negotiation relating to the 1936 Treaty to support the United States view that Article II was intended to provide for the use of additional land for defense on the basis of new technical developments in warfare. Accordingly, he explained that Panama believed that if a new agreement was to be negotiated it must be independent of the 1936 Treaty. (Department of State, Central Files, 611.1913/7-656) The text of Boyd's letter was transmitted to the Department in despatch 13 from Panama City, July 9. (Ibid., 611.1913/7-956) In telegram 15 from Panama City, July 9, Harrington pointed out that he and Lieutenant General Harrison agreed that the United States should make a public announcement that Panama had turned down its request for radar sites based on the 1936 Treaty and that it would therefore be necessary to plan for the use of inferior sites within the Canal Zone. "I believe," he stated further, "implementation 1955 treaty should be held up." (Ibid., 611.1913/7-956)

In airgram 5 to Panama City, July 13, the Department instructed the Embassy to deliver a note to the Panamanian Foreign Office at
its earliest possible convenience which would reiterate the United States position regarding the proposed radar sites. "Despite the Foreign Minister's allegations to the contrary," the telegram read "there can be no doubt that the record of the negotiations of the 1936 Treaty fully supports the United States viewpoint with respect to Article II. . . . The Department, with Department of the Army concurrence, does not consider it desirable to publicize at this time our differences with Panama arising from the request for sites through a press release or a statement by a member of Congress. This position is taken with a view to the forthcoming Meeting of Presidents in Panama and to allow Panama the fullest opportunity to retract from an untenable position without loss of face. If our compromise offer is rejected, appropriate measures of this or other kind can then be considered." (ibid.) On July 16, Harrington handed a note to Boyd which incorporated the views contained in airgram 5 to Panama City. The text of this note was transmitted to the Department in despatch 23 from Panama City. (ibid., 611.1913/7-2756)

139. Memorandum of a Conversation, Ambassador's Residence, Panama City, July 23, 1956

PRESENT

The President
The Secretary of State
Asst. Secy Holland
Ambassador Harrington
Mr. Jack D. Neal (MID)

President Arias
President-elect de la Guardia

President Eisenhower expressed his appreciation of the excellent manner in which Panama had conducted the meeting of Presidents. President Arias thanked the President for the personal sacrifice which he had made in coming and said that he was sorry Mrs. Eisenhower was not able to attend.

The President stated Mrs. Eisenhower did not like to fly long distances for short stays. He said he himself was afraid for awhile that he would be unable to make the trip but that his doctors had

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1 Source: Eisenhower Library, Whitman File, International File. Official Use Only. Drafted by Neal on August 17. President Eisenhower was in Panama to attend the meeting of the Presidents of the American Republics.
assured him he would regain his strength quickly and could attend. He stated that despite the lengthy signing session of Sunday when two speakers prolonged their remarks he had felt fine.

President Arias stated he wished to take this occasion to call the attention to some of Panama's problems. He stated our two countries had their differences which he always tried to work out. He said he and Ambassador Harrington discussed problems in a frank and friendly manner; that he usually had good relations with the Embassy and the State Department, but that dealing with the Canal authorities was more of a problem.

President Arias said his country was very small and its problems as seen by the United States might seem small, but that they were important to Panama. He compared the relative positions of the two countries by pointing out that this morning he had been told by Dr. Milton Eisenhower that the budget for Penn State College is $30 million per year; whereas, the yearly budget for the Republic of Panama is only $50 million.

President Arias stated that despite our recent treaties, things were not going well and that we are "running in to trouble". He said he had been unhappy from the start about the "equal pay" wage scale. He said he could foresee many difficulties in implementing this phase of the treaty and he believed in taking preventative action now rather than curatives later.

President Eisenhower said if there are any injustices being done he wants to know about them. He strongly emphasized his stand on this point saying he would not tolerate such practices. He said he knew the relationship between the Canal Zone and the Republic of Panama is a very complicated and technical one; that the Canal was operated by a separate corporation reporting to the Secretary of Defense, but that problems arising receive the attention of Secretary Dulles through Ambassador Harrington. He stated it is only natural that difficult problems will arise and that the United States will not always be able to agree with Panama on specific points because of requirements by the Defense Department, the Government of the Canal and because of our Congress. President Eisenhower stated that he had just returned from a drive through the Zone with Governor Potter. He said the Canal officials are very anxious to do away with the Panama Railroad because it is losing $500,000.00 per year, but Congress will not authorize this measure. He said he was one of the early advocates of a highway across the Isthmus but that the Canal Company fought the proposal because of the monopoly it had on freight and traffic. He said now they want to do away with the railroad!

President Arias said another problem which is causing more and more trouble is the Liquor Matter. He explained to President Eisen-
hower that as a result of the agreement the Zone residents are exempt from most of the Panama tax. Smuggling liquor from the Zone to the Republic is growing. He said it is no problem for him to get a case of whiskey from friends in the Zone.

The President said he was not familiar with the details of this matter but he realizes such things usually go on. He said when he was stationed here there was heavy traffic in cigarettes; they were practically legal tender.

The President said he thought maybe there should be a better channel for handling these problems which arise between Panama and the Zone. He said possibly we should have one person who could get these problems into the proper channels quicker.

President Arias said it disturbed him because these important matters were discussed on a high level here in Panama and were then transmitted to a low level in Washington for decision.

Assistant Secretary Holland stated this was not the case; that Ambassador Harrington transmits information to Washington by cable where it reaches the Secretary’s attention, his own attention and that of several specialists. The officer handling Panama affairs is in daily contact with him, that he (Holland) has also daily conferences with Secretary Dulles and that he (Holland) also has a regular one-hour weekly meeting with the Panama desk officer.

Mr. Holland stated he felt Washington coordination—White House, Department of Defense and State—was good and is improving as a result of recent procedures which the President had ordered.

The President said he had spoken to Secretary of Defense Wilson regarding Panama when President Remon visited Washington and had told him he did not want any injustice done in our handling of Panama affairs.

President Arias brought up the matter of Panamanian citizens residing in the Zone being exempt from Panama taxes. The President said this sounded most unjust and that these matters must be corrected. He said possibly the State Department had not always kept him as closely informed on the problem with Panama.

President Eisenhower asked if President Arias knew the new Governor of the Canal—General William E. Potter. President Arias said he did. President Eisenhower spoke very highly of Governor Potter saying he had known him many years and he was certain Panama would find him able and helpful.

President Eisenhower strongly expressed his insistence on “justice” in all our dealings. He said we are going to have problems between our two countries but that we must “go to the past and look to the future” when we are trying to solve them. President Eisenhower stated one of his strongest convictions is his belief in the sanctity of treaties. The President said that in his dealings he “won’t
be guilty of injustices". He asked President Arias to communicate with Ambassador Harrington at anytime who will get the information to the White House.

President elect de la Guardia raised the question of the 10% tax on transportation. The President stated he was not familiar with the details. Assistant Secretary Holland said the news on this point was good since only last week a bill to abolish the tax had been reported out of committees in both houses.

In connection with the statement that Panamanians were often disappointed that it took so long to obtain action from Washington the President-elect said that the Chase Bank here had a good deal of autonomy and could act on its own. On the contrary, he said, the National City Bank had to refer most matters to its head office in New York and, in consequence, Panama’s relations with the Chase Bank were better than they were with the National City Bank.

Secretary Dulles said he kept up with Panamanian matters but necessarily not as to detail. He pointed out he was constantly being confronted with international problems of grave import.

140. Memorandum From the President to the Secretary of Defense (Wilson)


While I was in Panama, the President of that country told me that in certain instances the arrangements between the Canal authorities and his country were not, in his opinion, working fairly, or were tending in such a way that he foresaw future trouble.

I recall instances that he mentioned specifically. The first had to do with the tax on liquor. It being manifestly impossible to establish custom guards or any kind of surveillance on the numerous roads leading from the Zone into Panamanian territory, it is clear that if an article can be purchased much more cheaply in the Zone than in Panama, smuggling will occur. He said that this was the case in the matter of liquor. As I understand it, Zone personnel, whether in the civil or military service, are able to purchase liquor at such a low rate of taxation that the total price in the Zone is little more than one-third what it is in Panama. He pointed out that the liquor tax

1 Source: Eisenhower Library, Whitman File, DDE Diaries.
was an item on which they had to depend for considerable revenue and that the existing situation was working great hardship on them.

Another point of complaint was what he termed the "slowness" in securing action on any Panamanian complaint or protest. He said that while the Ambassador was always readily available for hearing a complaint and forwarding it promptly to Washington, when a matter got into the hands of the Defense Department and the Canal authorities, seemingly endless delays ensued. With respect to this one, I told him that I would ask you to keep as close touch with such matters as possible so that you could personally determine that no unwarranted delays occurred.

He then referred to a difficulty that he foresaw as arising out of the recently concluded treaty. One article of that treaty provides for equal pay for equal work. But the President said that a system of work classification was being developed which the Panamanians were fearful was designed to place all the Panamanians in the lowest of pay categories. He asked assurance that entry into any grade would be strictly on merit, conducted by fair examination. To this I replied that the United States was in the habit of maintaining the spirit as well as the letter of its treaties.

I bring these matters to your attention because, first of all, I know that you would want to know of them. My more important reason is, however, that we must be exceedingly careful that the future years do not bring about for us, in Panama, the situation that Britain has to face in the Suez.

Local politics can feed on resentments brought about by real or imagined injustices to the native population. I think it behooves us to be scrupulously fair and considerate of Panamanian problems, and more than ready to meet them halfway, in any matter that seems to require adjustment between us, but without incurring the risk of divided control or beclouding our clear title to ownership.

D.D.E.²

² Printed from a copy which bears these typed initials.
Memorandum From the Acting Secretary of the Army (Finucane) to the Secretary of Defense (Wilson)


SUBJECT

Arrangements Between the Panama Canal Authorities and Panama

1. In accordance with our discussion on 26 July 1956, I have reviewed the situation and actions concerning the points mentioned in the President’s memorandum to you dated 25 July 1956. I am convinced that the United States, as represented by officials of the Departments of State, Defense and Army, has been scrupulously fair and considerate of Panamanian problems while at the same time assuring that proper United States treaty rights in the Canal Zone are not prejudiced.

2. The United States has had the right since 1903 to import all items into the Canal Zone free of any Panamanian duty. However, President Roosevelt’s Executive Order of 1935 in effect grants a monopoly to Panama on sales of liquor for consumption in the Canal Zone and subjects all liquor consumed in the Canal Zone to Panamanian taxation. This taxation finally became excessive. Therefore, in the 1955 Treaty, Panama agreed to effect a 75 percent reduction in this taxation as long as the United States continues to require that purchases be made from Panamanian merchants. The availability of alcoholic beverages at a reduced price when sold for importation into the Canal Zone does raise a smuggling problem. However, administrative control procedures are in effect which limit liquor purchases to a reasonable amount.

3. With regard to fair treatment for Panamanian employees, implementing legislation for a single wage plan for Canal Zone agencies has been submitted to Congress but not yet enacted. Before the legislation was requested, the plan was reviewed to insure that it would comply with the letter and spirit of the Treaty by the State Department; the military departments; the Canal Zone Government; the Presidential Advisor on Personnel Management, Mr. Philip Young; the Special Counsel to the President, Mr. Gerald D. Morgan; the Administrative Assistant to the President, Mr. Bryce N. Harlow; and officials of the Bureau of the Budget. This single wage plan, when implemented, will insure equality of treatment as positions will be classified without regard to nationality of the incumbent or

1 Source: Eisenhower Library, Whitman File, Administration Series. Secret. This document was included in a folder entitled "Wilson, Charles E. 1956."

2 Supra.
proposed incumbent. Rates of pay for positions which can be filled by local recruitment will be based on local wage rates, and rates of pay for positions for which recruitment is required in the United States will be based on rates of pay in the United States. In actuality, the present and proposed wages are substantially greater than those in effect for similar jobs in the Republic of Panama. The Treaty itself provides for overseas differentials and an allowance for those elements, such as taxes, which operate to reduce the disposable income of a United States citizen employee as compared to a non-United States citizen employee. Security positions are excluded from the equality provisions of the Treaty.

4. Evidence of fair relations beyond the letter of treaty commitments includes: a recently instituted wage increase at a cost of about $1,200,000 a year; accommodation since 1950 of members of the Panamanian Guardia Nacional (a total of 199 students through 1955) in the Military Police and Signal Courses of the U.S. Army Caribbean School; continuous change by the Panama Canal Company of job classes requiring higher skills in order to increase those for which Panamanians may be employed; and, plans of the Panama Canal Company to train additional Panamanians for those jobs requiring higher skills.

5. With regard to Panamanian allegations of “seemingly endless delays,” I consider that there are no unjustifiable delays by the Department of Defense in the United States–Panama negotiations. Rather, this allegation would be more aptly applied to Panamanian government actions. For example: the United States requested, in November 1955, that the Republic of Panama make available two parcels of jungle, hill-top land (approximately 12 acres) for the erection of essential radar stations for the Nike Battalion to be deployed to the Canal Zone. Despite United States insistence that the language and intent of the 1936 treaty clearly establish the basis for such cooperation, the Republic of Panama has not yet granted the use of these areas to the United States.

6. I am attaching additional background information provided by Mr. Roderick which elaborates the views expressed herein concerning the points mentioned in the President’s memorandum. In the memorandum, entitled “Additional Information on Arrangements Between the Panama Canal Authorities and Panama,” Roderick concluded as follows:

“In summary, I consider that the United States has been scrupulously fair and considerate of Panamanian problems and more than ready to meet them halfway; Panamanian allegations of ‘seemingly endless delays’ in resolving matters of mutual concern are unfounded; and that the US sovereign rights in the Canal Zone, obtained in the Treaty of 1903, are being adequately protected.”
7. In accordance with your suggestion, Mr. Roderick plans to leave for the Canal Zone on 2 August, as a follow-up on the President's trip.

8. This memorandum is classified Secret because of the reference to radar sites in paragraph 5 above. Other information included can be treated as "Official Use Only."4

Charles Finucane

4 Secretary of Defense Charles E. Wilson forwarded this memorandum to President Eisenhower under cover of a letter dated August 1. (Eisenhower Library, Whitman File, Dulles-Herter Series)

142. Memorandum From the Acting Officer in Charge of Central American and Panama Affairs (Sowash) to the Deputy Assistant Secretary of State for Inter-American Affairs (Rubottom)1


SUBJECT

Effect of the Suez Situation on Our Position in Panama

There can be no doubt that Egypt's seizure of the Suez Canal2 could have important repercussions upon our own position on the Isthmus of Panama. The Panamanians, unable or unwilling to see beyond the superficial analogies between the two situations, have made no secret of the fact that they follow with keen interest the developments at Suez. The Government of Panama unquestionably looks to the day when it will be able in one way or another to emulate the recent action of Egypt. There is quiet talk from time to time in even responsible circles in Panama of eventual nationalization or internationalization of the Panama Canal. Within the last few months an ex-Foreign Minister, who has always shown himself to be friendly toward the United States, remarked to our Ambassador that "Now Egypt has her canal and we shall someday have ours."

Unable to challenge our position in the Canal Zone by threat of force, the Panamanians instead have concentrated their efforts upon

1 Source: Department of State, Central Files, 919.7301/7-3156. Confidential. Transmitted through Acting Deputy Director of MID Hoyt.
2 On July 26 Egyptian President Gamal Abdel Nasser announced that he had signed into law a Presidential decree nationalizing the Suez Canal Company.
a gradual and insidious undermining of and encroachment upon our treaty rights in the Zone. This drive has been accelerating in the past two decades. Under the leadership of Dr. Ricardo Alfaro\(^3\) the Panamanians have evolved a forced and distorted interpretation of the existing treaties between the United States and Panama which runs counter to the position of this Government with respect to its treaty rights. Panama’s thesis would restrict the exclusive jurisdiction claimed and exercised by the United States in the Canal Zone under Article III of the 1903 Treaty to the five fields of the construction, operation, maintenance, sanitation, and protection of the Canal, leaving to Panama the right to the present exercise of sovereign rights in all other fields of activity in the Zone. The United States position is that, in accordance with Article III of the 1903 Treaty, she has all the rights which she would possess and exercise in the Zone if she were sovereign to the entire exclusion of the exercise of such rights by Panama, except insofar as such rights have been ceded back to Panama by the United States. This basic difference in interpretation of the 1903 Treaty by the two Governments underlies many of the problems that arise in their relations. The Panamanian thesis of course has strong emotional and nationalistic appeal in Panama and no government there probably would ever now dare abandon it, even if it wanted to. The United States on its part is equally wedded to its interpretation which it honestly believes to be the only one of which the clear language of the treaties is susceptible.

