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# SPECIAL NATIONAL INTELLIGENCE ESTIMATE

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Torrijos, the United States,  
and the Panama Canal

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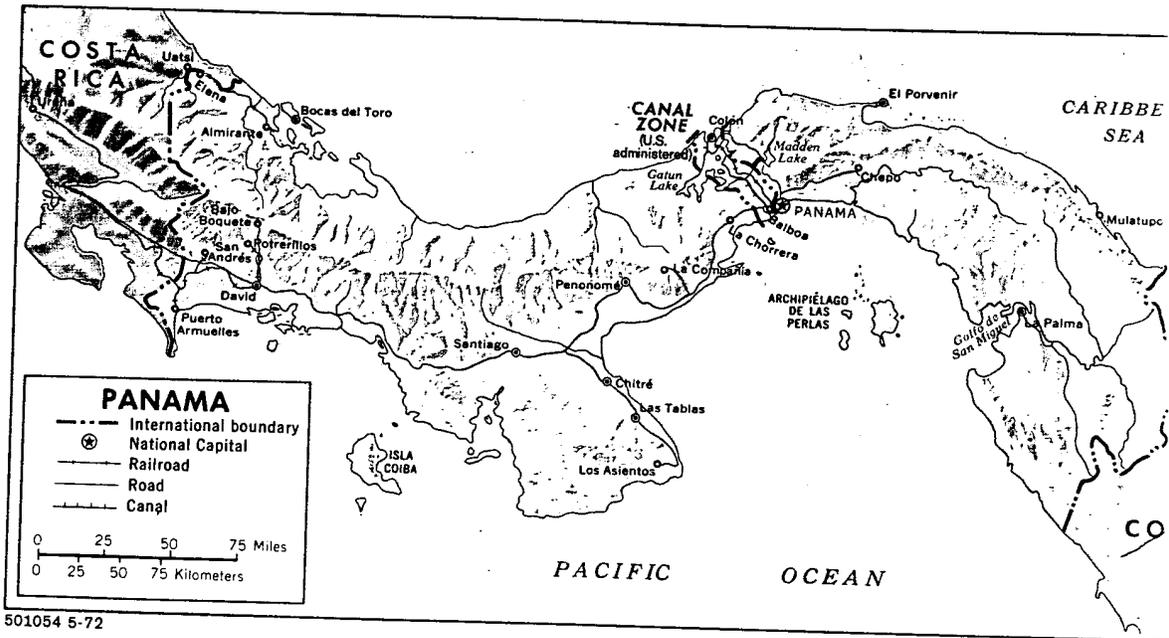
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TORRIJOS, THE UNITED STATES,  
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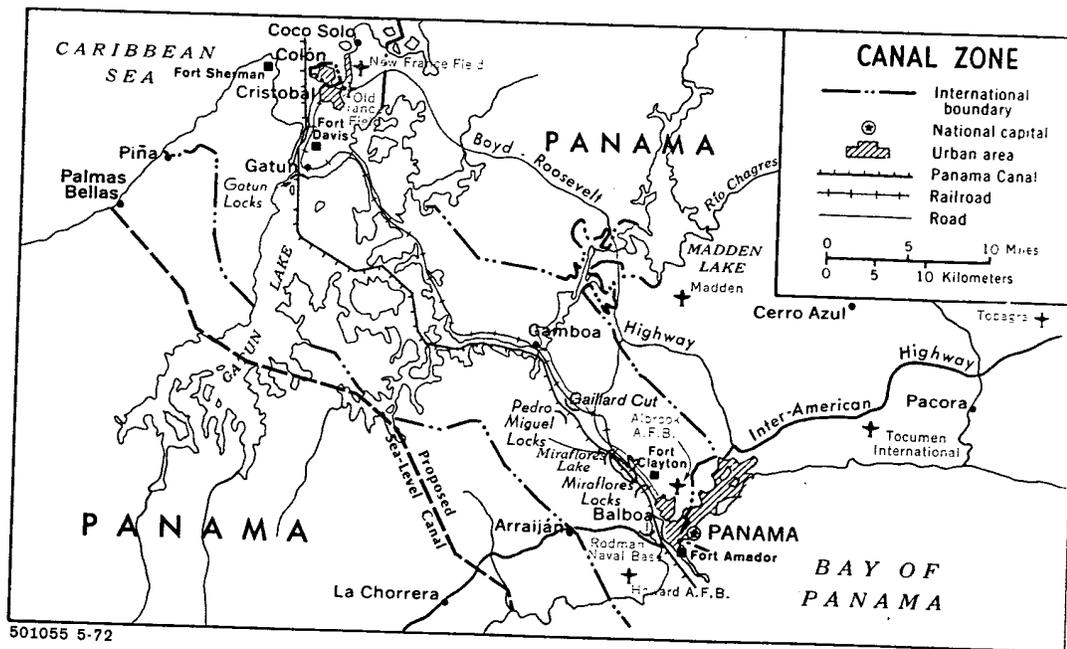
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## TORRIJOS, THE UNITED STATES, AND THE PANAMA CANAL

