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Panama: Political and Economic Conditions and U.S. Relations

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Panama: Political and Economic Conditions and U.S. Relations

Summary

With four successive elected civilian governments, the Central American nation of Panama has made notable political and economic progress since the 1989 U.S. military intervention that ousted the regime of General Manuel Noriega from power. The current President, Martín Torrijos of the Democratic Revolutionary Party (PRD), was elected in May 2004 and inaugurated to a five-year term in September 2004. Torrijos, the son of former populist leader General Omar Torrijos, won a decisive electoral victory with almost 48% of the vote in a four-man race. He succeeded President Mireya Moscoso of the Arnulfist Party, elected in 1999, whose administration was tainted by several high-profile corruption scandals. Torrijos' electoral alliance also won a majority of seats in the unicameral Legislative Assembly.

The most significant challenges facing the Torrijos government have included dealing with the funding deficits of the country's social security fund; developing plans for the expansion of the Panama Canal; and combating unemployment and poverty. In April 2006, the government unveiled its ambitious plans to build a third lane and new set of locks that will double the Canal's capacity. In an October 2006 referendum on the issue, 78% of voters supported the expansion project. Panama's service-based economy has been booming in recent years, but income distribution remains highly skewed, with large disparities between the rich and poor.

The United States has close relations with Panama, stemming in large part from the extensive linkages developed when the Panama Canal was under U.S. control and Panama hosted major U.S. military installations. The current bilateral relationship is characterized by extensive counternarcotics cooperation, assistance to help Panama assure the security of the Canal, and negotiations for a bilateral free trade agreement (FTA). The United States provided Panama with $9.4 million in foreign aid in FY2006 and an estimated $12.2 million in FY2007. The FY2008 request is for $5.1 million.

After 10 rounds of negotiations, the United States and Panama announced the conclusion of an FTA on December 19, 2006, although U.S. officials stated the agreement was subject to additional discussions on labor and that the Administration would work with Congress to ensure strong bipartisan support. Subsequently, congressional leaders and the Bush Administration announced a bipartisan deal on May 10, 2007, whereby pending FTAs, including that with Panama, would include enforceable key labor and environmental standards. On June 28, 2007, the United States and Panama signed the FTA, which included the enforceable labor and environmental provisions. Panama's Legislative Assembly overwhelmingly approved the agreement on July 11, 2007 by vote of 58 to 3, with 1 abstention. The U.S. Congress could consider implementing legislation as early as September 2007.

For more details on the bilateral FTA, see CRS Report RL32540, *The Proposed U.S.-Panama Free Trade Agreement*, by J.F. Hornbeck.

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Most Recent Developments

On September 9, 2007, former Panamanian leader Manuel Noriega is scheduled to be released from federal prison in Miami after being imprisoned for nearly 18 years on drug trafficking charges. France is seeking Noriega's extradition, where he faces imprisonment for conviction on money laundering charges. In support of the extradition request, U.S. Federal prosecutors filed a request in Federal court in Miami on July 17, 2007, to have the former Panamanian ruler extradited to France upon his release from U.S. prison. On August 28, a federal judge ruled that the extradition may proceed, although the ruling could be appealed. Noriega wants to be returned to Panama, where he faces 20 years for conviction on a variety of charges, and his lawyers are petitioning to repatriate him to his native country.

On September 3, 2007, Panama officially launched its Canal expansion project, with a ceremony led by former President Jimmy Carter whose Administration negotiated the Panama Canal Treaties.

On September 1, 2007, Panama's Legislative Assembly elected Pedro Miguel Gonzalez of the ruling Democratic Revolutionary Party (PRD) as head of the legislature. The State Department issued a statement expressing deep disappointment about the election of Gonzalez because of his indictment in the United States for the December 1989 murder of U.S. Army Sergeant Zak Hernandez and the attempted murder of U.S. Army Sergeant Ronald Marshall in June 1992. According to the State Department, there is an outstanding U.S. warrant for his arrest. Although Gonzalez was acquitted for the Hernandez murder in 1997, observers maintain that the trial was marred by jury rigging and witness intimidation.

On July 11, 2007, Panama's unicameral Legislative Assembly overwhelmingly approved the bilateral U.S.-Panama free trade agreement by a vote of 58 to 3, with 1 abstention.

On June 28, 2007, Panama and the Unites States signed a bilateral free trade agreement, which includes enforceable labor and environmental provisions pursuant to the bipartisan trade deal negotiated between congressional leaders and the Bush Administration in May 2007.

From June 3-5, 2007, the General Assembly of the Organization of American States (OAS) held its 37th regular session in Panama City focused on the theme of "Energy for Sustainable Development."

On May 10, 2007, congressional leaders and the Bush Administration announced a bipartisan trade deal whereby pending free trade agreements, including the Panama free trade agreement, would include enforceable key labor and environmental standards.

On February 16, 2007, President George W. Bush met with President Torrijos in Washington D.C., with talks focused on the pending free trade agreement and the Canal expansion project.

On February 12, 2007, Panama and the United States signed a declaration of principles intended to lead to Panama's participation in the Container Security Initiative (CSI), operated by the Department of Homeland Security, and the Megaports Initiative, run by the Department of Energy.