Pursuant to its thesis, the Government of Panama repeatedly endeavors to assert and exercise jurisdiction in the Zone in such diverse fields as labor, documentation of ships, and taxation. This Government, vigilant against such attempts, has consistently refused to countenance the exercise by Panama of jurisdiction in the Zone, except in those instances authorized by specific treaty provision, and all such attempts on the part of Panama have been vigorously protested by formal note. Such notes are usually not answered by the Government of Panama. The issue is constantly in the background in our relationships with Panama.

The Panamanians’ present stratagem appears to be to create as many precedents as possible in support of their contention. During the 18 months of negotiations which led to the agreements signed with Panama in January 1955 many of the Panamanian proposals were predicated on the Panamanian thesis and, while dealing with seemingly insignificant matters, had to be rejected forthright by this Government since their accommodation would have encroached

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\(^3\) Former President of Panama and member of the Panamanian Foreign Relations Council.
upon our treaty rights with consequent impairment of our fundamental position on the Isthmus. At several points of deadlock in the negotiations, the Panamanian negotiators openly threatened to carry the jurisdictional issue to the Permanent Court of International Justice if satisfactory solutions were not achieved on some of their complaints.

Knowing with what thoroughness and care the Government of Panama will scrutinize every possible precedent in support of their aspirations ultimately to obtain control of the Panama Canal, it behooves this Government, in the decisions which now confront it as a result of the recent developments in the Suez, constantly to bear in mind the possible repercussions which decisions with respect thereto may have upon our own position on the Isthmus of Panama. This applies equally to any press statements by officials of this Government with respect to the Suez crisis. I earnestly recommend that this aspect of the matter be brought to the attention of the Secretary, the Under Secretary, and Assistant Secretary Rountree in order that appropriate steps may be taken to insure that ARA is kept informed regarding Departmental policies and decisions concerning developments in the Suez. This is important in order that this Government avoid being placed in a position of adopting contrary positions with respect to the two areas which might be used as a lever against us at a later date by Panama in contesting our complete unilateral jurisdiction and control of the Panama Canal Zone. Such an arrangement was effected in 1953 during the tripartite talks on the Suez Canal. The attached proposed memorandum is designed for this purpose.

For your further information there is attached a copy of a memorandum prepared in 1952 by Miss Whiteman of L/ARA on the comparative legal position of the Suez Canal and of the Panama Canal.

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4 William M. Rountree, Assistant Secretary of State for Near Eastern, South Asian, and African Affairs.
5 This proposed memorandum was addressed from Rubottom to Secretary Dulles and Under Secretary Hoover. It was not attached to the source text. (Department of State, ARA Files: Lot 60 D 667, Panama 1956—Suez) The memorandum briefly discussed the relationship between developments in Panama and the Suez Canal crisis, recommending that ARA be kept informed in advance of Departmental policies, decisions, and statements with respect to Suez in order that precedents not be set or statements made which might be used to the disadvantage of the United States at a later date by Panama. It was apparently not sent forward. A handwritten note on the memorandum by Fisher Howe reads as follows: “Believe this matter was taken care of at a meeting with Mr. Hoover.”
6 Not found attached. (Ibid.)
143. Circular Telegram From the Secretary of State to Certain Diplomatic Missions

Washington, August 3, 1956—5:33 p.m.

85. Joint State–USIA. Egyptian seizure Suez Canal and resultant developments causing public comment on US position Panama Canal Zone. Avoidance initiation any discussion linking status Panama Canal with Suez Canal problem will further our foreign policy objectives. Any USIS material relating to US rights in Canal Zone within context of discussion of Suez seizure should be based on statements by President or Department and factual reporting of statements from Panamanian or other sources which look favorably on U.S.-Panamanian relations concerning the Panama Canal. Posts however should seek de-emphasize any linking two canal situations.

Dulles

1 Source: Department of State, Central Files, 611.1913/8–356. Confidential. Drafted and approved by Richard I. Phillips, Public Affairs Officer, ARA. This telegram was sent to all diplomatic missions in Latin America, repeated to 33 other posts, pouched to 15 additional posts, and sent for information to Ottawa.

144. Memorandum From the Deputy Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Secretary of State

Washington, August 6, 1956.

SUBJECT

The Panama Canal in the Light of the Suez Crisis

In view of the attempts of Egyptian spokesmen and others to link the settlement of the Suez Canal crisis with a change in the status of the Panama Canal, the following points may be of interest:

1 Source: Department of State, Central Files, 611.1913/8–956. Confidential. Drafted by Sowash and Kreig and transmitted to all (20) diplomatic missions in Latin America in circular airgram 1281, August 9. (Ibid.)

At a meeting of the Secretary's Staff on August 2 Acting Secretary of State Hoover commented on the Latin American viewpoint on the Suez crisis and the relationship between U.S. actions regarding Suez and the Panama Canal. He asked the Bureau of Inter-American Affairs to prepare a study of the problems which existed or might arise in the Suez crisis which had a parallel in or relationship to the Panama Canal.
1. The treaty status of the Panama Canal greatly differs from that of the Suez Canal. The Suez Canal Company is a private company operating in territory under Egyptian jurisdiction and under a concession that expires by its own terms in 1968. The Panama Canal is operated by an agency of the United States Government in an area granted in perpetuity to the United States in which the United States exercises broad rights of sovereignty to the exclusion of exercise of such rights by Panama. A summary of the basic differences in the status of the two canals is attached (Tab A).

2. The grant of the Canal Zone under the 1903 Convention is made in perpetuity and in the 1955 Treaty Panama specifically agreed that the provisions of the 1903 Convention, as well as those of the 1936 and 1955 Treaties, may not be modified except by mutual consent.

3. By article III of the Hay–Pauncefote Treaty of 1901 between the United States and Great Britain it was agreed that “The Canal shall be free and open to the vessels of commerce and of war of all nations observing these Rules, on terms of entire equality, so that there shall be no discrimination against any such nation, or its citizens or subjects, in respect of the conditions or charges of traffic, or otherwise.”

4. Panama openly aspires to limit our exclusive jurisdiction in the Zone, with a view to ultimate joint control and administration or possibly internationalization of the Canal. To this end the Panamanians have evolved a distorted interpretation of Article III of the 1903 Treaty which would restrict the exclusive jurisdiction of the U.S. in the Canal Zone to the five fields of construction, operation, maintenance, sanitation and protection, leaving jurisdiction in all other fields to Panama. We do not agree with this interpretation and Panama is unable to challenge with force our position in the Canal Zone.

5. Panama’s current endeavor appears to be to establish precedents in support of her views on jurisdiction within the Canal Zone and to this end will scrutinize carefully all statements and positions of this Government with respect to the Suez crisis.

6. It is possible that Panama will someday try to take the United States before the International Court of Justice on their basic differences with respect to United States treaty rights in the Zone.

7. Acquiescence in the Panamanian interpretation of Article III, 1903 Convention, would result in administrative chaos within the

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2 At a meeting with British officials in London on August 1, including British Foreign Secretary Selwyn Lloyd, Secretary Dulles explained what he believed were the important legal distinctions between the status of the Panama Canal and the Suez Canal.

3 For text, see 32 Stat. 1903.
Zone and imperil the efficient operation and security of the Canal. Insistence upon the sanctity of the treaties governing the Canal is essential to our national interests. We should set an example for Panama by scrupulous observance of our own treaty rights and obligations, but at the same time we should not attempt to pursue a policy of appeasement or new concessions to Panama.

8. We should seek to avoid any precedent or step which might result in demands for the consideration of the internationalization of the Panama Canal in the UN or OAS forums.

A discussion of the current situation of the Panama Canal in the light of developments concerning Suez is appended as Tab B.4

[Tab A]

BASIC DIFFERENCES BETWEEN THE SUEZ AND PANAMA CANALS

Suez Canal

1. Suez Company holds a private concession.
2. Canal is operated by Suez Company, a private concern, registered in Egypt.
3. Suez Canal is an "integral part" of Egypt.
4. The concession of the Suez Canal runs for 99 years, expiring in 1968.
5. For purpose of guaranteeing status of Suez, it was made subject of multilateral treaty.

Panama Canal

1. Canal Zone rests on public treaty.
2. Canal Zone rests on a grant to the United States and is operated by a governmental agency.
3. Panama Canal is in the Canal Zone over which Panama has granted United States exclusive jurisdiction.
4. The grant to the United States of sovereign rights, power and authority in the Canal Zone is in "perpetuity".
5. All responsibilities vis-à-vis Panama contained in bilateral treaties.

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4 This 7-page memorandum, prepared by Sowash, elaborated upon the points contained in the memorandum of August 6 from Rubottom to Dulles. Another memorandum on the same topic, entitled "Panama Canal vs. Suez Canal", dated August 10, was prepared as a position paper for the 22-nation London Suez Canal Conference, held August 16-23. That paper, drafted by Whiteman and cleared with Sowash, is in Department of State, UNF Files: Lot 58 D 244, Suez—1956.
6. Construction, financing and management is international. 6. Construction, financing and management not international—undertaken by United States alone.

145. Memorandum From the Deputy Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Secretary of State

Washington, August 7, 1956.

SUBJECT

Estimate of Canal Problem in Latin America; Your Briefing of Latin American Ambassadors Today

1. Press reaction—generally favorable to Western position.
2. Government reaction—most appear to be watching and waiting; believe they will support us once informed.
3. Attitude of Panama.

(a) Has announced will not be bound by London Conference decisions, thus revealing pique at not being invited; other governments may sympathize with her on this point.
(b) Telegram this morning reports statement attributed to Panamanian government spokesman adverted to their traditional position which would attempt to limit our exclusive jurisdiction in Canal Zone to construction, operation, sanitation and protection.
(c) Above may indicate Panama rather than espouse internationalization may increase pressure on United States for further concessions under the 1903 Treaty, several times amended in Panama’s favor, last in 1955. Her efforts would probably be attended by wide publicity.

4. Our official line for the present with Latin American Governments should be to explain fully our unassailable moral position on Suez Canal problem. Your briefing this morning should be followed by telegraphic report to all our Embassies so that Ambassadors can discuss subject fully with Foreign Offices.

1 Source: Department of State, ARA Files: Lot 58 D 691, Suez Canal–Panama Canal 1956. Secret. This memorandum was routed through the Executive Secretariat (S/S) and initialed by Howe. A handwritten note on the source text by William B. Macomber, Jr., Special Assistant to the Secretary of State, indicates that Dulles was informed about the contents of this memorandum.

2 Apparent reference to telegram 118 from Panama City, August 6. (Ibid., Central Files, 396.1-LO/8-656)
5. At the same time we should consider a carefully planned effort through . . . informational media to disassociate the questions of the Suez and Panama Canals.

146. Editorial Note

On August 8 President Eisenhower held a news conference devoted primarily to a discussion of the Suez Canal crisis. During the course of the conference, he pointed out that the Suez Canal became an international waterway as a result of the treaty of 1888. This was completely unlike the Panama Canal, he continued, which was "strictly a national undertaking carried out under a bilateral treaty." Excerpts from the President's remarks were transmitted to Assistant Secretary Holland, who was in Panama as part of a larger visit to several Latin American nations, in telegram 95 to Panama City, August 8. (396.1–LO/8–856) For the full transcript of Eisenhower's press conference, see Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1956 (Washington, United States Government Printing Office, 1957), pages 660–671.

At 11:30 a.m. that same day, the President met with Secretary of State Dulles to consider Suez developments. Eisenhower and Dulles briefly discussed the relationship between the Suez Canal and the Panama Canal. According to Dulles' memorandum of that conversation, the following exchange took place:

"I mentioned to the President that there was some indication that Panama was getting into contact with Egypt. The President indicated considerable annoyance and stated that if we left the Panama Zone we would take the locks with us. He again reverted to a suggestion that he had made once or twice before that we should consider the desirability of building an alternative route in Nicaragua so that we would not be subject to blackmail."
147. Memorandum of a Conversation, Panama City, August 9, 1956

SUBJECT

Suez Canal Problem

PARTICIPANTS

From Panama
President Arias
Acting Foreign Minister Molino
Harmodio Arias
Dr. Octavio Fabrega

United States
Ambassador Julian Harrington
Assistant Secretary Henry Holland

The first three hours of the meeting were taken up by a long rehearsal by the Panamanians of different complaints regarding U.S. implementation of the treaty between us. That will be reported in a separate memorandum.

At the end of this period I raised the problem of the Suez Canal. The Panamanians showed some surprise and said that they had not intended to raise the problem. I said that I would like to do so because I felt confident that it was one upon which they had been thinking heavily and that I felt it was one of importance between our two countries.

Prior to the conference I had undertaken to outline in my own mind a presentation which might be appealing to all of the different shades of thinking that I felt sure could be found among the President's advisers, and which might persuade each of these groups to follow a line of temperance with respect to the Suez problem.

I told the President and his advisers that I had, in my thinking, attempted to put myself in the place of a Panamanian and determine what would be the best course for my country. This, of course, depended upon what my objective with respect to the Panama Canal might be.

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1 Source: Department of State, Holland Files: Lot 57 D 295, Panama. Top Secret. Drafted by Holland on August 14. Following the meeting of the Presidents of the American Republics at Panama, Holland, accompanied initially by Secretary Dulles, began a trip to the following South American countries: Colombia, Ecuador, Peru, Chile, and Bolivia. In telegram 98 from Panama City, repeated for information to Holland in Santiago, the Embassy noted that President Arias had confirmed his personal interest in having further talks with Holland the following week. "I strongly favor such a meeting," Ambassador Harrington stated, "as means of clarifying atmosphere." (Ibid., 611.19/7-3156) Holland arrived in Panama on August 8 and returned to the United States August 9.

2 Harmodio Arias Madrid, Chairman of the Panamanian Council of Foreign Relations.

3 Not found in Department of State files.
I knew that some Panamanians favored eventual nationalization or internationalization of the Canal. If I belonged to this group I would see two possible courses. The first would be to try to intervene in the Suez problem, to identify Panama with Egypt and to draw analogies between the two canals. The second course would be to avoid any participation in the Suez problem and to await a more favorable time to pursue my objective.

Of these two courses, the second seemed to me the better. The first would necessitate the immediate sacrifice of some exceedingly valuable short-term assets of Panama. These are the present good will of the United States people and Government and the intention of the administration to urge favorable action by the next Congress on the legislation appropriating funds to construct the bridge across the Canal, the legislation regarding equal pay rates in the Zone and the legislation transferring to Panama certain lands and other assets covered by the recent treaty amendment. Likewise, the first course would necessitate Panama’s identifying herself with the enemy of the United States and of Panama, since it is probable that Soviet Russia will align herself with Egypt.

As a Panamanian, my objective might be the continuation of the present arrangement between the United States and Panama regarding the Canal. If this were my objective, then I would be intent on a course of action having two major features. The first feature would be to neutralize the efforts of three local groups which will surely try to embarrass the Government of Panama with respect to the Suez problem. These groups are the local communists, the local sector which favors nationalization of the Panama Canal and the local opposition to the existing Government. As a defense against the activities of these three groups I would publicly evidence intense interest in the Suez problem; I would publicly express a desire to participate in the London Conference, but I would be exceedingly careful to avoid the slightest possibility of actually being drawn into that Conference. If Panama were to be included in the London Conference it would be inevitable that she would be forced to adopt a position which would prejudice the Government. Panama would have to identify herself either with the Egyptian point of view or with the U.S. point of view. In the first case, she might sacrifice the enormous asset represented by present U.S. good will toward her. In the second case, the Government might find itself embarrassed domestically and exposed to the attacks of the three opposition groups mentioned above.

The second feature of my course of action if my objectives were continuance of the existing Panama Canal regime would be to seek to extract from the Suez dispute something of legitimate benefit for Panama. I thought I saw an opportunity to do this. For some time
Panama and the United States have been negotiating regarding the acquisition by the United States of the right to establish radar and defense installations on two hilltops adjacent to the Canal Zone. If, at this time, when the public of the United States is deeply concerned about the implications of the Suez problem and, particularly, its possible effect on our interests in the Panama Canal, Panama were to grant these defense sites, the effect on the public and Congress of the United States would be very favorable. The Government and people of the United States would take this as a courageous demonstration of solidarity on the part of Panama. This is exceedingly useful to Panama at this time. We foresee great difficulties in achieving enactment by the next Congress of the legislation implementing our last treaty revision and described above. The labor unions are going to oppose the legislation regarding equal salaries. The shipping interests are going to oppose the construction of the bridge, because they fear that its cost might result in increased charges for transiting the Canal. The good will which would be generated by an authorization of the radar sites would, in my judgment, be an important factor in achieving favorable action on the legislation at the next Congress.