### PRÉCIS

After a year and a half of intermittent and inconclusive negotiations on a canal treaty, General Torrijos is presently displaying an uncompromising and contentious stance. He has made a decision to dig in hard on certain basic issues—full and early Panamanian jurisdiction over the Canal Zone and a treaty of limited duration. And, in the meeting of the UN Security Council and elsewhere, he has attempted to bring international pressure to bear on the US.

Torrijos will interpret the expressions of support which Panama has received as evidence of growing international backing and as a rationale for going ahead with similar tactics. In fact, he has gained no real leverage on the US; his recent power plays in this direction have proved counterproductive in that he has had to pay a price in US good will.

In his efforts inside Panama to exert pressure on the US, Torrijos will try initially to tread a fine line. Having predicted that demonstrations would be likely against the US veto, he will probably go ahead with some carefully staged and controlled "popular" protests. He will hope to show that Panamanian nationalism, despite its nascent stage of development and despite the apathy of most Panamanians during the Security Council debates, is a significant force.

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One other way Torrijos can now move is to expand Panama's relations with Communist nations, as well as to broaden them further with Third World countries. At present there are no official Communist missions in Panama. But not only did Torrijos recently establish ties with nations like Libya and Algeria, he acted immediately after the Council meetings to open formal relations with Bulgaria, and he is presently considering relations with the USSR and China. Cuba, he understands, is a special problem. He has expanded unofficial contacts and permitted some Cuban advisers—a few in the security field—to make extended visits. Although he will probably move along with the other Latin Americans on the matter of establishing formal relations with Cuba, he will probably stop short of a very close alignment with Castro so long as he retains hope of a negotiated settlement on the canal.

For the foreseeable future, the environment in which Torrijos must operate will be strongly influenced by US policies and actions. Most of his decisions, if not made in direct response to US moves, will still reflect what *he perceives* as the US stance toward him and toward Panama. And his perception of what the US is doing—and of what that implies for him—will be conditioned by certain of his personal characteristics and his own feel for his power hold. Two factors inclining him to press ahead with an activist, challenging approach will be his increased confidence in his ability to rule and his continuing tendency to impulsiveness. Partly offsetting these, and conducive to some restraint in his behavior, will be his wary respect for US power and his recognition of Panama's economic vulnerabilities.

Torrijos' likely future policy can thus be most usefully examined in the light of the particular course of action the US may be following. Four indicative US courses of action—and Torrijos' probable reactions to each—are discussed on pages 7 and 8. Courses A and D have been deliberately drawn so as to describe limiting cases; each of them constitutes a tough US course. B, in effect, is a continuation of the present US posture, while C, which involves quite a different negotiating approach, is considerably more forthcoming.

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## THE ESTIMATE

### I. THE STATE OF PLAY IN THE CANAL NEGOTIATIONS

1. General Omar Torrijos, Panamanian strongman since 1968, is presently displaying an unyielding attitude on the canal issue. Over much of the past year and a half of intermittent and unsuccessful negotiations on a canal treaty, his government has seemed unsure of its negotiating strategy. Over the past few months, two striking changes have occurred. First Panama has made a decision to dig in and take an uncompromising stance on what it considers the fundamental issues—full and early Panamanian jurisdiction over the Canal Zone and a treaty of limited duration. This position was signaled by its latest position paper, and its subsequent public airing of the US and Panamanian negotiating positions. (See foldout page 9.)

2. The second change was reflected in Panama's successful bid to hold a meeting of the UN Security Council in Panama. This move signaled a shift from bilateral negotiation to a play for international sympathy and pressure. Despite assurances that they would do nothing at the Security Council to damage the negotiations, in the end the Panamanians insisted on a resolution that they knew the US would veto. They have now begun a propaganda campaign to exploit this veto as evidence of US intransigence. While most governments did not take sides in the Security Council debates on the specifics of the dispute, there were expressions of support for Panama from a number of countries in Latin America and elsewhere in the Third World. Panama is therefore likely to interpret the results of the Security Council proceedings as evidence of international backing and confirmation that pressure tactics are paying off.