On December 19, 2006, the United States and Panama announced the conclusion of negotiations for a free trade agreement, but the United States Trade Representative maintained that the agreement would still be subject to additional discussions on labor in order to ensure bipartisan support in the 110th Congress.

On November 7, 2006, Panama was elected to hold a two-year rotating Latin America seat on the U.N. Security Council. The country had emerged as a consensus candidate on November 1, 2006, after 47 rounds of voting between Guatemala and Venezuela. During those rounds, Guatemala, the U.S.-backed candidate, had received about 25-30 votes more than Venezuela, but neither country received the two-thirds vote needed for the seat. Many observers attribute Venezuela's defeat, at least in part, to President Hugo Chávez's strong anti-American speech before the U.N. General Assembly in September. In the context of Panama's close relations with the United States, the election of Panama to the seat bodes well for U.S. interests at the United Nations compared to the potential of Venezuela winning the seat.

On October 22, 2006, Panamanians approved the Torrijos government's Canal expansion project with over 78% support in a national referendum.

In mid-October 2006, the Centers for Disease Control and Prevention (CDC) helped Panama solve the mystery of recent deaths ultimately traced to contaminated cough syrup from China. At least 100 deaths have been traced to the contaminant.

Political Conditions

Panama has made notable political and economic progress since the December 1989 U.S. military intervention that ousted the military regime of General Manual Antonio Noriega from power. The intervention was the culmination of two and a half years of strong U.S. pressure against the de facto political rule of Noriega, commander of the Panama Defense Forces. Since that time, the country has had four successive civilian governments, with the current government of President Martín Torrijos elected in May 2004 to a five-year term. Inaugurated on September 1, 2004, Torrijos is the son of former populist leader General Omar Torrijos. His electoral alliance, led by the Democratic Revolutionary Party (PRD), also won a majority of seats in the unicameral Legislative Assembly.

From the Endara to the Moscoso Administration

Endara Government (1989-1994). Before the U.S. intervention, Panama had held national elections in May 1989, and in the presence of a large number of international observers, the anti-Noriega coalition, headed by Guillermo Endara, prevailed by a three-to-one margin. The Noriega regime annulled the election, however, and held on to power. By the fall, the military regime was losing political power and relied increasingly on irregular paramilitary units, making the country unsafe for U.S. forces and U.S. citizens. On December 20, 1989, President George H.W. Bush ordered the U.S. military into Panama "to safeguard the lives of Americans, to defend democracy in Panama, to combat drug trafficking, and to protect the integrity of the Panama Canal Treaty." Noriega was arrested on January 3, 1990, and brought to the United States to stand trial on drug trafficking charges.

As a result of the intervention, the opposition coalition headed by Guillermo Endara that had won the May 1989 election was sworn into office. During his term, President Endara made great progress in restoring functioning political institutions after 21 years of military-controlled government, and under his administration, a new civilian Public Force replaced Noriega's Panama Defense Forces. But Endara had difficulties in meeting high public expectations, and the demilitarization process was difficult, with some police and former military members at times plotting to destabilize, if not overthrow, the government.

Pérez Balladares Government (1994-1999). In May 1994, Panamanians went to the polls to vote in presidential and legislative elections that observers called the freest in almost three decades. Ernesto Pérez Balladares, candidate of the former pro-Noriega Democratic Revolutionary Party (PRD), who led a coalition known as "United People", won with 33% of the vote. Placing a surprisingly strong second, with 29% of the vote, was the Arnulfista Party (PA) candidate, Mireya Moscoso de Gruber, heading a coalition known as the "Democratic Alliance."

In the electoral race, Pérez Balladares campaigned as a populist and advocated greater social spending and attention to the poor. He stressed the need for addressing unemployment, which he termed Panama's fundamental problem. Pérez Balladares severely criticized the Endara government for corruption, and he was able to overcome attempts to portray him as someone closely associated with General Noriega. (Pérez Balladares served as campaign manager during the 1989 elections for candidate Carlos Duque, who the Noriega regime had tried to impose on the electorate through fraud.) Instead, Pérez Balladares focused on the PRD's ties to the populist policies of General Omar Torrijos, whose twelve-year (1969-1981) military rule of Panama ended when he died in a plane crash in 1981.

President Pérez Balladares implemented an economic reform program and worked closely with the United States as the date of the Panama Canal turnover approached. Under his government, Panama and the United States held talks on the potential continuation of a U.S. military presence in Panama beyond the end of 1999 (the date Panama was to assume responsibility for defending the Canal). Ultimately negotiations ended without such an agreement. (For more see "Former U.S. Military Presence in Panama" below.)

Although Panama's constitution does not allow for presidential reelection, President Pérez Balladares actively sought a second term in 1999. In 1997, the PRD had begun studying the possibility of amending the constitution to allow a second bid for the presidency in the May 1999 elections. Ultimately, a referendum was held on the issue in August 1998 but failed by a large margin.