I concluded by saying that as between the two basic objectives, nationalization or internationalization of the Canal, and continuation of the present situation, I felt that the second was the one which most served Panama’s interest. If the Canal were internationalized or nationalized, the present peculiar relationship between Panama and the United States would, of course, come to an end. That relationship is one which has in the past and will in the future produce real benefits to Panama. These benefits are, in all probability, considerably more valuable than would be those which she might derive from the Canal even if it were nationalized.

At the conclusion of my remarks, Dr. Harmodio Arias asked if I had not observed that the Government of Panama had been following precisely the course that I had recommended. I replied that this was true; that I thought that the Government had done exactly what I felt most served the interests of Panama. It had expressed a keen interest in the Suez problem; it had expressed a desire to participate in the London Conference. This should fully protect it against the attacks of the local opposition sectors I had mentioned. Now the Government should desist from further statements on the subject; otherwise, it might find itself unwillingly embroiled in a problem which could only prejudice the interests of Panama.

Later in the evening, Dr. Arias stated to Ambassador Harrington that the discussion of the Suez problem had been helpful to him, because he had been under considerable pressure from some of the
more nationalistic elements of the Government to follow a different policy.

Later in the same evening, I had a further conversation with the Acting Foreign Minister, Mr. Molino. He assured me that in his judgment the existing relationship between the United States and Panama as regards the Canal held benefits for Panama far exceeding in value anything that could be derived from any nationalized or internationalized status for the Canal. He described the existing relationship as a sort of a partnership between Panama and the United States. Any change would mean that, at best, other nations would participate in the benefits of that partnership.

From all the foregoing, it is my feeling that, if Panama supports us at this time, it will be a factor which she will use for years to come in negotiations with us on the many economic problems that arise in connection with the Canal.

In our subsequent conversation, Mr. Molino stated that he had directed the Panamanian Ambassador in Rome, who is also accredited to Cairo, to go there and maintain contact with the Egyptian Government for the purpose of keeping Panama informed. I told him that I felt that this might prove to be a mistake, and that it might be better for him to advise his Ambassador to stay away from Cairo. This would prevent the possibility of Egypt's managing to draw Panama into the dispute in some way. I said that we would be glad, if he wished for us to do so, to keep Panama fully informed of the course of the negotiations in London.4

4 Rafael Vallarino.

5 In a memorandum to the President, August 13, Secretary Dulles reported that Holland had a long talk with President Arias and other Panamanian officials regarding matters at issue between the United States and Panama, including the future status of the Panama Canal and the negotiations concerning the Suez crisis. "His talk was, I think, constructive, and on the whole, reassuring," the Secretary wrote: "He would be glad to report to you personally if you would desire this." (Department of State, Holland Files: Lot 57 D 295, Panama) The President, through his personal secretary, Ann Whitman, informed Holland's office that a meeting with the Assistant Secretary would not be necessary. A copy of Dulles' memorandum in Eisenhower Library, Whitman File, Dulles–Herter Series, bears the President's initials, indicating that he read the memorandum.
148. Telegram From the Acting Secretary of State to the Embassy in Panama

Washington, August 15, 1956—7:43 p.m.

107. For Ambassador. Re Secto 1 repeated Panama. 2 Ambassador may wish recall to Panamanians Holland’s recommendation further public statements identifying Panama with Suez dispute might well imperil U.S. public and governmental good will necessary for passage legislation implementing 1955 Treaty. This would certainly include nuisance tactics by Panamanian Ambassador London. 3 By its statements already published Panamanian Government has fully protected itself against attacks by domestic opposition and nationalistic elements. Further public statements there or London would seem prejudicial best interests Panama. 4

Hoover

1 Source: Department of State, Central Files, 396.1-LO/8-1556. Secret; Priority. Drafted and approved by Holland.

2 Secto 1, August 1, reads as follows: “Secretary and party arrived London 9:00 a.m. local time.” (Ibid., 396.1-LO/8-156)

3 Roberto E. Arias.

4 Telegram 149 from Panama City, August 16, reads as follows: “Foreign Minister assures me Panamanian Ambassador London will be instructed to refrain from ‘nuisance’ statements and activities and act only in accordance with Foreign Office directives.” (Department of State, Central Files, 396.1-LO/8-1656)

149. Memorandum of a Telephone Conversation, Between the Ambassador in Panama (Harrington) and the Acting Officer in Charge of Central American and Panamanian Affairs (Sowash), August 17, 1956

SUBJECT

Long Distance Conversation with Ambassador Harrington in Panama City

Ambassador Harrington called me from Panama at 11:00 o’clock this morning. The conversation covered the following topics:

1. The Ambassador said that Panama had again rejected the United States position with respect to Article II of the 1936 Treaty in connection with the United States request for radar sites in

1 Source: Department of State, Central Files, 611.1913/8-1756. Confidential.
Panama. He said he had sent the Department a strong telegram on this subject and wished the Department to consider carefully its implications of Panama’s action with respect to our future policy toward that country.

2. He said that a telegram is being sent to the Department containing the text of a press release which he and Assistant Secretary Roderick believe should be issued at the conclusion of Mr. Roderick’s visit to the Isthmus. He thought that it was particularly desirable that this release be made in view of Panama’s action on the radar sites question. He said that it deals solely with questions involving the implementation of the 1955 Agreements with Panama and does not mention the radar sites and Suez issues. He asked that, if possible, the Department telephone its clearance today in order that the release may be made to the press in Panama tomorrow morning. He suggested that the text be cleared with Mr. Roderick’s office, too.

3. The Ambassador stated that he was also sending by cable the text of a protest regarding the London Conference made by the Panamanian Ambassador to London. He requested that the text of this protest be carefully reviewed with a view to determining whether its language requires a counter-protest from this Government to Panama.

4. Ambassador Harrington inquired whether any decisions have yet been reached with respect to the special mission of the United States Government to the inauguration ceremonies in Panama on October 1. I replied that an instruction should reach him over the weekend on this subject authorizing him to accept the invitation of

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2 Telegram 148 from Panama City, August 16. (Ibid., 611.1913/8–1656)
3 Roderick was on a brief visit to Panama, August 14–19, to discuss activities of the Canal Zone Government, the Panama Canal Company, and the defense establishment in the Canal Zone, with particular emphasis on implementation of the recent treaty between the United States and Panama. Telegram 152 from Panama City, August 17, contained the text of Roderick’s proposed press release. A handwritten note on the telegram indicates that the statement was cleared by telephone with Sowash on August 18, with some changes. (Ibid., 611.1913/8–1756) A report on Roderick’s conversations with Panamanian officials was forwarded to Gordon Gray on September 14. (Department of Defense, OASD/ISA Files, Country Files, Panama)

4 In telegram 145 from Panama City, August 16, the Embassy reported that the Panamanian Ambassador in London had been instructed on August 15 to deliver a note to the British Foreign Office protesting Panama’s exclusion from the 22-Power Suez Canal Conference. The note stressed the importance of Panama as a maritime nation with large tonnage. It stated, furthermore, that the Panama Canal was built on a land under Panamanian sovereignty although certain specific rights for maintenance, sanitation, operation, and protection had been granted to the United States, and that according to a treaty in effect both the United States and Panama had a joint and vital interest in the canal. The note concluded that Panama reserved rights with respect to any decisions of the conference. (Department of State, Central Files, 396.1–LO/8–1656)

5 Ernesto de la Guardia, Jr., was elected President of Panama in May 1956.
the Panamanian Government to send a special mission. I added that the names of the members other than himself, as Chief of Delegation, could not yet be made available and that this information would follow at a later date. I suggested and the Ambassador agreed that the Embassy time its acceptance so that the United States delegation will rank about midway in point of precedence for the ceremonies.\(^6\)

\(^6\) Airgram 30 to Panama City, August 24, requested the Embassy to reply to the Panamanian note of August 15 regarding the London Conference in part as follows:

"In the note occasion was taken to state that Panama 'has granted to the United States of America certain rights [in the Canal Zone] for specified purposes relative to the maintenance, improvement, operation, and protection of the Panama Canal'.

"In view of this statement, I am under instructions from my Government to state, for the record, that under Article III of the Convention of 1903 Panama granted to the United States ‘all the rights, power and authority within the zone . . . and . . . all auxiliary lands and waters . . . which the United States would possess and exercise if it were the sovereign of the territory within which said lands and waters are located to the entire exclusion of the exercise by the Republic of Panama of any such sovereign rights, power or authority’. Article III thus confers upon the United States exclusive jurisdiction within the Zone." (Department of State, Central Files, 396.1–LO/8–1656) Brackets and ellipses are in the quoted airgram.

150. Despatch From the Ambassador in Colombia (Bonsal) to the Department of State\(^1\)

No. 117

Bogotá, August 20, 1956.

REFERENCE

Department’s Circular Instruction No. CA–1281, August 9, 1956\(^2\)

SUBJECT

The Panama Canal in the Light of the Suez Crisis

I have read the above reference circular and the enclosed material with great interest and am glad to have this background material on a subject of such immediate importance. The following comments suggest themselves:

It is perhaps a minor point but it seems to me that the reference on page 4 of the memorandum to Panama’s “transformation from a miserably misgoverned and backward province of Colombia” is

\(^1\) Source: Department of State, Central Files, 611.1913/8–2056. Confidential.

\(^2\) See footnote 1, Document 144.
somewhat infelicitous in a memorandum "the substance of the information" contained wherein "may be made available if requested."

The impression which the memorandum gives me is that the United States stakes its position, first, on the correctness of our interpretation of Article III of the Treaty of 1903 and, second, on the fact that "Panama is obviously in no position to challenge our position in the Canal Zone by threat of force." It seems to me that the example of Egypt should indicate to us that these are rather weak reeds on which to lean. It is not the fact that Panama has "a national guard of only 2500 ill-equip aged men" which is going to decide the effectiveness of Panamanian opposition to our control of the Canal in the unhappy event that this issue should become acute. It would be rather the ability of our enemies in Panama and elsewhere to mobilize against us the opinions and the actions of a large proportion of the one million people of Panama, most of whom live in what the memorandum describes as the "teeming slums" of Panama and Colón.

I am sure the Department is aware that our problem in Panama calls for a considerably higher order of statesmanship than mere reliance on the relationship between the United States Armed Forces in the area on the one hand, and the Panamanian National Guard on the other, or on our, no doubt correct, interpretation of a treaty signed 53 years ago with a country which, although it tends ungratefully to forget it, at that time "owed its very existence as an independent republic" to the United States. I would also suggest that we would hardly wish to rest our case in discussing this matter with our friends in the other American republics on these points.

I know from experience that it is an irritating and frustrating experience to deal with the Panamanians on Canal matters. I was involved in the 1941 and 1942 negotiations. I am convinced, however, that the strength of our position in Panama will depend upon a continuance of the political rather than the military or legalistic approach. I do not, of course, suggest that we should abandon our military or legal rights but I do think that we will have to continue to work with the political problem with which we as well as statesmen and politicians in Panama are confronted and will continue to be confronted.

Philip W. Bonsal
151. Memorandum of a Conversation, Department of State, Washington, August 22, 1956

SUBJECT

Philippine Base Negotiations
Panama
Brazil
Greece

PARTICIPANTS

Deputy Secretary Reuben Robertson, Defense Department
Admiral Radford, Joint Chiefs of Staff
Acting Secretary Robert Murphy

[Here follows discussion of the Philippine base negotiations.]

Panama. We had considerable discussion of general conditions in Panama affecting American interests and I voiced regret that routine operating problems such as wages paid to Panamanian laborers, commissary privileges, school facilities, etc., had created the volume of local dissatisfaction which seemed to be the case. I said that it is appreciated, of course, that some Panamanians attempt to exploit our presence in the area and that this psychology will undoubtedly continue to prevail. I raised the question of Nike sites and was pleased to obtain an immediate reaction from Admiral Radford to the effect that we are no longer interested in obtaining the Nike sites agreement from the Panamanians. He said that he and a number of others are opposed to the Nike program. It was agreed that we would simply have our Ambassador drop the matter without saying to the Panamanians for the moment at least that we had abandoned the project. I expressed the view that this reduction of our requirements would be most helpful in our present situation in Panama.

[Here follows discussion of military relations with Brazil and Greece.]

152. Letter From the Ambassador in Panama (Harrington) to the Assistant Secretary of State for Inter-American Affairs (Holland)\textsuperscript{1}

Panama, August 24, 1956.

DEAR HENRY: In casting about for a sedative to curb the current upswing of Panamanian emotions arising from their disappointment over the benefits of the single wage scale provisions of the 1955 Treaty, I can think of nothing that would have a more sobering effect than a revival of talk in Washington about the possibility of a sea level canal across Nicaragua. Assuming that there soon will be a need for more adequate canal facilities it seems unwise to me, purely from a military point of view, to put all our eggs in one basket by considering a sea level canal across Panama. Perhaps now is not the time to introduce the idea of another canal but it behooves us to take a careful look before considering any such move in Panama.

Perhaps you can suggest a better palliative but the possibility of a canal across Nicaragua would soon bring about a realization among Panamanians that they would do well to accept gracefully the many benefits they are now reaping. I, for one, am glad that these issues have come out into the open. They have been coloring all of our negotiations, to our disadvantage, ever since I arrived here a year ago.

Sincerely yours,

Julian F. Harrington\textsuperscript{2}

\textsuperscript{1} Source: Department of State, ARA Files: Lot 60 D 667, Nicaraguan Canal Route. Secret; Official–Informal.
\textsuperscript{2} Printed from a copy which bears this typed signature.

153. Memorandum of a Telephone Conversation Between the Secretary of State and the Assistant Secretary of State for Inter-American Affairs (Holland), Washington, August 29, 1956, 8:44 a.m.\textsuperscript{1}

H. said he has a matter he does not want to handle in writing or at staff meeting. Another agency has received from a usually reliable

\textsuperscript{1} Source: Eisenhower Library, Dulles Papers, General Telephone Conversations. Prepared in the Office of the Secretary of State.
source a report that the outgoing and incoming presidents of Panama met and agreed on a policy for the next administration to harp on the similarity to the Panama Canal of the Suez Canal. H. has a corresponding report from the local Time man. H. thinks we should ask the Nicaraguan Govt. confidentially if we can quietly send a 3-man team from Defense down to go over the course of the Nicaraguan Canal and compare conditions on the ground with plans, maps and studies we have and then leak it to the Panamanians. The Sec. said he is inclined to agree, but does not want to settle it on the phone. H. will ask for an appointment.

154. Memorandum of a Conversation Between the Secretary of State and the President, Washington, August 29, 1956, 9:30 a.m.¹

[Here follows discussion of developments regarding the Suez Canal crisis.]

(4) I mentioned the attitude of Panama toward the Panama Canal and their conniving with Nasser and apparently deciding on a policy of making the Panamanian nationalization or internationalization of the Canal a major issue of Panama politics. I said this made me feel more than ever the desirability of instituting talks with regard to the Nicaragua Canal. I said I thought we needed to have some alternative. The President authorized me to proceed on this as soon as possible, pointing out that already ships were being built too big to go through the Panama Canal and that a sea level canal through Nicaragua would be much more practical.

[Here follows discussion of matters unrelated to Panama.]

JFD

¹ Source: Eisenhower Library, Dulles Papers, Meetings with the President. Secret. Extract.
155. Memorandum of a Conversation Between the Secretary of State and the President, Washington, August 30, 1956, 4:30 p.m.¹

[Here follows discussion of developments regarding the Suez crisis, including a brief discussion of Secretary Dulles’ briefing of the Latin American Ambassadors earlier that day about Suez.]

The President also spoke about the Nicaraguan canal and said that if occasion arose he might mention at his press conference that he had for a long time been in favor of that. There was need of more facilities and instead of putting, in effect, a second canal alongside the Panama Canal, it would be better to have the second canal further apart so that they would not be subject to the same risk either of natural or man-made destruction.

[Here follows discussion of matters unrelated to Panama.]

JFD

¹ Source: Eisenhower Library, Dulles Papers, Meetings with the President. Secret. Extract.

156. Memorandum of a Telephone Conversation Between the Secretary of State and the Assistant Secretary of State for Inter-American Affairs (Holland), Washington, August 30, 1956, 5:30 p.m.¹

The Secretary called Holland and asked him what reaction he had gotten from the Latin Ambassadors as a result of today’s briefing meeting. Holland said he had had questions to take up with certain of them but, knowing them as he did, he got the idea they were impressed.