### II. TORRIJOS AS A POLITICAL PERSONALITY

3. Torrijos, at 44, is clearly the controlling figure in Panama and the arbiter of his country's position and tactics in the treaty talks. In the beginning years after his assumption of power he was uncertain of his ability to run the country. His impulsive style of rule—a compound of his dictatorial tendencies, volatile temperament and lack of confidence—inhibited him in following through on a given political course. Basically a manipulator and action-oriented, he still tends to be impatient with the complexity of issues in the canal negotiations and apprehensive that he might somehow be tricked by the US into selling out Panama's national interests.

4. But during his four and a half years of rule—a period in which he has had to overcome crises affecting his power position—Torrijos has gradually developed skill in handling people and problems. He is now more relaxed and less erratic. He still keeps a tight rein on President Lakas and other principal officials, but he has gained enough assurance to loosen his arbitrary control over subordinates and over their inputs to policy-making. At the same time, while his earlier insecurities might well reappear in circumstances of heavy pressure, he has come to believe that he is the man destined to bring Panama a "just" solution of the canal issue.

### III. TORRIJOS' POWER POSITION: STRENGTHS, WEAKNESSES, VULNERABILITIES

5. *Supporters and Opponents.* The fundamental element in Torrijos' hold on power continues to be the Guardia Nacional. Despite continued rivalry among top officers in the Guardia, their loyalty to Torrijos remains

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strong. Moreover, the Guardia's ability to impose the will of the Torrijos government on a generally passive populace is now appreciably greater than in 1968.

6. Torrijos has progressed only slowly in building popular support. In his constant travels throughout the countryside he has managed to generate active backing here and there among local officials. And among the campesinos, whom he visits regularly, he has built a considerable personal rapport and a political appeal in which he takes comfort and pride.

7. But among the more politically articulate groups, his record is less impressive. It is true that his efforts to improve economic and social conditions in Panama have attracted a number of able technicians to the government, and he has won over some of the younger businessmen (e.g., the new Ambassador to the US, Gonzalez-Revilla). Most of the business community, however, remains suspicious that Torrijos might be planning to turn in directions which could destroy their still thriving private sector. And members of the formerly dominant political and social class watch from a cowed position in Panama, or a hostile but feckless posture in exile, hopeful of opportunities to exploit any fissures in his power position.

8. Among students, workers, and the urban population generally, there have been few unsolicited expressions of active support for the government's policies. Neither have there been any significant demonstrations of opposition. The government's tight control of the media has obviously had the stifling effect desired. Moreover, the transformation last fall of Torrijos' provisional military junta into a constitutional government, via an elected but powerless assembly, represented a certain further consolidation of Torrijos' power. The

process served both to embellish the image of lawful institutional government and to augment Torrijos' sense of legitimacy as political leader.

9. *The Factor of Nationalism.* In Panama the phenomenon of nationalism is less mature than in larger Latin American countries, such as Mexico or Brazil. After Panama's 70 years almost total reliance on the US, the national mood there is still inconstant; its strength and direction depend more on US-Panama conflicts played up by the government-controlled press and radio than on any widespread identification with national goals. Spontaneous manifestations of anti-US sentiment among the population are rare. Yet the government's increasingly systematic campaign to dramatize Panama's demands on the US and to portray the US "government" in the Canal Zone as a "government" of colonialism and as a nationalistic have been presumably broadening the base of popular support for a strong Panamanian stance on the canal.

10. Torrijos' principal advisor in the past, Foreign Minister Juan Tack, has deliberately cultivating a sense of nationalism among the fairly small number of Panamanian nationalists. In urging Tack to maintain a hard position, he is encouraged by the strongly nationalistic Affairs Advisory Council, a group of prominent citizens connected with the Communist Party. The generally ineffectual Party, the only pre-Torrijos party permitted to operate, also follows a nationalist line but is careful to stay very far from Torrijos' policies. Communists appointed to government positions are, at least on the surface, responsive to the practical demands

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to Torrijos' decisions than to the Communist Party.)