Late in his administration, Pérez Balladares became embroiled in a scandal involving the illegal sale of visas to Chinese immigrants attempting to enter the United States via Panama. As a result, U.S. officials cancelled the former president's U.S. tourist visa in November 1999.[1]

Moscoso Government (1999-2004). In her second bid for the presidency, Arnulfista Party (PA) candidate Mireya Moscoso was victorious in the May 1999 elections. Moscoso, who was inaugurated September 1, 1999, for a five-year term, captured almost 45% of the vote and soundly defeated the ruling PRD's candidate Martin Torrijos (son of former populist leader Omar Torrijos), who received almost 38% of the vote. Until March 1999, Torrijos had been leading in opinion polls, but as the election neared, the two candidates were in a dead heat. A third candidate, Alberto Vallarino, heading a coalition known as Opposition Action, received about 17% of the vote.

President Moscoso, a coffee plantation owner and Panama's first female president, ran as a populist during the campaign, promising to end government corruption, slow the privatization of state enterprises, and reduce poverty. She also promised to ensure that politics and corruption did not interfere with the administration of the Canal. The memory of her husband Arnulfo Arias, a nationalist who was elected three times as president, but overthrown each time, was a factor in the campaign, particularly since Arias was last overthrown in 1968 by General Omar Torrijos, the father of the PRD's 1999 and 2004 presidential candidate.

Although Moscoso took the presidency, the PRD-led New Nation coalition won a majority of 41 seats in the 71-member unicameral Legislative Assembly. Just days before her inauguration, however, Moscoso was able to build a coalition, with the support of the Solidarity Party, the Christian Democratic Party (which later became the Popular Party), and the National Liberal Party, that gave her government a one-seat majority in the Assembly. In August 2000, the Christian Democrats deserted the coalition and formed an alliance with the principal opposition, the PRD. However, corruption scandals in 2002 led to five PRD legislators defecting to support the Moscoso government, once again giving the President majority support in the Legislative Assembly.

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[1] "Ex-Leader of Panama Linked to Visa Sales," *Washington Post*, November 27, 1999; Pablo Bachelet, "U.S. Uses Visas to Combat Corruption," *Miami Herald*, February 21, 2006.

As noted above, Moscoso was elected as a populist, with pledges to end government corruption and reduce poverty, but her campaign pledges proved difficult to fulfill amid high-profile corruption scandals and poor economic performance. As a result, the President's popularity declined significantly from a 70% approval rating when she first took office in 1999 to only 15% in 2004.[2]

Torrijos Government (2004-2009)

On May 2, 2004, Panama held elections for president, as well as for a 78-member Legislative Assembly. In the presidential race, Martín Torrijos of the PRD won a decisive victory with 47.5% of the vote, defeating former President Guillermo Endara, who received 30.6% of the vote, and former Foreign Minister José Miguel Alemán, who received 16.4% of the vote. Torrijos' electoral alliance also won a majority of seats in the unicameral Legislative Assembly, 43 out of 78 seats, which should provide him with enough legislative support to enact his agenda. Elected at 40 years of age, Torrijos spent many years in the United States and studied political science and economics at Texas A&M University. He served four years under the Perez Balladares government as deputy minister of interior and justice, and as noted above, became the PRD's presidential candidate in the 1999 elections.

Leading up to the election, Torrijos had been topping public opinion polls, with 42%-49% support. In the campaign, he emphasized anti-corruption measures as well as a national strategy to deal with poverty, unemployment, and underdevelopment. He was popular among younger voters and had a base of support in rural areas. Torrijos maintained that his first priority would be job creation.[3] He called for the widening of the Canal, a project that would cost several billion dollars, and would seek a referendum on the issue. During the campaign, all three major candidates supported negotiation of a free trade agreement with the United States, maintaining that it would be advantageous for Panama. Endara and Alemán appeared to emphasize the protection of some sensitive Panamanian sectors such as agriculture, while Torrijos stressed that such an agreement would make Panama's economy more competitive and productive.[4]

The most significant challenges facing the Torrijos government have included dealing with the funding deficits of the country's social security fund (Caja de Seguro Social, CSS); developing plans for the expansion of the Panama Canal; and combating unemployment and poverty. After protests and a protracted strike by construction workers, doctors, and teachers in June 2005, the Torrijos government was forced to modify its plans for reforming the social security fund. After a national dialogue on the issue, Panama's Legislative Assembly approved a watered-down version of the original plan in December 2005. The enacted reform did not raise the

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[2] "Toss Up Between Torrijos and Endara," *Caribbean and Central America Report*, February 17, 2004.

[3] Frances Robles, "Ex-leader's Son Wins Presidency in Panama," *Miami Herald*, May 3, 2004.

[4] "Panama: Presidential Candidates Remark on FTA with US," *La Prensa* (Panama), January 24, 2004, translated by Foreign Broadcast Information Service.

retirement age but will gradually increase required monthly payments into the system and introduces a dual pension system that combines aspects of privatization with the current system.[5]

In April 2006, the government unveiled its ambitious plans to build a third set of locks that will allow larger post-Panamax ships to transit the Canal. Panama's Cabinet approved the expansion plan on June 14, and the Legislative Assembly approved it on July 10, 2006. A referendum on the expansion project took place on October 22, 2006, with 78% supporting the project. The referendum in part can also be viewed as support for the Torrijos government, which advanced the project as integral to Panama's future economic development. (For more, see "Canal Expansion Plans" below.)