Sec. said the President said he might mention the Nicaraguan Canal at his press conference tomorrow. He suggested saying he had always been in favor of a more adequate waterway and he favored a duplicate one, putting them far enough apart so that they would not be subject to the same hazards of nature—that he had been for this for a long time. The Secretary said he thought we had a treaty

¹ Source: Eisenhower Library, Dulles Papers, General Telephone Conversations. Prepared in the Office of the Secretary of State.
covering this.² Holland said he would produce it (and did)—Holland said he thought it would be a big mistake for the President to be opining on this subject now. It was a very emotional thing in Panama at the moment. Anything of that nature would be misconstrued in Panama. He thought it very unfortunate were the Pres. to say this at this time.

Holland said he would have ready some comment on this by tomorrow morning.³

(The Secretary said he wanted a note to remind him to speak to the President re the Nicaraguan Canal).
I have treaty.

² Document 152.
³ In a memorandum to Dulles, August 31, Holland summarized the provisions of the Bryan–Chamorro Convention between the United States and Panama, which, he noted, was “the basic agreement which would govern our relations with Nicaragua should it become the intention of our Government to construct an interoceanic ship canal in that country.” (Department of State, ARA Files: Lot 60 D 667, Nicaraguan Canal Route 1956)

157. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Ambassador in Panama (Harrington)¹

Washington, September 6, 1956.

DEAR JULIAN: The suggestion contained in your letter of August 24, 1956² of reviving discussion of construction of a sea level canal across Nicaragua definitely has propaganda possibilities and has been well received here.

If used judiciously as a propaganda measure in an effort to bring the Panamanians to their senses, it may well cause the Panamanian Government to pause and perhaps reflect upon the possible consequences of the course upon which it appears to have embarked. It did occur to me, however, that a reverse effect might result if instead the Panamanian Government should interpret the move as evidence of weakness or weariness on the part of this Government
in the defense of our rights in Panama and thus inspire the Panamanian Government to redouble its efforts for control of the Panama Canal.

I have discussed the idea with the Secretary, Mr. Roderick, officers on my staff and others who I thought would be interested and they have endorsed it as a good idea. If it is decided to act, to make any activity on our part more authentic, I am considering asking the Nicaraguan Government permission, in accordance with the terms of Article I of the Bryan-Chamorro Convention of 1914, to send a three to five-man survey team to Nicaragua to travel over one or more of the proposed routes that have already been surveyed. I think that if word of this action is picked up in Nicaragua by the Panamanians through their own intelligence channels the desired effect may be obtained. The possibility does exist that this Government may actually undertake the construction of such an inter-oceanic canal through Nicaragua to satisfy growing commercial and military demands. There is deep concern here over the current trend in Panama.

If action is taken on your suggestion you will be informed immediately.

Sincerely yours,

Henry F. Holland³

³Printed from a copy which bears this typed signature.

158. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Operations Coordinator (Richards)¹


SUBJECT

Nicaraguan Canal Survey

Mr. Holland has discussed the proposed Nicaraguan Canal Survey with the Secretary, who it is understood, has given preliminary approval of the general idea. It would be conducted by a small team headed by a United States Army engineer. The purpose would be to impress Panama with the possibility of our exercising our option to

¹ Source: Department of State, OCB Files: Lot 62 D 430, Luncheon Items. Secret.
construct a canal in Nicaragua in order to discourage possible moves by Panama, inspired by developments at Suez, to challenge our Treaty rights in the Canal Zone, also to bring about a more reasonable attitude on the part of Panama on Canal Zone problems. Its effectiveness would depend upon the degree to which we could impress the Panamanians that we are in earnest. Miss Whitman of the Legal Division is currently engaged in a study of the scope of our treaty rights in Nicaragua. If Mr. Hoover agrees, the next logical step would be for State to consult with Defense on the matter, as suggested at the OCB luncheon on September 12, 1956, in order that the necessary arrangements can be made, if Defense agrees.

This plan should not be confused with the related proposal that we actually proceed with the construction of a canal in Nicaragua, even though this may some day be done. A decision to actually build such a canal will require detailed studies and consultation among the interested Government agencies. This decision does not lie with the Department of State, although State will of course have responsibility for the necessary international arrangements. Appropriate legislation and a further agreement with Nicaragua and possibly Costa Rica, and others would be necessary. In view of the limited purpose of the instant plan, care must be exercised to avoid giving rise to undue hopes on the part of Nicaragua and possible inflationary effects upon the Nicaraguan economy, particularly since we cannot at this time take the Government of Nicaragua into our confidence as to the immediate purpose of the present plan. The present Government of Nicaragua is expected to cooperate willingly with this government on both the proposed survey and the actual construction of a canal, if decided upon, although no approach has been made on either project by this Government.

There are attached for your information two memoranda on the construction of a Nicaraguan Canal.

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2 According to the preliminary notes of that meeting, prepared by Arthur L. Richards, the discussion regarding the canal survey went as follows:

"Mr. Gordon Gray mentioned that two weeks ago it had been suggested that the Army send a US Army Engineer to Nicaragua to start dusting off openly the old Nicaragua Canal Survey. The thought was that this might have a salutary effect on Panama. Mr. Gray asked how the Department of State viewed this proposal.

"Mr. MacArthur said he was not familiar with it but would ask Mr. Henry Holland to communicate with Mr. Gray regarding it.

"It was left that if State and Defense agreed on this proposition, the OCB need not be seized further with it." (Ibid.)

3 Reference is to Holland's memorandum to Dulles of August 31 regarding the Bryan-Chamorro Convention (see footnote 3, Document 156) and a memorandum by Robert T. Merrill, Director of the Shipping Division, September 12, discussing the practicability and cost of building a Nicaraguan interoceanic canal.
159. Editorial Note

At the first meeting of the Inter-American Committee of Presidential Representatives on September 19, José Isaac Fábrega, the Personal Representative of the President of Panama, presented a memorandum to Milton S. Eisenhower, Chairman of the Committee, regarding the implementation of the Panama Canal Treaty of 1955. At Fábrega's request, Milton Eisenhower forwarded the 12-page memorandum and annex to President Eisenhower on September 19, under cover of a letter to Ann C. Whitman, the President's personal secretary. On the same day, Colonel Andrew J. Goodpaster, the President's Staff Secretary, transmitted the memorandum and annex to Secretary Dulles. "The President," he explained, "would appreciate a report on the matter, looking to a reply to the Panamanians by himself or by the Secretary, as appropriate." (Eisenhower Library, Whitman File, Dulles-Herter Series) The Committee of Presidential Representatives had been formed pursuant to a suggestion by President Eisenhower during the meeting of the Presidents of the American Republics at Panama. See volume VI, Documents 109 ff.

160. Telegram From the Ambassador in Panama (Harrington) to the Department of State

Panama City, September 19, 1956—6 p.m.

211. During 2 hour private talk with President-elect De La Guardia today, I sought his assistance in reversing current trend in U.S.-Panama relations—a trend which can be expected to assume more serious proportions after the National Assembly convenes. I found De La Guardia to be equally concerned over present status our relations. The meeting was arranged at my request.

I pointed out that it has been consistently our national policy to improve Panama's stability and economy and that, given the importance of the Canal Zone to Panama, it should be the announced policy of Panama to associate itself closely with the U.S. and to work harmoniously with the authorities of the Canal Zone. I expressed the view that such a policy enunciated by him and supported by deeds would do much to ward off anticipated irresponsible

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1 Source: Department of State, Central Files, 611.19/9-1956. Confidential.
discussion in the new National Assembly and elsewhere, and that it would create an atmosphere of mutual respect and confidence, would go a long way to offset the unfavorable impression that Panamanian support for Nasser has created in the U.S. and would be of substantial assistance to us in obtaining early Congressional action to implement 1955 treaty. I expressed the view that the highly skilled lawyers now serving on the Foreign Relations Council, rather than statesmen, seemed to be formulating Panamanian foreign policy and developing legalistic position which inevitably would widen the breach between us and lead to bad feeling and acrimonious debate in the press. I told De La Guardia that I would welcome the opportunity of striving to achieve the sort of atmosphere I had in mind and that he could count on the whole-hearted support of the Governor and military authorities in the Zone. I said that the plight of Panamanian workers who will soon lose commissary privileges (a matter about which the President-elect is known to be gravely concerned) is being carefully and sympathetically considered by the Canal Zone authorities and that while no automatic compensatory wage increase was contemplated by the negotiators of 1955 treaty the best interests of the workers and of Panama will always be borne in mind. I stated that in an improved atmosphere Panama had much to gain and conversely had much to lose by a continuation of the present trend.

De La Guardia gave every evidence of welcoming my observations and said that they merited serious consideration. He promised to get in touch with me at an early date concerning them.

There is serious doubt in my mind that De La Guardia can persuade Harmodio Arias and Octavio Fabrega to alter their present course or whether he can restrain the members of the new National Assembly from making attacks against the U.S. and the failure of Congress to implement the treaty. Nevertheless the President-elect recognizes the need for improved relations and I feel reasonably confident that he will take advantage of his inaugural address to call for patience and understanding and possibly a neighborly approach to Canal Zone problems.²

Harrington

² Telegram 142 to Panama City, September 21, informed Ambassador Harrington as follows: “Department heartily commends your initiative and able presentation US viewpoint (Embtel 211) and is hopeful your plain-spoken approach will contribute to reversal present trend.” (Ibid.)
161. Memorandum From the Secretary of State to the President


SUBJECT

Panamanian Memorandum on Certain Current Problems in United States–Panama Relations

Responding to your request of September 19, I enclose a report which comments on the several points raised in the Memorandum given to you by the Panamanian Delegate to the Conference of the Inter-American Committee of Presidential Representatives. The Panamanian Delegate’s memorandum is also returned herewith.

The points raised in the memorandum reflect a difference of interpretation which has arisen between the Governments of Panama and the United States of certain important provisions of the agreements signed on January 25, 1955. By unilateral interpretation the Government of Panama is attempting to give a meaning to certain provisions which goes beyond their stated terms and the intentions of the United States Government in their negotiation. These differences have been discussed at length with Panamanian officials through regular diplomatic channels and by Assistant Secretaries Holland and Roderick in personal interviews with the President and President-elect of Panama and their advisors.

The United States position in these matters is fully in accord with the provisions of the 1955 Agreements, the arguments of Panama notwithstanding. It is our policy to treat Panama justly and even generously, in recognition of our special relationship in the Canal enterprise, but at the same time to keep intact our treaty rights on the Isthmus and to insist that observance of treaty provisions be mutual and complete.

In view of the desirability of keeping these discussions in regular diplomatic channels, I propose, if you agree, to have the Department of State reply to the Memorandum along the lines of the attached report.

JFD

2 See Document 159.
3 Eisenhower approved this recommendation in a handwritten notation on the source text and added: “We should be generous in all small adm details. Our firmness should be in holding fast to basic principles and purposes of treaty.”
REPORT TO THE PRESIDENT ON THE MEMORANDUM OF
THE GOVERNMENT OF PANAMA DATED SEPTEMBER, 1956

The Panamanian delegate to the conference of the Inter-American Committee of Presidential Representatives left with you a Memorandum and Annex in which were set forth the Panamanian viewpoint on certain current problems in United States-Panama relations. The following comments are made in response to your request for a report on the subject.

Point 1 of the Memorandum treats of the expected increase in the cost of living to non-American citizens who work in the Canal Zone and reside in Panama as a result of their forthcoming loss of the privilege of buying in the Canal Zone commissaries. Panama urges that a compensatory wage increase be granted. She has argued that we have an implied commitment to do so.

The provisions of Article XII of the Treaty of 1955 which terminate the commissary privileges of United States Government employees in the Canal Zone who are not citizens of the United States and who reside outside of the Canal Zone become effective December 31, 1956. This provision was agreed to by the United States Government at the insistence of the Government of Panama which argued that the privilege obtaining prior to the conclusion of the 1955 Treaty constituted an unjust and unfair competition with the economy of Panama. The United States gained nothing by this provision of the Treaty. Instead, this provision will result in a substantial loss of revenue to the Panama Canal Company. Since the termination of these privileges has become a treaty obligation on the part of the United States, it has no choice but to put this provision into effect on the date specified, in the absence of any indication from the Government of Panama that it desires to waive this right and request postponement of the effective date of the provision. There is no provision in the 1955 Agreements obligating this Government to grant a compensatory wage increase to the affected employees.

The United States Government recognizes, however, that the withdrawal of commissary privileges from a group of its employees may result in an increase in their cost of living. Periodic studies are regularly conducted by the Panama Canal Company to determine cost of living trends in the economies of both the Canal Zone and Panama. As a result of these studies, employees’ wages are adjusted from time to time to meet changes in the costs of living. Should these continuing periodic studies show the employees of the Zone, despite the wage increase already granted in May 1955, to be at a
disadvantage as a result of their loss of commissary privileges, consideration will be given by the Zone authorities to the feasibility of a wage increase. Such action if taken would be routinely taken pursuant to this Government’s constant interest in the welfare of its employees and not because of any alleged obligation, implied or otherwise, in the 1955 Agreements.

Point 2 of the Memorandum deals with the provision of Item 1 of the Memorandum of Understandings Reached which provides for the establishment of a single basic wage scale in the Canal Zone, and expresses concern regarding the statements of certain high officials of the United States Government to the effect that, pursuant to the new classification of positions now being made, the rates of remuneration for the different positions will continue to be related to the geographic area from which the bulk of the employees in each category of positions comes.

Under Item 1 the United States Government has agreed, subject to the enactment of the necessary legislation, to govern the labor practices of United States agencies in the Canal Zone by the following precepts:

(a) All positions will have a basic wage level, the same for all employees eligible for appointment thereto without regard to United States or Panamanian citizenship. In the case of an employee who is a United States citizen, however, there will be added an increment representing an overseas differential plus an allowance for those elements which operate to reduce the disposable income of such an employee as compared with an employee who is a resident of the area. The United States citizen will also, for obvious reasons, be eligible for greater leave benefits and travel allowances.

(b) Legislation will be sought for uniform application of the Civil Service Retirement Act to all United States and Panamanian citizen employees of this Government in the Canal Zone.

(c) Equality of opportunity will be afforded to Panamanian citizens for employment in all United States Government positions in the Canal Zone for which they are qualified except where security factors serve to make undesirable the employment of non-United States citizens. Positions will be evaluated, classified, and titled without regard to the nationality of the incumbent or prospective incumbent.

(d) Panamanian citizens will be afforded opportunity to participate in such training programs as may be conducted for employees by United States agencies in the Canal Zone.

These provisions, when the Congress enacts the necessary enabling legislation, obviously will confer important benefits upon all locally recruited employees. Under subparagraph (a) employees in any non-security position will receive the same base rate of compensation without regard to nationality and there is no intention that the rates of pay of individuals in the same job should vary with the
area of recruitment. In those categories of jobs for which any employees must be recruited in the United States, the basic rate of pay will be the rate paid for comparable employment in the United States and all employees in that job, Panamanian as well as United States citizen, will receive the United States rate. In those categories of jobs which can be filled entirely by local recruitment, the basic rate will be based on the rate paid for comparable employment in Panama, and all employees in that job, United States citizen as well as Panamanian, will receive the same basic rate. It is appropriate to note in this connection that even the rates based on those in Panama will be higher than the actual rates paid there.

The plan outlined above is fully in accord with the provisions of the agreement with Panama. It was set forth in detail during the public hearings on the Treaty before the Foreign Relations Committee of the United States Senate and was described in the Senate Committee Report on the Treaty.\(^4\) It involves no discrimination of any kind and removes even the appearance of discrimination to which the former pay plan in the Canal Zone may have been subject.

Point 3 of the Memorandum questions the interpretation the United States Government places on Item 8 of the Memorandum of Understandings Reached, which reads as follows:

"8. In general connection with the matter of the importation of items of merchandise for resale in the sales stores in the Canal Zone, it will be the practice of the agencies concerned to acquire such items either from United States or Panamanian sources unless, in certain instances, it is not feasible to do so."

The Memorandum takes exception to this Government's interpretation of the word "feasible" as used in Item 8. Panama asserts that it can have but one interpretation, that of "possible". Had "possible" been intended, that word would presumably have been included. Such meaning, if accepted by the United States Government, would restrict purchases of merchandise for resale in the Zone to United States and Panamanian sources only, irrespective of other contingent factors, including reasonableness of price.