11. The peculiar character of Panamanian nationalism at this stage of its development represents both a potential strength and a potential weakness for Torrijos. He cannot, on nationalist grounds, count on widespread support which will be solid, consistent, and enduring. What he can look to, however, is a mélange of volatile elements in the Panamanian populace which can be suddenly energized for nationalist activity directed against the US. Yet certain of the very people who might be first in the streets in a developing crisis will, in normal situations, be skeptical as to whether their head of government is dealing effectively with US officials. Some of these Panamanians will be openly critical if they come to feel that their government is either selling out to reach a settlement or clumsily provoking unpleasant US counteractions.

12. *Economic Considerations.* Economic development in Panama encompasses many of the challenges Torrijos most wants to surmount; it also poses the most acute vulnerabilities he faces. In a general sense, the Panamanian economy is doing well enough (growth is running about eight percent annually), and, for the immediate future, the government's financial situation is under control. But the rapid growth of public investment outlays in recent years has led to large budget deficits, now amounting to about one-third of total government expenditures each year. To finance these deficits, the Torrijos government has, in the past, resorted to short-term loans in foreign money markets. Over the last two years it has been able to arrange longer-term credits; in January 1973 it obtained a \$65 million 10-year loan from a syndicate of 30 Japanese, European, and North American banks which will enable it to meet

its 1973 external obligations and to finance most of its planned budget deficit of \$82 million. The remainder of the deficit will be covered by foreign aid, substantially from the US.

13. The recent improvement in the government's debt management, the continued high level of income generated directly and indirectly from the canal (about one-third of GNP), the country's emerging status as an international banking center, and its strong economic growth record—all make Panama at the present time a good credit risk. But the government's financial strains have made Torrijos acutely aware that his ability to continue to float large foreign loans will depend on his avoiding any major disruptions or dislocations in Panama's economy. Panama's credit worthiness, as weighed by foreign lenders, will also depend considerably on the prospects for a new canal treaty. If lenders abroad perceive a serious impasse in the negotiations, they are likely to turn more cautious and demand more costly terms; if the negotiations broke down completely, their reaction would be such as to limit severely Panama's ability to get new credits. This would create serious new budgetary problems for Torrijos. If on the other hand, a new canal treaty were completed which would provide Panama with greatly increased income from the canal, Torrijos could anticipate a significant reduction in his reliance on foreign loans and a new and permanent source of capital for his development programs. In short, Torrijos' continuing financial dependence on income from the Canal Zone and on foreign loans and aid, and his hopes for a much more profitable arrangement on the canal in the future, constitute an important constraint against his moving to an extreme position vis-à-vis the US.

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#### IV. TORRIJOS' TACTICS FOR THE IMMEDIATE FUTURE

14. Torrijos has charged that the US veto of Panama's resolution at the Security Council reflects continuing US intransigence. He has taken this line even though he had come close to reaching agreement with the US on a compromise text; he reversed himself at the last minute apparently on the advice of his hard-line nationalist advisers. Torrijos had predicted, even before the vote, that demonstrations against the US action would be likely and, despite the apathy of the Panamanian public during the Security Council debates, he can—and probably will—stage some carefully controlled protests. In addition, he is likely to conclude that the Security Council proceedings have put the US on the defensive and that Panama should exploit this advantage on the international stage. He will convince himself that support for Panama's cause is building up and that, if he works at it, he can generate still more.

15. One way he can move is to expand Panama's relations with Communist nations, as well as with the Third World.<sup>1</sup> At present there are no Communist embassies or permanent trade missions in Panama. Unofficial contacts with Cuba have expanded over the past year, however, and some Cuban advisers, including a few in the security field, have visited Panama for extended periods. Immediately after the Council meetings, the Torrijos government established relations with Bulgaria, and there are indications that Torrijos is considering relations with the Soviet Union and China. How far and fast he moves in this direction will be conditioned by his judgment, at various stages, as to whether the advantages to be gained from such additional support outweigh the risk of antagonizing the US

<sup>1</sup> Continuing to broaden its ties with Third World countries, Panama has recently established diplomatic relations with Libya, Algeria, and Guinea.

and important economic interests in Panama. Torrijos understands that Cuba is a special case. Though he will continue to move toward normalizing relations with the Castro government in line with the general trend in the hemisphere, he will probably stop short of a very close alignment as long as he still hopes of a negotiated settlement on the Canal Zone.