The referendum was a resounding victory for the Torrijos government, and one that helped restore the President's popularity to over 60%.[6] The government's 2007-2008 agenda includes judicial, penal and anti-corruption reforms, as well as an economic development strategy to target poverty and unemployment. The government also has plans to bolster the energy sector with a potential pipeline to bring natural gas from Colombia and a potential deal by Occidental Petroleum Corporation to build an oil refinery on Panama's Pacific coast that would process some 350,000 barrels of oil per day.[7]

Human Rights

The Panamanian government generally respects human rights, but, as noted by the State Department in its 2006 human rights report (issued in March 2007), serious human rights problems continue in a number of areas. Prison conditions overall remain harsh, with reported abuse by prison guards, and prolonged pretrial detentions remained a problem. According to the report, the judiciary is marred by corruption and ineffectiveness, and is subject to political manipulation. Other serious problems include discrimination and violence against women, trafficking in persons, discrimination against indigenous people and other ethnic minorities, and child labor.

Panama had been criticized by the State Department and international human rights groups for vestiges of "gag laws" used by the government to silence those criticizing policies or officials, but in May 2005, its legislature repealed the restrictive laws. Nevertheless, the State Department's human rights report maintains that 15 past libel cases against journalists remain pending. It also cites concerns of journalists and human rights organizations that the government attempts to manipulate the free flow of information by using advertising funding to reward news organizations that carry stories favorable to the government. Panamanian journalists and international press rights organizations have opposed the Torrijos government's

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[5] Marion Barbel, "Panamanian Congress Approves Modified Social Security Reform," *World Markets Research*, December 22, 2005

[6] Richard Lapper, "Good Luck, Good Timing," *Financial Times*, July 24, 2007.

[7] "Panama: Country Report," *Economist Intelligence Unit*, March, April and May 2007; and Chris Kraul, "Oxy Finds Partner for Oil Refinery," *Los Angeles Times*, May 17, 2007.

efforts to amend Panama's criminal code in such a way that could limit press freedom. The government has vowed to review the controversial provisions.[8]

In an attempt to redress human rights abuses that occurred under military rule and to prevent their reoccurrence, the Moscoso government established a Truth Commission in 2001 to investigate violations under the military regime. The Commission recommended that the government investigate 33 cases of killings or disappearances committed during the 1968-1989 period of military rule, but little progress has been made. In July 2006, just as one of the first human rights trials was approaching an end, a former military officer implicated in the 1970 killing of activist Heliodoro Portugal died from an apparent heart attack. There are reportedly 110 human rights cases involving the torture, incarceration, murder, or disappearance of political activists under the period of military-dominated government.[9]

Displaced Persons from Colombia. In recent years, violence from the civil conflict in neighboring Colombia has resulted in hundreds of displaced persons seeking refuge in the neighboring Darién province of Panama. The Office of the U.N. High Commission for Refugees (UNHCR) reports that there are some 900 displaced Colombians in Panama under temporary protected status. While there reportedly has been improvement in the protection and overall protection and situation of refugees in Panama since 2003 when the UNHCR established a presence in the country, the Panamanian government has been reluctant to regularize their legal status, which would entitle them to work or move freely within the country. Their presence is restricted to a small area in the Darién. According to the State Department's human rights report, many of the Colombians have lived in Panama for years, have given birth to children in Panama, and do not want to return to Colombia because of family and cultural ties to local Panamanian communities. While many of the displaced are Afro-Colombians, there have also been indigenous people from Colombia who have fled to Panama because of the violence. In December 2006, Panama recognized 42 members of Colombia's Wounaan indigenous group as refugees.[10]

With regard to worker rights in Panama, the State Department's 2006 human rights report (issued in March 2007) noted that unions and collective bargaining are permitted in export processing zones (EPZs), but that the International Labor Organization's Committee of Experts questioned the government as to whether these workers have the right to strike. Panama's law regulating the EPZs does not include arbitration or specify procedures to resolve labor disputes in the courts. The State

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[8] "Panamanian press against new civil code," *Latin American Regional Report, Caribbean and Central America,* March 2007; "Panama: Attempt to resurrect authoritarian past," *Latin American Regional Report*, Caribbean and Central America, May 2007; "Dismay at presidential green light for two restrictive articles in new criminal code," Reporters without Borders, March 23, 2007.

[9] Steven Dudley, "Justice Elusive for Victims of Panama's Ex-Dictators," *Miami Herald*, September 29, 2006.

[10] "Panama: First Indigenous Colombians Get Refuge," *UNHCR Briefing Notes*, December 15, 2006.

Department report also noted that child labor was a problem, with violations occurring most frequently in rural areas at harvest time and in the informal sector.