It is the view of this Government that the purpose and intent, as disclosed by the record of the negotiations, is to give preference to United States and to Panamanian sources over other sources in

the supplying of goods for resale in the Canal Zone. However, that preference, while considered to be real and valuable, is not absolute or unlimited. The word "feasible", far from being synonymous with "possible", requires this Government to purchase merchandise for resale in the Zone from United States or Panamanian sources only if the object of purchase is available in the desired quality, variety or kind, in adequate quantity, at a reasonable price, and with adequate assurance of continuous supply. Failing any of these contingencies, the United States Government is free to purchase from sources in third countries, if it desires. The wording of Item 8 was deliberately chosen to permit appropriate competitive safeguards for the proper protection of this Government and the consumer in the Canal Zone. It is noteworthy that, despite this limited interpretation, Panamanian sales of goods and services to the Zone are steadily increasing, in the last quarter year alone registering a jump of over 50%. At the present rate these sales will exceed $20,000,000 for the current year.

162. Memorandum From the Officer in Charge of Central American and Panama Affairs (Sowash) to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)¹

Washington, October 2, 1956.

SUBJECT
Nicaraguan Canal Survey

From the immediate viewpoint of its intended purpose vis-à-vis Panama and from the long range viewpoint of possible serious interest in actual construction of the Nicaraguan Canal, the proposal to proceed with an immediate survey of the proposed route across Nicaragua is both timely and desirable. Panama’s obvious design to reap advantages from the present Suez controversy appears to be momentarily stymied by an apparent uncertainty in what direction to proceed at this time. She has clearly indicated her solidarity with the Egyptian position in various ways, most recently by inviting the Government of Egypt to send a special mission to the Panamanian inauguration on October 1. In his inaugural address President de la

¹ Source: Department of State, ARA Files: Lot 60 D 667, Nicaraguan Canal Route 1956. Secret.
Guardia stated that the treaties with the United States do not adequately meet Panama's "national aspirations" and that he was confident that the problems in Panama's relations with the United States will ultimately be resolved in favor of Panama's interests. There is obviously a continuing need for some gesture to impress upon Panama the possibility of our proceeding with a canal in Nicaragua which, insofar as Panama is concerned, would be in competition with the Panama Canal. A quiet survey by a small team of the Nicaraguan route, news of which would inevitably leak from Nicaragua, would seem an effective way of bringing Panama to some realization of the possible consequences of her present conduct. The same thought also has occurred to a number of Congressmen and Mr. Bonner's Committee on Merchant Marine and Fisheries reportedly is ready to announce a new interest on the part of Congress in a Nicaraguan canal. Several Panamanian press articles have taken the position that talk about a Nicaraguan canal is mere bluff on our part and an actual survey might give them some second thoughts.

The assassination of President Somoza makes the present a somewhat less propitious time in which to approach the Nicaraguan Government on this subject than that which existed a fortnight ago. Presumably President Luis Somoza would welcome our initiative in this matter as much as his father. In many quarters in Nicaragua the proposed survey would be most welcome as a harbinger of considerable future benefits to Nicaragua. In ultra-nationalistic and leftist quarters, it will be a tocsin of alarm for those who profess to see in the canal United States encroachment and domination. In short, it will be a pretty hot chestnut to hand the new Nicaraguan administration. For this reason I would suggest, if the Defense Department concurs in the survey proposal, that Ambassador Whelan be instructed to sound out President Luis Somoza in advance of our actual request for permission in order to establish what the probable climate receptivity would be. A public turndown by Nicaragua on whatever grounds would be extremely counter-productive.

At your meeting with Mr. Gray on October 3 I suggest that you continue to support a proposal for a survey of the Nicaraguan route by a small team of two or three engineers. So far as its effect upon Panama is concerned, the results should be greater if we go about this business very quietly and without publicity and allow Panama to learn of it first from its own intelligence sources in Nicaragua. Then, in reply to inquiries on their part we should simply confirm the presence of the survey team without further comment leaving Panama to draw its own conclusions. Ambassador Harrington has

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2 Congressman Herbert C. Bonner (D.-N.C.).
3 President Anastasio Somoza died on September 29.
suggested that Governor Potter of the Canal Zone, who participated in the survey made in 1929 and 1930 of the Nicaraguan route and who was in 1931 and 1932 the first chief of the Nicaraguan Hydrographic Office, be a member of the new survey party. His participation would not go unnoticed by the Panamanians.

I understand that there is interest in the highest quarters in this Government in the possibility of actually constructing a Nicaraguan canal. This would be an extremely weighty matter to be considered by the several United States agencies involved. It should not be confused with the present proposal.

163. Memorandum of a Conversation, Department of State, Washington, October 3, 1956

SUBJECT

Radar Sites in Panama

PARTICIPANTS

Mr. Finucane, Under Secretary of the Army
Mr. Bacon, Deputy Assistant Secretary of the Army
Col. Hanford, Director of Western Hemisphere Affairs, Dept. of Defense
Mr. Rubottom, Acting Asst. Secretary for Inter-American Affairs
MID—Mr. Wollam
MID—Mr. Sowash

Advantage was taken of the call of Mr. Finucane and Mr. Bacon to raise the subject of our future course in the controversy with Panama regarding the United States request for radar sites in Panama. While Mr. Bacon seemed to believe that these sites eventually would be needed, Mr. Finucane expressed great doubt that sites in Panama are needed. He said that technical developments in this field are taking place with such rapidity that the plans on which the United States request was based probably already are obsolete. It was pointed out to Mr. Finucane and Mr. Bacon that the United States request and our subsequent pressure for it were made at the request of the Army who assured us that the sites were essential to the defense of the Canal. This issue, it was further stated, had gravely affected our relations with Panama and probably had some influence on the attitude assumed by Panama with respect to the

1 Source: Department of State, Central Files, 711.56319/10-356. Confidential. Drafted by Sowash.
Suez issue. Furthermore, by bringing out Panama’s adamant attitude regarding Article II of the 1936 Treaty, this issue has jeopardized this Government’s future use of Article II in obtaining defense sites in Panama. It was, therefore, disturbing to learn now that the Army probably will conclude that it does not really need these sites.

It was agreed that State would await the pending decision of the Joint Chiefs of Staff on this matter and would then decide, in the light of that decision, how best to extricate this Government from the position into which it has been forced by the Army’s volte-face.²

² At a meeting of the Secretary’s Staff on October 4, the subject of the proposed Nicaraguan canal survey was discussed. The following portion of the unsigned notes of that meeting summarizes the discussion as follows:

“Mr. Rubottom reported that he had a meeting with Under Secretary of the Army Finucane yesterday and that the Defense Department opposes any survey for a Nicaraguan Canal at this time. He added that studies by the Department’s legal staff of the records of fifty years ago revealed a great interest of Costa Rica and El Salvador in such a project, and that their interest will complicate matters. Mr. Rubottom noted that the Secretary had answered a question regarding the Nicaraguan Canal at his press conference and that Rep. Bonner of the House Maritime Committee had expressed an interest in the project. In view of the public and Congressional interest, he recommended that we not push the Nicaraguan Canal survey at this time since it could embarrass President Luis Somoza.” (Ibid., Secretary’s Staff Meetings: Lot 63 D 75)

164. Letter From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Ambassador in Panama (Harrington)¹

Washington, October 5, 1956.

DEAR JULIAN: I refer to your letter of September 11 addressed to Henry Holland in which you further discussed the subject of the Nicaraguan Canal.² Henry has now left the Department and since I have assumed his duties and inherited his problems, I take the liberty of replying to your letter and bringing you up to date on the status of the thinking here.


² In this letter, attached to the source text but not printed, Ambassador Harrington indicated that he was delighted to learn that the idea of reviving discussion of a canal across Nicaragua had been well received. He suggested that if a survey team were to be sent to Nicaragua, the Department of State and the Department of the Army might consider the inclusion of Governor Potter on it.
Since the idea was originally proposed there have been several joint discussions between State and Defense, and the Secretary and President have expressed their interest in the matter, both from the point of view of (1) a propaganda ruse for the purpose of causing the Panamanians to pause and give serious thought to revision of their present head-strong policy of non-cooperation and of (2) actual construction of a canal across Nicaragua. Tentatively, favorable consideration was given the first point and somewhat less serious consideration accorded the second; however, in a recent meeting at which State and Defense officers were present it was the consensus to defer action and temporarily hold in abeyance use of the plan for purposes of propaganda ruse or construction of a Nicaraguan Canal due to the following considerations: (1) the death of Somoza, (2) the difficult problem with which the new Government of Nicaragua would be confronted were a request made to send a survey team, or more difficult, the Bryan–Chamorro Treaty invoked, (3) the inauguration of the new Panamanian President, it being the thought that his administration should be given a fair opportunity to demonstrate its policy and the course of action it intends to pursue in its relations with the United States Government, (4) nationalistic elements in Central America and elsewhere would be expected to raise a hue and cry against the project and (5) the Government’s present policy toward Panama, in the light of existing circumstances, and at the direction of the White House, is one of considerable tolerance in the inessentials but of holding fast where our jurisdictional rights are challenged. The five points are not listed in the order of discussion or necessarily in order of importance. It was also the feeling here, particularly in Defense, that to include Governor Potter in the survey team would put him in an impossible position vis-à-vis the Panamanians.

Here the matter stands at the moment for use at such time in the future when circumstances warrant. Should you care to advance any argument to the contrary, please feel free to do so.

Sincerely yours,

Roy R. Rubottom, Jr.³

³Printed from a copy which bears this typed signature.
165. Memorandum From the President to the Secretary of State

Washington, October 10, 1956.

Herewith is a copy of a note from the President of Panama that I should like for you to read. 2

As you know, I have in the past been completely sympathetic with some of Panama’s complaints as to our methods and practices of operation in the Canal Zone.

Just what President de la Guardia had in mind when he said he had “almost despaired as to the present and future of our relations,” I do not know. I just think there is possibly here a problem with which the State Department should keep continuous and intimate touch.

D.E.

P.S. Please send me a draft of a possible reply to President de la Guardia.

1 Source: Department of State, Central Files, 611.19/10-1056.
2 Dated October 4, this letter reads as follows:
“...I wish to express my deep appreciation for having a man of Mr. Nelson Rockefeller’s talents as a representative of your Government at my inauguration.

“Even though I have always felt that there is no good reason for our two countries not to live in perfect understanding, I had almost despaired as to the present and the future of our relations when Mr. Rockefeller arrived in Panama.

“In my opinion, his breadth of view, his grasp of our problems, his sense of fairness, his friendliness and his decency have completely changed the picture. The optimism which I expressed in my inaugural address as to the possibility of reaching a favorable solution concerning the differences of opinion which have recently arisen between our government and some officials of the United States government has, thanks to his attitude, found a justification and my despair has turned into a fresh hope. All of this makes me very appreciative of Mr. Rockefeller’s visit to Panama and I wish to thank you very sincerely for having sent him to us.”
166. Memorandum From the Secretary of State to the President

Washington, October 17, 1956.

SUBJECT

Letter from the President of Panama

I have given careful thought to the note sent to you by President de la Guardia and I agree that it raises a serious new aspect of an old problem with which the Department of State has kept in close touch. A suggested reply is enclosed as you requested.

President de la Guardia's letter as well as the proposed reply must, of course, be considered in the context of our present delicate relations with Panama. A background memorandum setting forth the most significant recent developments is also enclosed.

The suggested reply has been prepared with this background very much in mind and the phrasing carefully chosen to best promote our long-range policy objectives.

John Foster Dulles

[Enclosure 1]

SUGGESTED REPLY

Dear Mr. President: I wish to acknowledge receipt of your letter of October 4, 1956 and to say how much I appreciate your generous expressions regarding our mutual friend, Nelson Rockefeller. I fully share your evaluation of him. I am confident that Ambassador Harrington and the other officials of the United States dealing with matters between our two Governments have the same friendliness toward Panama and warm interest in her welfare that you so rightly attribute to Mr. Rockefeller.

I have read your statesmanlike inaugural address which reflected your optimism regarding the future course of our relations. I believe that much has been accomplished during the past few years. I well recall that when I assumed office there were pending before each of our Governments a number of requests made in good faith and with sincerity by the other. The recent revision of the treaties between

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1 Source: Department of State, Central Files, 611.19/10-1756. Confidential. Drafted by Rubottom.
2 See footnote 2, supra.
3 Printed from a copy which bears this stamped signature.
4 Drafted by Rubottom on October 16.
our countries has eliminated or established the basis for eventual elimination of many of the problems to which these requests relate. On the part of the Government of the United States, the draft legislation necessary for the implementation of those provisions of the 1955 agreements which are conditional upon Congressional authorization will again be submitted at the forthcoming session of the Congress. You may be assured that problems which arise in our relations will be given prompt and effective consideration.

I cannot conclude this letter without expressing to you again the great satisfaction and inspiration which I, and I am sure every other President, derived from our historic meeting in the capital of your lovely country. I am particularly happy to have met you personally at that time and I take this opportunity to express to you my best wishes for your success and happiness during the term of office upon which you have just entered.

Sincerely,

[Enclosure 2]5

CURRENT STATUS OF UNITED STATES–PANAMA RELATIONS

President de la Guardia was inaugurated on October 1 for a four-year term as President of Panama. He has indicated a desire to improve the state of relations with the United States, and for this reason the Department and other interested agencies of this Government are seeking to strengthen his position in all appropriate ways. Our policy is guided by your directive that we should be generous in all small administrative details but hold fast to the basic principles and purposes of the treaties with Panama. Pursuant to this policy, the Panama Canal Company announced on October 13 an average nine percent wage increase for locally recruited labor in the Zone as tangible evidence of our desire to cooperate with his administration.

While there is reason to hope, therefore, that the advent of the de la Guardia Administration may bring an improvement in our relations with Panama, President de la Guardia will first have to arrest a dangerous drift in Panama away from its traditionally cordial relations with the United States. The extremely generous treatment accorded Panama in the agreements signed on January 25, 1955 has failed to elicit from Panama a new attitude of appreciation and cooperation. Before the ink was dry on these agreements, high Panamanian officials were stating publicly that the agreements did not satisfy Panama’s aspirations and a deliberate campaign was

5Drafted by Sowash on October 16.
launched to expand, by unilateral interpretation, many of the con-
cessions made to Panama in these agreements. While inspiring a
public belief that the United States is failing to comply with its
treaty commitments, the Government of Panama has not hesitated to
refuse to honor its own treaty obligations and has declined to
cooperate in several recent requests of this Government, including an
adamant refusal to make available under Article II of the 1936
Treaty two sites for radar installations requested by this Government
for the defense of the Canal and which would serve as well for the
defense of Panama City.

These problems are recent developments over and above the
usual attempts at encroachment upon our jurisdictional rights in the
Zone. The Suez controversy has given a new focus to these prob-
lems. In her attempts to fish in troubled waters, Panama has openly
displayed her sympathy with the Egyptian position in the obvious
hope of establishing precedents favorable to her own long-term
ambitions regarding the Panama Canal. She was the only American
State to endorse Nasser’s call for a conference on the Suez, separate
from the London meetings.

Ex-President Ricardo Arias, in an unprecedented speech, sum-
melizing the accomplishments of his Administration at the inaugura-
tion of his successor on October 1, not only made only incidental
reference to the Meeting of Presidents in July and failed to mention
priority assistance given Panama by the United States in obtaining
Salk vaccine, but also went out of his way to excoriate the United
States and to charge the United States with failure to comply with
its treaty obligations. His criticism of the United States has been
enthusiastically endorsed by a resolution passed by the National
Assembly. Despite this, Panama has requested accordément for Arias as
next Ambassador to the United States. We expect to recommend
that accordément be granted after a delay of sufficient length to make
plain that his remarks have not gone unnoticed.