16. On the negotiations themselves Torrijos has probably not yet developed a firm complete strategy for the future. In view of the Security Council outcome there is a good chance that he will decide to resume negotiations in their present form. He certainly will not expect any new and promising treaty offer from the US in the months immediately ahead. Nonetheless, after his exploitation of the US veto, he may make further efforts to shift the discussion to higher levels in order to capitalize on US statements to the Security Council that bilateral negotiations would continue. He would hope at least to induce the US to make *ad hoc* accommodations on secondary issues, e.g., increased Panamanian use of Canal Zone territory and facilities, and the elimination of other more visible symbols of the US presence in the zone. Such arrangements would demonstrate that his approach can produce certain benefits for Panama and that he can handle the US. But his present planning almost certainly calls for a continuation of a hard line on the central issues and the maintenance of pressure on the US.

#### V. TORRIJOS' REACTIONS TO POSSIBLE US COURSES OF ACTION

17. The environment in which Torrijos must operate will, for the foreseeable future, be strongly influenced by US policies and actions. Most of his decisions, if not made in direct response to US moves, will still reflect what he perceives as the US stance toward him and toward Panama. And his perception of what

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the US is doing—and of what that implies for him—will be conditioned by certain of his personal characteristics and his own feel for his power hold. As indicated in Sections II and III, two factors inclining him toward an activist, contentious approach will be his increased confidence in his ability to rule and his continuing tendency to impulsiveness. Partly offsetting these, and conducive to some restraint in his behavior, will be his wary respect for US power and his recognition of Panama's economic vulnerabilities.

*The four US courses of action considered below are meant to be indicative, rather than definitive. Various other permutations and combinations would of course be possible. Courses A and D have been deliberately drawn so as to describe limiting cases; each of them constitutes a tough US course. B, in effect, is a continuation of the present US posture; C, which involves a quite different approach, is considerably more forthcoming.*

**A. Hold to Present Negotiating Posture (as Restated in February 1973)—No New Initiatives or Concessions**

18. If Torrijos comes to believe over the coming months that the offer made by the US in February 1973 is final, he could be expected to react strongly. He might first make further attempts to mobilize international support against the US but he would realize before long that the endeavor was not promising. He would then turn to cruder tactics at home (of the sort he has recently told foreign visitors he would have to consider). Probably he would devise some carefully-controlled demonstrative incident, e.g., the occupation of a Canal Zone facility. Such a move could readily trigger more drastic actions, deliberate or not. Even if he intended to avoid direct provocation to the US, the chances for spontaneous violence in the heightened na-

tionist atmosphere would be appreciable. The resulting tensions could bring a point of crisis and give the US little choice but to persist in confrontation rather than be pushed by these tactics into a new phase of negotiations.

**B. Additional Efforts to Keep Present Negotiations Alive—No New Initiatives on Central Issues—Some Offers of Ad Hoc Accommodation on Secondary Ones**

19. This course of action in effect carries forward the negotiating posture the US had reached before the Security Council meetings. Torrijos would probably be quite receptive to such US *ad hoc* offers at first; by accepting them, he could show the Panamanians that he was making visible, if not very significant, gains. He would also recognize that in this way he might be getting something free that the US could otherwise have used for bargaining purposes. And for a while he would probably temper his anti-US propaganda and perhaps his nationalist appeals. Nonetheless, sooner or later, he would likely become convinced that the US was trying to divert him indefinitely from insisting on settlement of the basic issues. And he would then swing back to pressure moves—as in the scenario outlined under Course A.

**C. Initiative to Reopen Negotiations at Higher Level—Offer with Some Give on Central Issues, Generosity on Secondary Ones—Hints of Readiness to Exploit Vulnerabilities**

20. This course of action would be responsive to Torrijos' desire (mentioned above) for personal talks at the highest levels. He is not motivated simply by a feeling that he could extract a better deal in that way; it is important to him, in and of itself, that he be seen bargaining with the highest ranking US officials. He has never had much confidence in the capacity of Panama's negotiating teams, and he must convince himself and other key

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Panamanians that he has pressed the US to its final offer. In this kind of forum, Torrijos would probably be businesslike and prepared to engage in a frank, private exchange on the limits to Washington's position as well as the factors he must weigh for Panama.

21. This is not to suggest that agreement would be rapid or easy. Torrijos will be difficult to budge from the stance he has taken on the issue of jurisdiction and still more difficult to move on the question of duration. If the US made clear early on, that it was prepared to be generous on secondary matters, and to move right away on some of them, the odds for progress on central issues would grow. At some stage, hints of US readiness to exploit Panama's economic vulnerabilities could also be effective. There would, of course, be risk that such tactics would offend his pride and cause him to withdraw from the negotiations in a demonstrative manner.