Economic Conditions

Panama's service-based economy has performed well in the last several years, with economic growth rates of 7.6% in 2004, 6.9% in 2005, and 8.1% in 2006. The forecast for 2007 is for 8.4% growth.[11] With a per capita income level of $4,630 in 2005, Panama is classified by the World Bank as an upper-middle-income developing country. Yet income distribution remains highly skewed with large disparities between rich and poor, with around 40% of the population living in poverty. In October 2005, the Torrijos government launched an anti-hunger and anti-poverty program targeting the rural population and an indigenous community in a central rural province. The government has also begun providing direct monthly subsidies to poor families that can demonstrate that their children attend school regularly.[12] Unemployment has fallen for the past four years, averaging 9.6% in 2005, 8.6% in 2006, and is forecast to average 7.3% in 2007.[13]

The administration of President Pérez Balladares (1994-1999) implemented an economic reform program that included liberalization of the trade regime, privatization of state-owned enterprises, the institution of fiscal reform, and labor code reform. Tariffs were reduced to an average of 8%. The Moscoso government partially reversed the trade liberalization process by raising tariffs on some agricultural products, some of which reached the maximum rate allowed under Panama's World Trade Organization obligations.[14]

Although Panama has traditionally eschewed economic linkages and integration schemes with its Central American neighbors (largely because of its privileged relationship with the United States), it has joined with Mexico and Central American states in a regional economic project known as the Puebla-Panama plan. The plan, which has the goal of spurring development in the region, will improve highways, standardize customs procedures, and join power grids to improve the quality of life in the region.

As part of its strategy of increasing its global trade and investment links, and accentuating its role as a global transportation hub, Panama has pursued free trade agreements (FTAs) with several countries, including the United States (see "U.S. Trade Relations and a Potential Free Trade Agreement" section below). In June 2003, an FTA with El Salvador entered into force, and in March 2003 Panama negotiated a framework agreement with the five Central American countries. In June

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[11] "Panama: Country Report," *Economist Intelligence Unit*, July 2007.

[12] Adam Thomson, "Excessive Wealth Fails to Filter Down to the Poor," *Financial Times*, July 24, 2007.

[13] Ibid, p. 6.

[14] United States Trade Representative, *2006 National Trade Estimate Report on Foreign Trade Barriers*, p. 501.

2006, Panama signed an FTA with Chile. Beyond the Western Hemisphere, Panama negotiated an FTA with Taiwan that entered into force in January 2004, and in April 2005, Panama and Singapore announced the conclusion of talks for a free trade agreement that was ratified in June 2006.

U.S. Relations

Background on the 1989 U.S. Military Intervention

The December 20, 1989, U.S. military intervention in Panama, known as Operation Just Cause, was the culmination of almost two and a half years of strong U.S. pressure, including economic sanctions, against the de facto political rule of General Noriega, Panama's military commander. Political unrest had erupted in mid-1987 when a high-ranking Panamanian military official alleged that Noriega was involved in murder, electoral fraud, and corruption, which prompted the formation of an opposition coalition that challenged his rule. The regime nullified the results of May 1989 national elections, which international observers maintain were won by the opposition by a 3-1 margin. It also harassed U.S. citizens in Panama, including the killing of a U.S. Marine lieutenant. President George H. W. Bush ultimately ordered U.S. forces into combat to safeguard the lives of Americans in Panama, to defend democracy, to combat drug trafficking, and to protect the operation of the Panama Canal.

In early January 1990, with the restoration of democracy and Noriega's arrest to face trial in the United States on drug charges, President Bush announced that the objectives of the U.S. intervention had been achieved. In terms of casualties, 23 U.S. soldiers and three U.S. civilians were killed, while on the Panamanian side, some 200 civilians and 300 Panamanian military were killed. While Congress was not in session during the intervention, in general, Members were strongly supportive of the action. In February 1990, the House overwhelmingly approved a resolution, H.Con.Res. 262, stating the President acted appropriately to intervene in Panama after substantial efforts to resolve the crisis by political, economic, and diplomatic means.

Overview of Current U.S.-Panamanian Relations

Since the 1989 U.S. military intervention, the United States has had close relations with Panama, stemming in large part from the extensive history of linkages developed when the Panama Canal was under U.S. control and Panama hosted major U.S. military installations. Today, about 25,000 U.S. citizens reside in Panama, many retirees of the former Panama Canal Commission, and there are growing numbers of other American retirees in the western part of the country.[15]

The current U.S. relationship with Panama is characterized by extensive cooperation on counternarcotics efforts, U.S. assistance to help Panama assure the security of the Canal, and efforts to complete a bilateral free trade agreement (FTA).

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[15] U.S. Department of State, Background Note: Panama, February 2007.

Panama is seeking an FTA as a means of increasing U.S. investment in the country, while the Bush Administration has stressed that an FTA with Panama, in addition to enhancing trade, would further U.S. efforts to strengthen support for democracy and the rule of law.

U.S.-Panamanian negotiations for a bilateral FTA began in April 2004, and were recently completed in December 2006, although at the time U.S. officials stated the agreement was subject to additional discussions on labor and that the Administration would work with Congress to ensure strong bipartisan support. Subsequently, congressional leaders and the Bush Administration announced a bipartisan deal on May 10, 2007, whereby pending FTAs, including that with Panama, would include enforceable key labor and environmental standards. The United States and Panama ultimately signed the FTA on June 28, 2007, which included the enforceable labor and environmental provisions. Panama's Legislative Assembly overwhelmingly approved the agreement on July 11, 2007, by vote of 58 to 3, with 1 abstention. Congress consider implementing legislation as early as September 2007.