In contrast, de la Guardia in his inaugural speech expressed
confidence that the spirit of justice which moves the American
people will result in the resolution of problems with the United
States in a manner “favorable to Panama’s interests”. The reasonable
and conciliatory attitude which de la Guardia thus far is displaying
affords a basis for the hope that United States-Panama relations will
be restored to their traditional cordiality.
Dear Mr. Rubottom: We have recently been advised by the Department of the Army that their requirement for two radar sites in Panama, originally intended for use in connection with its then proposed Nike program in the Canal Zone, is still valid since they will be used for antiaircraft purposes. This places in a different light our decision taken in August to drop negotiations for these sites with the Republic of Panama. It is accordingly requested that negotiations with Panama be resumed at the earliest convenient time.²

Sincerely yours,

Gordon Gray

¹ Source: Department of State, Central Files, 711.56319/11–2756. Secret.
² In his reply of December 14, Rubottom stated that he would initiate the necessary action immediately to reopen negotiations with the Government of Panama through the Embassy for the purpose of obtaining the required radar sites. (Ibid.)
168. Memorandum of a Conversation, Department of State, Washington, November 28, 1956

SUBJECT

Courtesy Call of Panamanian Foreign Minister Boyd

PARTICIPANTS

Mr. Aquilino Boyd, Foreign Minister of Panama
Dr. Eduardo Ritter, Panamanian Ambassador to the United Nations for the 11th General Assembly
Mr. Juan Méndez Mérida, Chargé d’Affaires of Panamanian Embassy
Mr. Roy R. Rubottom, Jr., Acting Asst. Secy. for Inter-American Affairs
Mr. Jack D. Neal, Director, Middle American Affairs
Mr. William E. Price, Desk Officer for Panama

1. Foreign Minister Boyd on behalf of President de la Guardia transmitted the cordial best wishes of the President to President Eisenhower and to Mr. Rubottom. He spoke of the Meeting of the Presidents in Panama during July and of the spontaneous ovation accorded President Eisenhower by the Panamanian people and the tremendous impression the President made. Mr. Rubottom thanked Mr. Boyd for the messages conveyed and commented that President Eisenhower had personally told him how much he had enjoyed the meeting at Panama, the hospitality that he had received at the hands of the Panamanians, and that he would like to return.

2. Mr. Boyd stated there were several matters pending between our two Governments which he would like to discuss: implementation of Items 1 and 2 of the Memorandum of Understandings Reached of the Treaty of 1955, and his Government’s interest in having appropriate legislation passed by Congress as soon as possible during its next session. He also mentioned Panama’s interest in having the funds appropriated for construction of the bridge over the Pacific end of the Canal. Mr. Rubottom explained that an Omnibus Bill was presently being considered by the Bureau of the Budget which contained the legislation for implementing Items 1 and 2 of the Memorandum of Understandings Reached and also that a bill requesting appropriation of the funds to construct the bridge was also in the Bureau of the Budget. He added that both bills are receiving the recommendation and full support of the Department of State. Mr. Boyd said he appreciated this support and would inform President de la Guardia accordingly.

1 Source: Department of State, Central Files, 611.19/11-2855. Confidential. Drafted by Price.
2 Reference is to H.R. 6709, introduced on March 1, 1957.
3. In connection with Item 1 of the Memorandum of Understandings Reached Mr. Boyd said it was his Government’s desire to study the wage scale legislation so suggestions could be made prior to enactment. Mr. Rubottom discouraged this by explaining the Omnibus Bill was in the Bureau of the Budget and since so many interested entities were working on the proposed measures it would be practically impossible to accede to his request. Moreover, to interrupt the clearing process at this stage would delay passage of the bill. Mr. Boyd stated he knew of the proposed 5 cents per hour wage increase and wanted to know when it would go into effect. Mr. Price stated that it was the intention of the Panama Canal Company to place the wage increase into effect on December 30, 1956 which would materially cushion the loss of commissary privileges before the date of actual loss and prove of benefit to the Panamanian Government in explaining its own support of the action. Mr. Boyd asked to be informed through our Embassy in Panama prior to the effective date so that both he and President de la Guardia would know exactly what was to take place. Mr. Rubottom agreed to this.

4. Minister Boyd referred to Item 2 of the Memorandum of Understandings Reached concerning the transfer of certain properties which he stated were deteriorating through non-use and vandalism. Mr. Price explained that the Panama Canal Company and the Department of State were currently considering this problem of leasing such properties to the Government of Panama on a nominal fee basis prior to enactment of the Omnibus Bill by Congress but pointed out that due to the temporary nature of such an interim agreement with Panama it was believed the Government of Panama might be reluctant to invest funds to renovate or improve the property; that in view of the time between now and possible enactment by Congress—a period of some 3 to 4 months—it was thought it would hardly be worthwhile to make the temporary arrangement. Mr. Boyd agreed that this was so.

5. Mr. Boyd next mentioned conference freight rate differentials as they adversely affected the economy of Panama. He asked Mr. Rubottom if it would be possible for the Department of State to intervene on behalf of Panama in order to obtain relief for payment of these higher freight rates. Mr. Rubottom explained this was a matter in which he felt the Department of State could not properly interest itself though he sympathized with Panama’s predicament and lamented the adverse effect it had on Panama’s economy. He suggested, however, that the Panamanian Government itself deal directly with the maritime companies who were members of the particular freight rate conference which seemingly controlled Pana-
ma’s ocean freight rates to determine what could be done. Mr. Boyd seemed to accept this suggestion.

Mr. Boyd noted that the S/S \textit{Panama}, a freight and passenger vessel of the Panama Canal Company, was being offered for sale and wondered if it would be possible for his Government to purchase the vessel, probably having in mind the thought that having ownership of such a vessel the Panamanian Government would be in a bargaining position in entering into discussions with the members of the conference in its effort to lower the freight rates. To this suggestion Mr. Price pointed out that he had understood from the Washington representative of the Panama Canal Company that the value of the vessel was somewhat in excess of $3 million and further that ownership could be transferred only to American interests, but he explained that these latter two points could be investigated to determine the validity of the statement. At the mention of the vessel’s value Mr. Boyd threw up his hands and indicated that such a purchase price was far beyond the capacity of the Panamanian Government but jokingly suggested that the Government be allowed to purchase it on credit. No reply was made to this latter suggestion.

6. Mr. Boyd then spoke of the problem of nautical inspectors. He explained the pressure for nautical inspectors came from a very small group—some 50 or more members of the Panamanian Seamen’s Union who have been very vocal in every session of the National Assembly for the past three years or so. He stated he felt that if both Governments cooperated and acted in good faith there should be no impediment to an agreement. He suggested a modus operandi which would grant the Panamanian Government permission to station nautical inspectors in the Canal Zone without prejudice to the rights and interests of the United States Government and seemed most anxious to reach an agreement. Mr. Rubottom informed him the Department of State, in attempting to solve the problem, had to consider the jurisdictional aspect of the United States Government in the Canal Zone and due protection must be given that right. He added, however, that the problem was presently under study in the Department of State and that he believed we were close to resolving the points at issue. He stated that when the basic terms for agreement were developed they would be sent through our Embassy in Panama for transmission to him.

7. Mr. Rubottom expressed a hope for a more cooperative attitude on the part of the Panamanian Government under the administration of President de la Guardia and Mr. Boyd as Foreign Minister in dealing with problems that arise from time to time between our two Governments and resolving them in an atmosphere of friendship and good faith. He spoke of the two-way nature of such relations and that the United States Government for its part
would always consider all problems that arise in its traditional spirit of friendship and good will toward Panama. Mr. Boyd thanked Mr. Rubottom for this observation and stated the United States Government could always count on the Government of Panama as being a staunch friend.

8. Mr. Rubottom then stated this Government’s continued need to obtain two sites in Panama for installation of radar equipment and pointed out that over a year has passed since this Government originally made the request citing the second paragraph of Article II of the 1936 Treaty as being applicable as a basis for the request. Mr. Boyd stated he was sorry about the delay and the attitude his Government had taken, which he blamed on the Foreign Relations Council, in considering the request but at this point felt that since his Government could not back down from the stand taken in which it rejected our claim that the provisions of the second paragraph of Article II of the Treaty of 1936 applied; that agreement could be reached very quickly on the basis of negotiation of a new treaty which would have to be submitted to the National Assembly of Panama for ratification. He further stated that in accordance with Panamanian law that when transfer of land takes place under such circumstances that the National Assembly must consider the treaty for ratification.

9. Several times during the course of the visit, Mr. Boyd made the remark he wanted to take something back to Panama or he must show something to his Government. Mr. Rubottom assured him he was sympathetic to his wishes and understood his position but explained that the democratic process for handling pending legislation could neither be hurried nor controlled. The problems pending in the Department for decision, however, could and would be expedited.

10. The meeting terminated at this point. Upon departure from Mr. Rubottom’s office Mr. Boyd handed Mr. Price a memorandum listing the problems pending between our two countries.\(^3\)

\(^3\) Not found in Department of State files.
169. Despatch From the Ambassador in Panama (Harrington) to the Department of State

No. 317

Panama City, February 14, 1957.

REFERENCE

Letter from the Counselor of the Department of State dated December 20, 1956.

SUBJECT

U.S. Bases and Operating Facilities, Panama

The following analysis and assessment of the situation in Panama has been prepared by the Embassy and embodies certain suggestions and changes proposed by the Governor of the Canal Zone and Headquarters, Caribbean Command. It has been concurred in generally by both the Governor and Caribbean Command.

1. Local acceptance of and feeling of participation in U.S. operations.

a. Since its independence in 1903, Panama has generally followed a policy of cooperation with the United States and support of U.S. collective security policies. The matter has, of course, involved principally our operations in the defense of the Panama Canal.

In Article II of the 1903 Treaty, Panama granted the United States in perpetuity the use, occupation and control of the Canal Zone and any other lands and waters that might be necessary for canal purposes, with specific mention of the protection of the canal as one of the functions involved. Our right to maintain armed forces and military installations in the Canal Zone under this Article has never been questioned, and these operations have always been fully accepted by Panama. In subsequent disagreements with Panama about the scope of our jurisdiction in the Canal Zone, Panama has frequently reiterated that the defense of the Canal is one of the functions which the United States may properly carry on in the Canal Zone under the terms of the 1903 Treaty.

The inhabitants of this area have, ever since the days of the Spanish settlers, considered its principal asset to be its geographical location on this isthmus, and its economy is largely based upon the

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1Source: Department of State, Central Files, 711.56319/2–1457. Secret; Limited Distribution; No Distribution Outside Department.

2In this letter, Douglas MacArthur II informed the Embassy that, pursuant to an upcoming study by Frank C. Nash of U.S. overseas bases and operating facilities, it would be expected to prepare a report on U.S. bases and operating facilities in Panama. A questionnaire and proposed outline were enclosed, which formed the basis for despatch 317. (Ibid., 711.56319/12–2056) Nash formerly served as Assistant Secretary of Defense for International Security Affairs.
exploitation of this geographical position. The presence of military forces in the Zone is an important source of profit to the economy of Panama and one which Panama is glad not only to retain but to expand.

Panama also depends almost entirely upon the U.S. forces in the Canal Zone for its defense, and has no regular armed forces of its own aside from the Guardia Nacional police force. This effects a very substantial saving in the cost of defense, and, although the existence of Panamanian armed forces would undoubtedly be welcome in support of the national pride, there is no real pressure for the formation of such forces.

In the field of international relations, Panama has on the whole given valuable support to our foreign policy objectives. In the United Nations, Panama has usually gone along with the West in opposition to the communist bloc, and in connection with East-West trade has been cooperative in following the lead of the United States. This cooperation has been especially valuable in the field of shipping, where the Panamanian Government, by Decree No. 631 of August 18, 1951, has forbidden ships of the large Panamanian flag merchant fleet to enter ports of Communist China and other communist ports in Asia.

During the Second World War, the United States developed a plan of defense entailing the occupation of many points in Panamanian territory for airfields, gun emplacements, searchlight locations and the like. This plan was submitted to the Panamanian Government and was accepted in a formal agreement signed on May 18, 1942, which made available to the United States the needed 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." By a special informal arrangement, U.S. troops had already been in occupation of many of the bases for more than a year when the agreement was signed. Although this agreement, at the time of its termination, led to an acrimonious dispute between Panama and the United States, as will be discussed below, the granting of the bases contributed greatly to the strengthening of the defenses of the Canal and materially assisted the U.S. war effort. Panama also declared war on the Axis Powers with all possible speed and took immediate action to round up and immobilize Axis nationals who might become involved in sabotage of the Canal. In discussing this matter, Senator Mansfield\(^4\) said in his sub-committee report, "The value of this help in support of the joint war effort can hardly be exaggerated."

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\(^3\) For text, see 57 Stat. 1232.
\(^4\) Michael J. Mansfield (D.-Mont.).
In discussing above the favorable attitude of Panama toward U.S. armed forces, reference has deliberately been limited to troops and installations located within the Canal Zone. While Panama has never been inclined to question our military activities in the Zone, the question of our troops and bases outside the Zone has evoked an entirely different attitude, one of bitter opposition except in cases of the most extreme emergency.

By Article II of the 1903 Treaty, Panama granted the United States, in addition to the Canal Zone proper, "any other lands and waters outside of the Zone above described which may be necessary and convenient for the construction, maintenance, operation, sanitation and protection of the said Canal or of any auxiliary canals or other works necessary and convenient for the construction, maintenance, operation, sanitation and protection of the said enterprise." This concession came to be considered by the Panamanians as particularly onerous, and in Article II of the 1936 Treaty the United States renounced the right to take lands and waters in addition to those already held under the 1903 Treaty. A provision was added, however, in the second paragraph of Article II of the 1936 Treaty (copy attached), by which it was agreed that in the event of an "unforeseen contingency", which required the use of additional lands or waters, the two governments would agree on such measures as might be necessary "in order to insure the maintenance, sanitation, efficient operation and effective protection of the Canal".

It has become apparent since the 1936 Treaty was signed that this provision is interpreted by Panama in a way quite different from what we understand the words to mean. It is significant that although the preamble to the 1942 Bases Agreement mentioned "the provisions of the General Treaty of Friendship and Cooperation, concluded March 2, 1936, to take all measures required for the effective protection of the Panama Canal", no specific reference was made to Article II of that Treaty as the basis of the agreement. We understand that this omission stemmed from the refusal of the Panamanians to recognize the conditions prevailing in 1942 as constituting an "unforeseen contingency" as provided for in Article II of the 1936 Treaty.

The attitude of the Panamanian Government was further demonstrated in the dispute over the date of termination of the 1942 Bases Agreement and in the negotiations in 1947 by which we sought a more permanent arrangement. The question arose after the cessation of hostilities as to the meaning of the provision of the 1942 Agreement regarding the time of expiration of the leasing of the bases outside the Canal Zone; whether, as the Panamanians contended, the agreement should expire one year after Japan surrendered, or whether the United States could remain on any of the 134 wartime
bases until a year after the final peace treaty should be signed. An Agreement was eventually signed on December 10, 1947, which would have granted the United States the right to remain in 13 of the wartime bases for five years and in the important Rio Hato air base for ten years with an option of renewal for an additional ten years. Unfortunately, popular opposition influenced the National Assembly of Panama unanimously to reject this proposed agreement on December 22, 1947, on the ground that “it was not inspired by the principle of juridical equality of the contracting states and does not follow the principles of international law and the spirit of the inter-American defense system”.

In negotiating the 1955 Treaty, a lease of the Rio Hato area for 15 years as a training and maneuver area was included, and this valuable site is now available to our military forces. The agreement specifically states that Panamanian sovereignty is not affected, and as the agreement as a whole is highly favorable to Panama there was little opposition to it in the Assembly.

During the period since November, 1955, the Embassy has been endeavoring to obtain from Panama, under the terms of Article II of the 1936 Treaty, the use of two hilltops in Panama near the borders of the Canal Zone as sites for radar installations to be used in connection with Nike equipment for the protection of the Canal. In this case, the Panamanian Government has again demonstrated its refusal to accept a reasonable interpretation of Article II of the 1936 Treaty. In response to our request, in which it was pointed out that the development of long-range, high-speed aircraft and guided missiles is an “unforeseen contingency” which clearly requires the use of sites at some distance from the Canal, the Panamanian Foreign Office replied that Article II of the 1936 Treaty was intended to provide for “only an extreme situation caused by a geographical phenomenon such as an earthquake or something similar” and that Panama could never agree that “an encumbrance could continue to hang over its territorial integrity”. There appears to be no likelihood that Panama will change this basic interpretation of Article II of the 1936 Treaty.

b. As it was pointed out above, Panama does not question our treaty right to maintain defense forces and installations in the Canal Zone, and these are recognized as sources of economic and security benefit to Panama. The reaction to a reduction in our forces in the Zone would undoubtedly be unfavorable. Such a reaction has been demonstrated in the past when it was occasionally necessary to declare Panama off limits for troops. On the other hand, any curtailment of our operations outside the Zone would no doubt be looked upon with approval by Panama, but since these operations have now been reduced to very small proportions, there is very little
pressure for their further reduction. Our present holdings outside the Zone, such as the Cape Mala lighthouse, radar station on Taboga island, and the Rio Hato training and maneuver area are generally accepted by the Panamanians.

c. While the Panamanians and their Government recognize that an atomic attack on the Canal would probably destroy Panama City and Colon, their two principal cities, this recognition is not real and vital enough to influence seriously their attitude toward the extension of our activities outside the Zone. Although in our negotiations regarding Nike radar sites we have repeatedly pointed out this danger and the great security advantages that would accrue to Panama from these installations, we have not observed any appreciable change in their adamant opposition to the granting of the sites under the 1936 Treaty.