22. Though there are many unpredictables, this much is clear: there could be no accord without appreciable movement by both sides on the central issues of jurisdiction and duration. Thus Torrijos would have to become considerably more flexible on these matters than he has been to date. All things considered, the chances that a new Treaty could be produced through this course of action are only fair.<sup>2</sup>

<sup>2</sup> The Director of Intelligence and Research, Department of State; the Director, National Security Agency; and the Special Assistant to the Secretary of the Treasury consider the estimate incomplete in that none of the putative US courses of action offers more than a fair chance of success in negotiating a new Canal Treaty. In order to raise the odds on negotiating a treaty to even or better, under Course C the US would almost certainly have to be prepared to make concessions to Panama along the following lines on the two central issues:

- a. Termination—no later than the end of the century.
- b. Jurisdiction—passed to Panama over a transition period of up to 10, rather than 15, years.

D. Overt Pressures—Choke Off Credits, Reinforce Security Measures in Zone, Limit Panama Earnings From Zone—Declare Terms of Take-It-Or-Leave-It Settlement

23. If, in response to Torrijos' actions, the US were to adopt a combination of overt pressures, whether applied gradually or virtually all at once, Torrijos would be driven into a difficult corner. If only out of a warlike respect for US power (including the means it could use against Panama) and a hope to avoid the uncontrolled violence that would probably arise in the assumed circumstances, he would have to give consideration to accepting a proffered settlement and trying to make the best of the situation. Conceivably he could persuade himself that so doing would be the better of two very bad courses.

24. He would be much more likely, however, to defy the US and to exhort all Panamanians to stand behind him. Torrijos would not, of course, be able to parry the US action but he would be able to inflame the passions of the populace in the face of this demand and pressure. He would try for international help of various kinds, though not much, other than propaganda support, would be obtainable. His main reaction would have to be to Panama and would likely include mass demonstrations, staged incursions into the Zone; perhaps a widening spiral of violence. In the last resort, this might even include attempts to sabotage the canal. Torrijos might or might not survive in office during a period of turbulence and strain. If he did not, the art of bargaining would obviously be altered and the character of the government which succeeded him. There would be some chance that a successor government in Panama would be open to a new treaty acceptable to the US. There would be considerable doubt, however, that the successor could make a settlement stick.

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## THE US AND PANAMANIAN NEGOTIATING POSITIONS ON MAJOR ISSUES, AS THEY EMERGED DURING THE 1971-1972 TALKS

### *Panama's Position*

The Panamanians are asking for a new treaty which would terminate no later than 1994 with a possible short extension if the US expands the canal's capacity. They want full jurisdiction over the canal area no later than five years after the signing of a treaty. They would grant the US use of very limited land and water areas for the exclusive purpose of operating, maintaining, and protecting the canal.

Panama would have primary responsibility for the protection of the canal from local threats, in cooperation with the US. Defense from external threats would be multinational and conducted from bases outside Panama. US forces in the area would be strictly limited.

The new treaty would stipulate a five-year limitation on an option for the US to build either a sea-level canal or a third set of locks. Finally, Panama would expect greatly expanded financial and economic benefits from the canal under the new treaty (Panama's negotiators have hinted at \$50 to \$100 million a year).

### *The US Position*

The US is willing to abrogate the 1903 treaty and devise a new treaty relationship. It wants a treaty that would last about 50 years, with options to extend it 35 years from the completion of construction if third locks are built or 40 years if a sea-level canal is built. But it wants an open option (beginning in 15 years at the earliest and extending possibly up to the end of the century) to decide on whether and how to expand the capacity of the canal.

In any case, the US wants to retain certain jurisdictional rights in order to operate, maintain, and protect the waterway during the life of the treaty. Panama would gain immediate jurisdiction in criminal and civil cases involving only Panamanians in the canal area, but most other types of jurisdiction would be passed to the Panamanians over a transition period of up to 15 years, e.g., joint patrols with the Guardia Nacional during the transition period, after which Panama would get exclusive police authority. The US would still retain the right to maintain security guards around US property and employee residences, as well as certain other rights directly connected with canal operations.

There would be a substantial reduction in land and water areas used by the US in operation, maintenance, and protection of the canal, and even these lands could be opened to Panamanian development with US consent. The US would retain the right to defend the canal in peace or war, the power of decision in this area remaining with the US.

Finally, there would be a substantial increase in financial benefits to Panama from the operation of the canal, i.e., a royalty on tonnage amounting to some \$20-\$25 million annually at present traffic rates (compared with a \$2.1 million annuity at present) and the expectation of steady growth in income to Panama during the life of the treaty.

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