The United States turned over control of the Canal to Panama at the end of 1999, according to the terms of the 1977 Panama Canal Treaty, at which point Panama assumed responsibility for operating and defending the Canal. All U.S. troops were withdrawn from Panama at that time and all U.S. military installations reverted to Panamanian control. However, under the terms of the Treaty on the Permanent Neutrality and Operation of the Panama Canal, or simply the Neutrality Treaty, the United States retains the right to use military force if necessary to reopen the Canal or restore its operations. U.S. officials congratulated Panama on the success of the October 2006 Canal expansion referendum, but also asserted that the challenge for the government is to ensure that the expansion project is conducted with transparency and without any hint of corruption.[16]

U.S. assistance to Panama increased annually from FY2001-FY2005, with the country receiving counternarcotics assistance under the Bush Administration's Andean Counterdrug Initiative (ACI), but assistance levels began to drop in FY2006. The United States provided $18.2 million in FY2004, $19 million in FY2005, and $10.4 million in FY2006. The amount of aid provided in FY2007 is estimated to be $12.2 million, including $4 million in ACI assistance. The Administration's FY2008 foreign aid request for Panama is for $5.1 million, with $1 million in ACI assistance, $1.1 million for counter-terrorism assistance, and $2.8 million for a Peace Corps program.

A number of U.S. agencies provide support to Panama. The State Department, the Drug Enforcement Administration, the U.S. Coast Guard, and the Department of Homeland Security are involved in providing counternarcotics support to Panama. In October 2006, the Centers for Disease Control and Prevention (CDC) helped Panama solve the mystery of deaths ultimately traced to contaminated cough syrup from China (at least 100 deaths have been traced to the contaminant). The

[16] U.S. Department of State, U.S. Embassy Panama, "Principal Deputy Assistant Secretary Charles S. Shapiro at Panama Week," and "Ambassador Eaton's Remarks at the Panama Week Power Breakfast," October 2006.

Department of Health and Human Services is providing support for a Regional Training Center for health-care workers in Panama City that will train students from throughout Central America. The U.S. Southern Command also provides support to Panama through military exercises providing humanitarian and medical assistance, and at times provides emergency assistance in the case of natural disasters such as floods or droughts. The U.S. Southern Command also has sponsored annual multi-national training exercises since 2003 focused on the defense of the Panama Canal.

In February 2007, Panama and the United States signed a declaration of principles intended to lead to Panama's participation in the Container Security Initiative (CSI) operated by the U.S. Customs and Border Protection (CBP) of the Department of Homeland Security, and the Megaports Initiative run by the National Nuclear Security Administration of the Department of Energy. CSI uses a security regime to ensure that containers that pose a potential risk for terrorism are identified and inspected at foreign ports before they are placed on vessels destined for the United States. The Megaports Initiative has the goal of deploying radiation detection equipment to ports in order to detect nuclear or radioactive materials.

A sensitive issue in U.S.-Panamanian relations has been Panama's desire to have the United States clean up three contaminated firing ranges in Panama as well as San Jose Island, which was contaminated with chemical weapons used in training exercises during World War II. With regard to the firing ranges, U.S. officials maintain that the United States has already met its treaty obligations to clean up the ranges. With regard to the cleanup of San Jose Island, Panama rejected a U.S. offer in September 2003 that would have provided equipment and training so that Panama could clean up the island; the Panamanian government maintains that it did not want to sign any agreement releasing the United States from liabilities.

President Bush visited Panama in November 2005, on his way back from the fourth Summit of the Americas held in Argentina. During the visit, he endorsed the concept of widening the Canal and indicated that the two countries were close to completing negotiations for a free trade agreement. While in Panama, the President also rejected Panama's calls to remove unexploded ordnance from former U.S. firing ranges that were returned to Panama in 1999. According to the President, "we had obligations under the treaty, and we felt like we met those obligations." Despite the disagreement, President Bush indicated that Panama and the United States could discuss the issue in a constructive way since the two countries have friendly relations.[17] In mid-February 2007, President Bush met again with President Torrijos in Washington D.C., with talks focused on the pending free trade agreement and the Canal expansion project.

Status of Manuel Noriega. In the aftermath of the 1989 U.S. military intervention, General Manuel Noriega was arrested in January 1990 and brought to the United States to stand trial on drug charges. After a seven-month trial, Noriega

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[17] White House, Office of the Press Secretary, "President Bush Meets with President Torrijos of Panama," November 7, 2005; Edwin Chen, "Bush's Trip Ends with Discord," *Los Angeles Times*, November 8, 2005; William Douglas, "Bush's Last Stop: Panama," *Miami Herald*, November 8, 2005.

was convicted on eight out of ten drug trafficking charges in U.S. federal court in Miami in 1992, and sentenced to 40 years in prison. That sentence was subsequently reduced to 30 years, and then to 20 years. With time off for "good behavior," Noriega is scheduled to be released from jail on September 9, 2007.