2. Points of friction with local population.

a. With such a large number of military personnel passing freely across the border from the Canal Zone into Panama and depending upon facilities in Panama for the types of amusement not offered by the Canal Zone, it is inevitable that there be frequent violations of Panamanian law and disciplinary action involved. In general these are limited to traffic offenses, drunkenness, brawling, “disrespect for Panamanian police officers” and the like. They are usually accepted as normal, and their impact upon our relations with Panama is not disturbing. Occasionally, however, a case arises which involves the rape, serious injury or even death of a Panamanian, and such cases are generally played up by the local press and arouse a strong emotional reaction. They are not frequent, however, and their total impact is not sufficient to reduce the welcome that American troops with their ready cash enjoy in the terminal cities.

The impact of the presence of our armed forces in the Canal Zone is limited by the fact that they reside in a separate jurisdiction, where they are housed, fed and generally provided for, and are thereby insulated to a great extent from direct contact with Panamanians and their economy. Their presence in this area is not ordinarily separated in the Panamanian mind from the more general question of the presence of the United States in jurisdictional control of the Canal Zone, and Panamanian efforts are directed principally toward gaining more material benefits from our presence in the Zone. The standard of living of most of our personnel in the Zone is well below that of the Panamanian elite who control this country, so there is little incentive to exploit this as an emotional issue.

b. The United States has maintained armed forces in the Canal Zone since 1903, and the local economy is therefore completely adjusted to their presence. Most of their housing and other require-
ments are supplied directly in the Canal Zone, quite independently of the Panamanian economy or through long-established channels to which the economy is fully adjusted. The dislocations usually associated with the sudden appearance of large numbers of our troops in foreign countries are therefore lacking in this case.

The principal complaints of an economic nature advanced by Panama concern the Panamanian desire to gain additional economic benefits from the Canal; a larger share of the Canal Zone market and higher wages for Panamanian employees of the United States Government. Several such matters were dealt with in the 1955 Treaty and are now awaiting legislation by the United States Congress for their implementation. They involve not only the armed forces but the Panama Canal Company and other civilian agencies as well.

c. Occupation of agricultural land by United States armed forces is a very minor problem in Panama. At Rio Hato, some farmers were displaced, but this had no serious repercussions and will soon be forgotten.

d. The question of criminal jurisdiction over members of the U.S. armed forces while they are in the Republic of Panama involves principally the types of case mentioned in a. above. Under the terms of an informal arrangement between the U.S. Provost Marshall and the Panamanian Commandant of the National Police, arrived at in 1942, provision is made for joint patrols of Panamanian guardsmen and U.S. military police to patrol certain areas frequented by our troops, for the delivery of arrested personnel to the U.S. Provost Marshall under certain conditions, for the presence of U.S. observers at trials and for various other arrangements intended to minimize the friction involved in such matters and to provide maximum protection to U.S. personnel. Although this arrangement has provided the basis for some cooperation between the two countries with respect to criminal jurisdiction, the military authorities in the Zone are not entirely satisfied with the results and have proposed that a new official agreement be negotiated with Panama on this subject. The matter is under consideration by the Department of Defense, and we assume that instructions will eventually be received to negotiate the desired agreement. The willingness of Panama to negotiate a formal agreement in this case is open to doubt because of the fact that in our administration of the Canal Zone our police and judicial authorities freely arrest, try and imprison or impose other punishment upon Panamanian citizens who commit crimes or misdemeanors in the Canal Zone, without any reference to the Panamanian Government.

Difficulties frequently arise in connection with the trial and conviction of U.S. military personnel by Panamanian courts, under conditions which do not provide all the legal safeguards to which Americans are usually accustomed. Reports on all such cases are
submitted to the Department of Defense and to the Embassy, and any necessary official action is taken. Cases of this kind have not been the cause of serious trouble between the two governments, and they are usually of minor importance.

In view of the existence of a separate jurisdiction in the Canal Zone, disputes involving the question of civil jurisdiction over United States armed forces in Panama are neither serious nor frequent.

e. There are no other important local issues involving the armed forces which cause serious difficulties in our relations with Panama.

3. Impact on political situation.

a. While the United States retains control of the Panama Canal, which is the principal economic asset of Panama, our presence will inevitably be a matter of the utmost political importance in this country. It is exploited in varying degrees for political purposes by most of the local politicians, and the argument that Panama is not receiving a just share of the benefits of the Canal has popular appeal in Panama. There appears to be no doubt that the ultimate objective of Panama is to obtain joint or complete control and ownership of the Canal, although there is no expectation on their part of attaining this objective in the foreseeable future. The immediate and continuing objective is the gaining of increased annuities, once stated as a minimum of $5,000,000, preferably based on a percentage of tolls.

At times in the past, notably in the first administration of Dr. Arnulfo Arias (1940–1941), highly nationalistic policies, designed to take advantage of the latent chauvinism of the people, complicated our relations with Panama. Likewise, in 1947 when the question of continuing the agreement pertaining to the granting of certain bases to the United States was under consideration, there is no doubt that student demonstrations encouraged by communist elements were an important factor in the rejection of the proposed agreement by the National Assembly.

Since that time, the Panamanian administrations in power have followed more moderate policies in relation to the United States and more firmness in dealing with communist elements within the country. This has reduced the political exploitation of anti-Americanism to a point where it seems unlikely to lead to serious violence or irresistible political pressure on the Government.

b. Certainly for the present, the Panamanian Government favors the continued operation and defense of the Panama Canal by the United States. As far as our operations within the Canal Zone are concerned, there is no pressure for the reduction of our military activities, and the problems involved are not of such a serious nature as to suggest any such possibility. In connection with our defense
requirements outside the Zone, however, we are faced with the firm refusal of the Panamanian Government to grant the necessary additional land under Article II of the 1936 Treaty, which we believe provides for just the kind of a situation that now exists. We nevertheless hope that it will be possible to overcome this difficulty by a new approach, which is suggested in a later section of this report.

This Panamanian attitude can probably be explained by one or both of the following conditions: (1) Panama does not wish to be under the continuing general requirement of furnishing additional land for defense purposes without a more definite control over the determination of the need for such land and over its administration. (2) Panama wishes to retain the bargaining power incidental to the granting of additional defense sites as the need for them arises.

4. Issues between United States and local government not arising under (2).

There are no other important issues of a military nature that have not been discussed in earlier sections of this report.

5. General estimate of future trends of local sentiment and government attitude toward maintenance of United States operations.

We can foresee in the near future no probable change in the attitude of the Panamanian Government or people toward the maintenance of our defense operations in this area. The long-range Panamanian objective of undermining our sole control of the Canal and substituting some form of joint operation from which they would obtain greater benefits will no doubt continue to be pursued. Our position is so strong, however, that this attitude is not a serious threat under present conditions.

6. Particular measures which have been or could be of assistance in allaying local resentments and governmental objections.

No action on our part short of the abandonment of our position in complete control of the Canal would fully remove the Panamanian pressure for further concessions. We have, however, through a long series of treaty revisions since 1903, notably the 1936 and 1955 treaties, given up many of the special privileges granted to us in the 1903 Treaty. In this process, we have returned or agreed to return to Panama a number of pieces of land not actually needed for canal purposes, we have enlarged the opportunities of Panama to obtain economic benefits from the Canal, we have greatly increased our annuity payments to Panama, and in numerous other ways have maintained an enlightened attitude toward Panama with the objective of keeping our relations with this country as a showcase of our relations with Latin America in general. The concessions granted to
Panama in these treaties have, however, limited our freedom of action to such an extent that it would not be possible to go much further in this direction without adversely affecting our ability to operate and defend the Canal efficiently.

7. **Particular measures to heighten sense of participation in an identification with defense efforts of which United States operations are a part.**

As pointed out above, the most serious defense problem with which we are faced in our relations with Panama is the question of sites outside the Canal Zone for radar and other installations made necessary by the danger of unexpected attack by modern weapons. Although Article II of the 1936 Treaty should provide for such sites, the interpretation placed on this Article by the Panamanian Government renders it useless for this purpose, and there seems to be no possibility that the Panamanian attitude can be changed. Although Panama has, in the course of negotiations for Nike radar sites, indicated a willingness to negotiate a new agreement, entirely independent of the 1936 Treaty, to cover the granting of these sites, we have not followed up this offer because of our insistence that the 1936 Treaty is sufficient and our fear that the cost of this and future agreements, in terms of concessions to Panama, would be too great.

The seriousness of the problem is such, however, that the United States may be forced to abandon this position. We in the Embassy have reluctantly come to the conclusion that if we are to obtain the necessary sites at all we must be prepared to negotiate without reference to the 1936 Treaty. Therefore, if the need for the sites is deemed to be of vital military importance, we recommend that negotiations be undertaken for a new agreement to deal with this question alone. We propose that an effort be made to induce the Panamanian Government to grant the two sites in question on terms similar to those governing the lease of the Rio Hato area in the 1955 Treaty, without specific reference to the 1936 Treaty.

We believe that the chances of a successful and satisfactory outcome would be increased if we were in a position to present the matter as a joint venture for the protection of both the Canal and nearby areas in Panama and if we were able to make various other references to the joint nature of the undertaking and to the flying of both flags over the sites concerned. It should be kept in mind, however, that political expediency at the time of any negotiations could well cause the Panamanians to make unacceptable demands upon us in this respect. It is not recommended that actual control of the sites and equipment be shared with the Panamanians.

In the meantime, every effort should be made to induce Congress to pass the necessary legislation and provide the required appropriations to carry out the commitments made by the United
States in the 1955 Treaty. This would not only provide a favorable atmosphere for the negotiations but would also remove important causes of dissatisfaction that might be exploited by unfriendly elements in opposing the proposed agreement.

Although beyond the scope of the present study, we wish to point out that if, in connection with the consideration of the problem of enlarging the facilities of the Panama Canal, the possibility of building an additional canal in Nicaragua or elsewhere were considered as a possible alternative, the latter consideration would have a most beneficial effect upon the attitude of Panama toward the defense of the Panama Canal, at least until a definite commitment had been made. If the Panamanian Government were led to believe that its monopoly position were threatened or that the expenditure of vast sums of money for enlargement of the present Canal depended to some extent on Panamanian willingness to cooperate fully in defending it, Panama might be prepared, during that period of uncertainty, to make considerable concessions as an added inducement.\(^5\)

Julian F. Harrington

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\(^5\) In despatch 344 from Panama City, March 8, the Embassy pointed out that as a result of recent consultations in Washington between Ambassador Harrington and Department officials and in Panama City between Embassy and Caribbean Command officials there was general agreement that Panama would not agree to grant the desired radar sites to the United States under the terms of Article II of the 1936 Treaty. Accordingly, the Embassy proposed that the negotiations be “wound up” with a note from the Embassy to the Panamanian Foreign Office, stating for the record the U.S. position and reserving this position for any future negotiations under Article II. (Department of State, Central Files, 611.1913/3–857)
170. Memorandum From the Assistant Secretary of State for Policy Planning (Bowie) and the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Secretary of State


SUBJECT

Nicaraguan Canal

Problem: Should this Government now consider seriously the construction of a trans-oceanic canal across Nicaragua?

1. Economic

(a) The capacity of the present lock canal in Panama is much greater than the demands now being placed upon it. It handled 46 million long tons in 1956. Without major improvements the Canal is considered capable of handling up to 120 million tons per year.

(b) The Panama Canal can accommodate all existing merchant ships, except the largest passenger liners, and tankers in excess of 60,000 tons. Only ten or twelve ships, in being or building, are too large for the Panama locks; and these vessels would not be used on routes requiring Panama transit anyway.

(c) If world trade should continue to expand in accord with recent trends, the capacity of the present Panama Canal may be overtaken in the mid-1970’s. A report by the Panama Canal Company on this question is scheduled to be issued within a month.

(d) It may thus be necessary at an early date to decide as between major improvements in the Panama Canal and the construction of a trans-oceanic waterway elsewhere in Central America. It seems likely that the choice would lie between the Panama waterway and a canal across Nicaragua.

(e) Present construction cost estimates are: $6 billion for a lock canal across Nicaragua; $5 billion for the conversion of the Panama Canal to a sea-level waterway. These figures do not include any amounts for concessionary payments.

(f) Although a Nicaraguan canal would be a shorter route between US Atlantic and Pacific coasts than the Panama Isthmus, the resulting savings would not in themselves be sufficient to justify construction of a canal across Nicaragua. Intercoastal traffic, in fact, is less than 20 percent of total canal traffic.

1 Source: Department of State, ARA Files: Lot 60 D 667, Panama 1957—Nicaraguan Canal. Confidential. ISA, the Office of the Legal Adviser, and the Bureau of Economic Affairs concurred in this memorandum.
2. Strategic

(a) The locks of the Panama Canal cannot accommodate the largest modern aircraft carriers of the Forrestal class or those smaller carriers having canted decks. Under existing strategic concepts, however, this is not viewed as a serious limitation so far as our ability to conduct general war is concerned. It is unlikely, on the other hand, that the Panama Canal would be a target for enemy military actions in situations short of general war.

(b) The lock canal at Panama is vulnerable to lengthy interruption in the event of successful enemy sabotage or overt military action. A Nicaraguan canal, however, would also have to be of the lock type and would therefore be equally susceptible to interruption.

(c) Because of the vulnerability of a lock canal, a preferred solution on the part of Defense would be a sea-level waterway at Panama. Defense, however, would give a lower priority to canal improvement than to other elements in US security programs.

3. Political

(a) Panamanian agitation over the canal is not now in large volume. Nevertheless, we must expect that future Panamanian administrations will press for further financial concessions and for participation in the management and operation of the canal.

(b) If it should become necessary to undertake major improvements in the Panamanian waterway, Panama undoubtedly would take the occasion to seek alterations of our treaty rights.

(c) Nicaragua has indicated its readiness to negotiate a canal grant under the existing Bryan–Chamarro Treaty.

Discussion:

1. The foregoing summation of facts suggests that a Nicaraguan canal would not be justified now on economic or strategic grounds. It does not appear that political considerations are sufficient to outweigh the economic and strategic factors.

2. Despite continuing agitation, Panamanian attitudes do not now seriously threaten US control of the Panama Canal. This agitation will no doubt increase, but our diplomatic capabilities for maintaining the essentials of a US position in the Canal Zone are still considerable. In the last analysis, moreover, we probably can hold physical control of the Canal Zone if we consider it worthwhile to incur the political costs of doing so.

3. Any attempt to obtain concessionary rights in Nicaragua comparable with those we have in Panama would give rise to a great volume of anti-American sentiment in Central and South America.
and elsewhere. Even moderate opinion in Latin America would be strongly opposed to a canal grant of this kind by Nicaragua.

4. It is likely, in any case, that Nicaragua would ask for concessions going beyond the Panama model. Nor could we deal initially with Nicaragua alone, since under the Senate reservation to the Bryan-Chamarro Treaty, it was recited that nothing in the treaty was intended to affect the rights of Costa Rica, El Salvador, and Honduras. In general, the probability is great that in future canal negotiations, whether with Panama or with other nations, we shall be under heavy pressure to agree to share both control and earnings with local governments.

5. Unless we are prepared to give serious consideration to a Nicaraguan canal, our interests would not be served by any attempt to use the threat of a Nicaraguan canal to discourage Panama from attacking our treaty rights in the Canal Zone. First, by falsely exciting political emotions, as well as popular expectations in Nicaragua, we might damage the political standing of a friendly government; Embassy Managua feels strongly that we should not take this risk. Second, discussion of a Nicaraguan canal would inevitably stir up anti-American sentiment in Central and South America. Third, it is by no means certain that the Panamanian Government would be impressed, since it probably is well acquainted with the high cost and other adverse features of a Nicaraguan canal.

6. The Department, on February 13, 1957, commented on a bill introduced into the House to create an Interocceanic Canals Commission to conduct a comprehensive investigation of improvements in the Panama Canal and of alternative canal possibilities.\(^2\) Our position was that such an investigation was not needed in view of the several studies and surveys made in the recent past and the large amount of data thus available. The Department of the Army is currently commenting in the same vein on this bill and on an identical Senate bill.

Conclusions:

1. We should not give serious consideration to a Nicaraguan canal at this time.

2. If the forthcoming study by the Panama Canal Company indicates the need for major alterations in the Panama Canal to handle traffic requirements in the relatively near future, it may be desirable to institute a detailed interdepartmental review of the canal issue in all its aspects.

\(^2\) Reference is to H.R. 3258, introduced in the House of Representatives by Representative Clark W. Thompson (D.-Tex.) on January 17.
171. Memorandum of a Conversation, Panama City, June 27, 1957

PARTICIPANTS
H.E. Lic. Aquilino E. Boyd, Minister of Foreign Relations of the Republic of Panama
The Honorable R.R. Rubottom, Jr., Assistant Secretary of State for Inter-American Affairs
The Honorable Julian F. Harrington, Ambassador of the United States of America to Panama

I began the conversation by expressing my pleasure at being in Panama again and by saying that the Department had been following with the greatest of interest the efforts of the Panamanian Government during the first months of the administration of President de la Guardia. I told the Foreign Minister that I personally had been giving much time and attention to the three pieces of legislation of interest to Panama: (1) the appropriation for the bridge, (2) the wage bill and (3) the bill providing for the return of certain lands. I went into some detail to describe the present posture of the bridge money bill, saying that I was moderately optimistic that it would be passed, although I could not hold out any certainty in view of the economy minded group of congressmen who were holding a tight rein on all expenditures.

I inquired of the Foreign Minister whether President de la Guardia had given attention to the recommendations of the Committee of Presidential Representatives (CPR), referring to the statement made by President Eisenhower that the U.S. intended to support the recommendations to the fullest extent possible. The Foreign Minister said that the President had already received the recommendations and was studying them.

I mentioned that the U.S. was preparing carefully for the Buenos Aires economic conference and hoped to send a delegation headed by a Cabinet member, but that this plan would not work unless the conference could be fitted into a period of ten days to two weeks at the most. The Minister agreed with the latter point and said that Panama was planning to send the Minister of Finance and Treasury, Mr. Ruben Carles. I stated that the Embassy here would soon receive instructions from the Department based on which it would be consulting with the Panamanian Government.

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1 Source: Department of State, ARA Files: Lot 60 D 667, Panama 1957—Relations. Secret. Drafted by Rubottom.
2 Rubottom was in Panama June 26–28 as part of a tour of six Central American nations. Additional documentation on his trip is ibid., Central File 110.15–RU.
3 The Economic Conference of the Organization of American States met at Buenos Aires, August 15–September 4; see vol. vi, Documents 135 ff.
The Foreign Minister was quite interested in the status of the pending legislation before the U.S. Congress but didn't dwell on this subject long, except to say that, while there were one or two details in the wage and lands bills which were not entirely to Panama's liking, the Government had studiously refrained from criticizing these items in order not to damage their position in the Congress.

I pointed out that the United States was still concerned that the Communists might take the present moment, while the disarmament discussions were being held in London,⁴ to redouble their efforts to penetrate and subvert Latin America, stressing that we should redouble our vigilance. He agreed that the communist threat was as great as ever and alluded somewhat vaguely to one or two problems which had developed in Panama as a result of their efforts to provide all of the democratic freedoms to the people. He didn't think that these problems were serious.

The Foreign Minister turned to the present discussions over nautical inspectors, complimented Ambassador Harrington for his efforts to find a solution to the problem, and then explained Panama's position that, while accepting our note setting forth the terms under which inspectors could board vessels in the Canal,⁵ they would have to state that this modus operandi did not alter their previous position in respect to their interpretation of the treaty, etc. I replied to the Minister along this line: I have given this matter personal attention in the Department and felt that the United States would not be able to change its position that the Panamanian reply be limited to a simple acceptance of the terms and conditions in our note: the United States had acceded to Panama's request and it hardly seemed practical for Panama now to insist on a matter of form which might impede their obtaining the substance wanted; the notes referred simply to a modus operandi and should not refer to the treaty. The Foreign Minister firmly supported Panama's position, saying that they were defending a detail which for them was an absolute essential. I told the Foreign Minister that I wanted to be perfectly frank and that I could hold out no hope to him that their position would be accepted. The Minister seemed noticeably let down by this news.

The Minister next alluded to Panama's candidacy for the Security Council vacancy for Latin America. He said that the Ambassador

⁴ Reference is to meetings of the subcommittee of the U.N. Disarmament Commission in London beginning March 19.
⁵ The exchange of notes between the United States and Panama regarding Panamanian nautical inspectors being permitted to board ships of Panamanian registry while in Canal Zone waters were transmitted in despatch 63 from Panama City, August 6. (Department of State, Central Files, 611.19/8–657)
of Uruguay just yesterday had told him that Uruguay was now in a position to consider supporting Panama for the Security Council in return for Panama’s support of a Uruguayan seat on UNECOSOC because Uruguay believed that Argentina might withdraw from the Security Council race. The Foreign Minister was greatly encouraged by this news apparently. He said that Panama already had eight votes, Uruguay’s would make the ninth, and they felt sure of Peru’s and Colombia’s which would give them the eleven vote majority needed. He urged the United States to help hold Argentina in line so as to avoid that country’s getting outside of the caucus in the event it does not get a majority of the votes. I was non-committal and referred only to the traditional United States position not to reach a decision until the Latin American caucus had done so.

* Julio A. Lacarte.

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172. Memorandum From the Acting Secretary of State to the President


SUBJECT

Treaty Legislation—Panama

The three pieces of treaty legislation introduced by the Administration to implement certain provisions of the 1955 Treaty with Panama are not moving through the Congress as they should. There is even evidence that Congress might adjourn before enacting this legislation. The Senate and House committees considering the legislation appear apathetic and somewhat indifferent to its passage.

High officials of the Panamanian Government are seriously concerned that the legislation will not be enacted this session and are unable to understand the reason for Congress’ attitude in not fulfilling United States treaty commitments to Panama. This is

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1 Source: Eisenhower Library, Herter Papers, Chronological File. Drafted by Price on July 25. Rubottom forwarded this memorandum to Herter on July 25 under cover of a note which explained the background of the Panama Canal Treaty enabling legislation and urged the Acting Secretary to approve the memorandum to the President. Herter approved it without change. (Department of State, ARA Files: Lot 60 D 667, Panama 1957—Implementation of Treaty)
especially true in view of your statement to President Arias regarding the sanctity of treaties.\(^2\)

The United States is morally committed to enacting the legislation necessary to implement the Treaty. Failure of enactment of this treaty legislation this session will seriously impair our relations with Panama as such failure is bound to be construed as evidence of our bad faith and lack of concern for Panamanian interests.

I recommend that you request the support of key Congressmen to ensure enactment of this legislation during this session of the Congress.

There is attached a report containing pertinent comments and information regarding this legislation.

Christian A. Herter

[Enclosure]

TREATY LEGISLATION—PANAMA

The three pieces of pending legislation are as follows: S. 1850 and H.R. 6708 (uniform wage scale bills) are presently in the Senate and House Post Office and Civil Service Committees. Hearings have been completed by the Senate Committee. The House Committee has not completed its hearings. S. 1730 and H.R. 6709 (land transfer bills) are on the calendars of the Senate and House. House Document 198 includes the request for appropriation of $1 million for initial engineering studies and plans for construction of a bridge at Balboa. The Document is before the House Appropriations Committee.

President de la Guardia has indicated he will soon summon our Ambassador to Panama to the Presidential Palace to discuss the matter. It is known that he intends to refer to a conversation between the President and President Arias, then President of Panama, regarding United States–Panama relations, made in President de la Guardia’s presence during the President’s visit to Panama in July 1956.

While attending the Conference of Presidents of the American Republics in Panama in July 1956, the President signed into law the enabling legislation which authorized construction of a bridge at Balboa. At that time the President emphasized his personal interest in that project which created much favorable comment from the Panamanian Government and people.

\(^2\) See Document 139.
Officers of State, Army, the Panama Canal Company and the Canal Zone Government have expended considerable effort in explaining the importance of this legislation, as it concerns United States relations with Panama, to members of the Congress and urging its enactment.

Positive action must be taken by the Administration with the Congress before its adjournment to ensure enactment of the three pieces of treaty legislation.

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173. Telegram From the Ambassador in Panama (Harrington) to the Department of State¹

Panama City, August 7, 1957—4 p.m.

97. I called on President De La Guardia today at his request. He expressed to me his appreciation of efforts made by State Department and action taken by the Congress furthering enactment of pending treaty legislation. He expressed particular concern over single wage bill which when passed will be of benefit to Panamanian workers in the Zone. As expected he referred to interest in fulfillment of treaty commitment expressed by President Eisenhower during his visit to Panama last year.

I informed President of Department’s latest efforts to seek approval of legislation as described in Price letter of July 26.² I assured him of Department’s continuing efforts to encourage Congressional approval. He asked me to urge consideration of single wage legislation in the House and again expressed appreciation of accomplishments to date.

Harrington

¹Source: Department of State, Central Files, 611.19/8-757. Official Use Only.
²Not found in Department of State files.
174. Memorandum From the Secretary of State to the President

Washington, August 27, 1957.

SUBJECT

Treaty Legislation Regarding Panama

Two of the three pieces of legislation which the Administration introduced into Congress to implement certain provisions of the 1955 Treaty with Panama have been passed, namely: S. 1730 and H.R. 6709, as amended, authorizing the conveyance of various lands and improvements to Panama; and a supplemental appropriations bill for Fiscal Year 1958 (H.R. 9131), as amended, authorizing $750,000 for work preliminary to the construction of a high-level bridge over the Panama Canal at Balboa, Canal Zone.

Congressional action on the bills has already received publicity in Panama. The Department attaches considerable importance to this legislation, as it is closely associated with our attempt to maintain and further good relations with Panama. I recommend, therefore, that you agree to release a statement to the press at the time of signing the bills. The news of final enactment into law, plus the evidence of your personal interest in the legislation, would make a favorable impression on the Government and people of Panama. A statement by you would also be a manifestation of support for President de la Guardia at a time when it is politically important to him. In addition, you will recall, you have already shown a personal interest in the legislation by signing the enabling act for construction of the bridge at Balboa while attending the conference of the Presidents of the American Republics in Panama in July 1956.

If you accept this recommendation, there is enclosed for your consideration a suggested statement for release to the press.2

John Foster Dulles

1Source: Department of State, Central Files, 611.1913/8-3057. Confidential. Drafted by Price on August 23.

2Eisenhower approved this recommendation and released the proposed statement without change on August 30. For text of the White House press release, see Department of State Bulletin, September 16, 1957, p. 477.
Memorandum From the Special Assistant to the President (Cutler) to the President

Washington, September 11, 1957.

SUBJECT

National Security Aspects of the Existing Panama Canal

1. The Panama Canal Company is considering the expenditure of $19 million over 4 years, without Congressional appropriation, to improve the existing Canal and meet anticipated world shipping requirements for the next decade. Before undertaking this expenditure the Company has sought from Governor Adams assurance that the Administration has no present plan to reconstruct the present Panama Canal into a sea level canal or to construct through Panama or Nicaragua a new sea level canal.

2. In March, 1956, the Director of the Budget reported to Governor Adams, after obtaining the views of interested departments and agencies, that the conversion to a sea level canal of the present Panama Canal would cost $3.6 billion; that the interested agencies assumed a rather negative attitude toward consideration of the project; that the Joint Chiefs of Staff considered the project of "lower priority than military projects and activities required for the security of the nation"; and that State thought a Presidential Commission to study the project was unnecessary because the defense considerations were paramount.

It is understood that the building of a new sea level canal through Nicaragua would be considerably more costly.

3. The Suez incident has occurred since March, 1956. Under the circumstances, do you wish any current expression from Defense-JCS as to the military importance and priority of a project to provide a sea level canal through Panama or Nicaragua?  

Bob

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2 Document 129.
3 A handwritten note on the source text indicated that Cutler had discussed this subject with Eisenhower at Newport, Rhode Island, on September 16. For Cutler's summary of that conversation, see the memorandum, infra.
176. Memorandum From the Special Assistant to the President (Cutler) to the Secretary of Defense (McElroy)

Washington, September 18, 1957.

SUBJECT

National Security Aspects of Existing Panama Canal

1. At Newport on Monday the President discussed with me the subject matter of this memorandum and asked that I request through you the military advice below referred to.

2. The Panama Canal Company is considering the expenditure of $19 million over four years, without Congressional appropriation, to improve the existing Canal and meet anticipated world shipping requirements for the next decade. Before undertaking this expenditure the Company has sought assurance that the Administration has no present plan to reconstruct the present Panama Canal into a sea level canal or to construct through Panama or Nicaragua a new sea level or lock canal.

3. I recalled to the President that on March 1, 1956, the Director of the Budget reported to Governor Adams, after obtaining the views of interested departments and agencies, that the conversion to a sea level canal of the present Panama Canal would cost $3.6 billion; that the interested agencies assumed a rather negative attitude toward consideration of the project; that the Joint Chiefs of Staff considered the project of "lower priority than military projects and activities required for the security of the nation"; and that State thought a Presidential Commission to study the project was unnecessary because the defense considerations were paramount. (A copy of the Budget communication to Governor Adams is attached.) I further stated it to be my present understanding that the building of a new sea level canal through Nicaragua would be considerably more costly than $3.6 billion.

4. The President pointed out that the Panama Canal Company might well continue with its proposed expenditure program, because, even if any decision were taken relative to a new canal in Central America, the completion of any such project would take a good many years.

5. Nevertheless, the President suggested that—in the light of what had occurred in the world since March, 1956—it would be desirable to obtain the current views of our military advisers as to

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1 Source: Eisenhower Library, Sp. Asst. for Nat. Sec. Affairs Records, Gordon Gray Chronological File. Top Secret. Copies of this memorandum were sent to Dulles, Hughes, Adams, Goodpaster, Lay, Gleason, and Boggs.

2 See Document 129.
the military importance and priority of a project to provide a new or alternate canal through Panama or Nicaragua, before giving any further consideration to the matter. In the course of our talk, he queried whether a sea level canal would really be more secure than a lock canal, in view of the destructive capability of modern weapons, and whether an alternate canal in Nicaragua might not be preferable to another new canal in Panama or a reconstruction to sea level of the existing Panama Canal.

6. At the same time that he asked for such a current expression of the military views of the Joint Chiefs of Staff on this question, he suggested that the Secretary of State be asked to give a current expression of foreign policy views on the matter. To that end, I am enclosing a copy of this memorandum to Mr. Dulles.

7. As this matter is not at this time pressing, it is suggested that replies from Defense and State might be transmitted on or before November 15, 1957.

Robert Cutler

3 Printed from a copy which bears this typed signature.

177. Memorandum From the Special Assistant to the President (Cutler) to the Special Assistant to the President (Adams)

Washington, November 19, 1957.

SUBJECT

National Security Aspects of the Existing Panama Canal and Alternatives to It

As you know, the Panama Canal Company, prior to undertaking a $19 million four-year improvement program for the existing canal, has sought assurance that the Administration has no present plan to reconstruct the present canal as a sea level canal or to construct through Panama or Nicaragua a new canal.

On September 18, at the President’s request, I wrote the Secretary of Defense asking for current Joint Chiefs of Staff views as to the military importance and priority of a project to convert the present Panama Canal into a sea level canal or to provide a new or

alternative canal through Panama or Nicaragua. Also at the President’s request, I asked the Secretary of State to provide a current expression of foreign policy views on this matter. I have now received from the Secretary of Defense and the Under Secretary of State the attached views which may be summarized as follows:

a. /CS: A sea level conversion of the present Canal would reduce its vulnerability and would increase its operational capabilities against nuclear attack. The present Canal is strategically important. Construction of a sea level canal in Panama is not as important strategically and should not be undertaken at the expense of military projects or activities required for national security. The cost of a second canal would be disproportionate to the additional degree of security provided because it would require little more effort for an enemy to damage two canals in the same general area than to damage one.

b. /State: Reconstruction of the Panama Canal appears more advantageous than construction of a new canal. A new canal through Panama or Nicaragua would require negotiation of a treaty probably involving a degree of Panamanian or Nicaraguan participation in ownership and operation. A Nicaraguan Canal would cost $6 billion as against $5 billion for reconstruction of the Panama Canal; would probably antagonize the Panamanian government; and might oblige us to negotiate with Costa Rica as well. Rights of El Salvador, and possibly Honduras, might also be involved; consultation with other Western Hemisphere countries might be necessary. On the other hand, a Nicaraguan Canal would provide a shorter and alternative route, lessening risks of delay from accidents and assuring expeditious handling of increased traffic in the Panama Canal.

Robert Cutler

P.S. My personal appraisal of these replies is that a canal through Nicaragua is not favored and that a reconstruction of the existing Canal to sea level is at a pretty low priority in the scale of our national security needs.

R.C.

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2 Letters from Neil McElroy to Cutler, dated November 14, and Christian Herter to Cutler, dated November 18, were attached to the source text, but are not printed.
3 Printed from a copy which bears this typed signature.