Noriega wants to return to Panama in order to appeal his convictions in absentia, including for two murders: the brutal killing of vocal critic Hugo Spadafora in 1985; and the killing of Major Moisés Giroldi, the leader of a failed 1989 coup attempt. Panamanian courts sentenced Noriega to at least 60 years in prison, but the law only allows him to serve a maximum sentence of 20 years, and according to some reports, 18 years of Noriega's imprisonment in the United States could be subtracted from his sentence in Panama.[18] Nevertheless, according to Panama's attorney general, there are an additional 15 outstanding cases against Noriega, including his responsibility for the deaths of several members of the Panamanian Defense Forces for their involvement in the failed 1989 coup.[19]

France is seeking Noriega's extradition, where he faces a 10-year prison sentence for his conviction in absentia in 1999 on money laundering charges. In support of the extradition request, U.S. prosecutors filed a request in Federal court in Miami on July 17, 2007, to have the former Panamanian ruler extradited to France upon his release from U.S. prison. On August 28, 2007, a federal judged ruled that the extradition may proceed, although the ruling could be appealed Noriega's attorneys argue that since Noriega has been recognized as a prisoner of war in the U.S. courts, the United States should repatriate him to his native Panama, insisting that this complies with the Geneva Conventions. U.S. officials have argued that France's extradition should be honored because Panama by law does not extradite its nationals.[20] Panama had filed an extradition request for Noriega in 1991.

While Panamanian officials have called for Noriega's extradition to Panama, they have not opposed the possibility of Noriega being extradited to France and have stated that the government would respect the decision of the U.S. courts on this matter. Some observers maintain that the Panamanian government is reluctant to have Noriega extradited to Panama, since some members of the ruling Democratic Revolutionary Party worked with Noriega when he controlled the government and are now reluctant to have Noriega return and revisit cases from the past. Other observers contend that Panamanian officials are reluctant to have Noriega return because of recent changes to the penal code that could allow Noriega to serve little, if any, of his sentence.[21]

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[18] Kathia Martinez, "A Homecoming for Noriega after Miami Release? Many Hope Not," *Associated Press Newswires*, August 12, 2007.

[19] "Torrijos on Edge over Noriega Release", *Latin American Regional Report, Carribean and Central America*, August 2007.

[20] Carmen Gentile, "Noriega Court Bid Called a Charade; Aims to Avoid Extradition," *Washington Times*, August 14, 2007.

[21] Marc Lacey, "An Ambivalent Panama Weights Noriega's Debt and Threat," *New York Times*, July 29, 2007.

Drug Trafficking and Money Laundering

An important concern for U.S. policymakers over the years has been securing Panamanian cooperation to combat drug-trafficking and money-laundering. Panama is a major transit country for illicit drugs from South America to the U.S. market because of its geographic location and its large maritime industry and containerized seaports. Moreover, the country's service-based economy, with a large banking sector and trading center (Colón Free Zone), makes Panama a significant drug money laundering center.

Drug traffickers use fishing vessels, cargo ships, small aircraft, and go-fast boats to move illicit drugs — primarily cocaine, but also heroin and Ecstasy — through Panama. Some of the drugs are transferred to trucks for northbound travel or are placed in sea-freight containers for transport on cargo vessels. Traffickers also utilize hundreds of abandoned or unmonitored airstrips as well as couriers who transit Panama by commercial air flights. There also has been increasing domestic drug abuse, particularly among youth. Addiction has also increased significantly among Panama's Kuna indigenous population, whose lands lie just south of a transit zone for Colombian cocaine.[22] The country is also a small-scale producer of coca leaf in the remote Darien province that borders Colombia. According to the Department of State, security in Darien has improved in recent years, although the smuggling of weapons and drugs across the border continues.

The State Department's March 2007 *International Narcotics Control Strategy Report* (INCSR) states that the United States and Panama cooperate closely on joint counternarcotics efforts, and that U.S. support to Panama's law enforcement agencies remains crucial in order to ensure effective Panamanian anti-drug efforts. The United States has provided equipment, training, and information to enhance Panama's interdiction and eradication capabilities, and is supporting the restructuring of Panama's law enforcement agencies to enhance their abilities. The report encourages Panama to devote sufficient resources to patrol its land borders with Colombia and Costa Rica and its coastline, and to increase the number of arrests and prosecutions in the areas of corruption and money laundering. It notes that the United States will work closely with Panama on the development of a new Coast Guard.

Over the past two years, Panamanian cooperation with U.S. law enforcement led to several major successful anti-drug operations. In January 2006, more than 20 people were arrested in New York and Panama in a heroin smuggling operation involving dozens of "swallowers" who transported the drug. In May 2006, law enforcement authorities from the United States, Panama, and several other countries broke up a cocaine smuggling operation that used three islands on Panama's Caribbean coast to refuel fast boats and fishing trawlers carrying drugs. In March 2007, U.S. and Panamanian authorities cooperated in the interdiction of more than

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[22] Chris Kaul, "A New Foe Threatens Tribe's Independent Spirit," *Los Angeles Times*, January 3, 2006; "Panama Tribe Faces Threat as Cocaine Comes Ashore," *Reuters*, February 18, 2006; "Panama's Kuna Fear Drug Threat," *Latin American Weekly Report*, February 1, 2007.

21 tons of cocaine off the coast of Panama, valued at nearly $300 million, the largest seizure in U.S. history.

Panama has made significant progress in strengthening its anti-money laundering regime since June 2000 when it was cited as a non-cooperative country in the fight against money laundering by the Financial Action Task Force (FATF), a multilateral anti-money laundering body. Subsequently, the government undertook a comprehensive effort to improve its anti-money laundering regime by enacting two laws and issuing two decrees in 2000. As a result of these efforts, the FATF removed Panama from its non-cooperative country list in June 2001. Because of its extensive offshore financial sector, Panama continues to be categorized by the State Department as a country of primary concern for money laundering. Nevertheless, the State Department's March 2007 INCSR notes that Panama has continued to make progress in strengthening its anti-money laundering regime, and has cooperated with the United States and other countries in investigating money laundering cases involving Panama. The report called on Panama to continue its efforts and to emphasize law enforcement actions that address drug smuggling, abuse of the real estate sector, trade-based money laundering, and the proliferation of nontransparent offshore companies.

U.S. Trade Relations and a Potential Free Trade Agreement

Panama has largely a service-based economy, which historically has run a merchandise trade deficit with the United States. In 2006, the United States had a $2.3 billion trade surplus with Panama, exporting $378 million in goods and importing $2.7 billion. Panama was the 45th largest U.S. export market in 2006.[23] Panama's major exports include fish and seafood (accounting for one-third of its exports to the United States), sugar, coffee, and other agricultural products. Major imports include oil, consumer goods, foodstuffs, and capital goods. Almost half of Panama's exports are destined for the United States, while almost one-third of its imports are from the United States. The stock of U.S. foreign investment in Panama was estimated at $5.2 billion in 2005, largely concentrated in the financial and wholesale sectors. This surpassed the combined U.S. foreign investment in the five other Central American nations.[24]

With the exception of two years (1988-1989), when the United States was applying economic sanctions on Panama under General Noriega's rule, Panama has been a beneficiary of the U.S. preferential import program known as the Caribbean Basin Initiative (CBI) begun in 1984. The program was amended several times and made permanent in 1990. CBI benefits were expanded in 2000 with the enactment of the Caribbean Basin Trade Partnership Act (CBTPA) (Title II, P.L. 106-200), which provided NAFTA-equivalent trade benefits, including tariff preferences for textile and apparel goods, to certain CBI countries, including Panama, until September 30, 2008.

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[23] United States Trade Representative, 2007 National Trade Estimate Report on Foreign Trade Practices.

[24] U.S. Department of Commerce, Bureau of Economic Analysis, "Survey of Current Business," September 2006, p. 106.

Panama and the United States began negotiations for a free trade agreement in April 2004. There had been expectations that the negotiations would be completed in early 2005, but continued contention over several issues and a lengthy hiatus prolonged the negotiations until December 2006. These included market access for agricultural products, considered sensitive by Panama; procurement provisions for the Panama Canal Authority regarding expansion activities; and sanitary control systems governing the entry of U.S. products and animals to enter the Panamanian market. Negotiations were suspended for some time in 2006 until after Panama held its Canal expansion referendum in October, but a tenth round led to the conclusion of negotiations on December 19, 2006.

Under the agreement, over 88% of U.S. exports of consumer and industrial goods would become duty-free immediately, while remaining tariffs would be phased out over 10 years. Over 50% of U.S. agricultural exports to Panama would become duty-free immediately, while tariffs on most remaining farm products would be phased out within 15 years. In December 2006, Panama and the United States also signed a bilateral agreement on sanitary and phytosanitary measures in which Panama will recognize the equivalence of the U.S. food safety inspection to those of Panama and will no longer require individual plant inspections. Under the FTA, U.S. companies would be guaranteed a fair and transparent process to sell goods and services to Panamanian government entities, including the Panama Canal Authority.[25]

When the negotiations were concluded, U.S. Trade Representative Susan Schwab stated that the agreement would be subject to additional discussions on labor, and that the Administration would work with both sides of the aisle in Congress to ensure strong bipartisan support before submitting it to Congress.[26] On May 10, 2007, congressional leaders and the Bush Administration announced a bipartisan trade deal whereby pending free trade agreements would include enforceable key labor and environmental standards. This would include an obligation to adopt and maintain in practice five basic internationally recognized labor principles: freedom of association; recognition of the right to collective bargaining; elimination of forced or compulsory labor; abolition of child labor; and elimination of discrimination in respect of employment and occupation.

The United States and Panama ultimately signed the FTA on June 28, 2007, with the enforceable labor and environmental standards outlined in the bipartisan trade deal. Panama's Legislative Assembly ratified the agreement on July 11, 2007, by a vote of 58 to 3, with 1 abstention. The U.S. Congress could consider implementing legislation as early as September 2007.

For more details on the bilateral FTA, see CRS Report RL32540, *The Proposed U.S.-Panama Free Trade Agreement*, by J.F. Hornbeck.

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[25] Office of the United States Trade Representative, "Free Trade with Panama, Brief Summary of the Agreement," December 19, 2006.

[26] Rosella Brevetti, "Panama, United States Conclude Negotiations on Free Trade Pact," but Labor Issues Remain," *International Trade Daily*, December 20, 2006.

Operation and Security of the Panama Canal

Historical Background and the Panama Canal Treaties. When Panama proclaimed its independence from Colombia in 1903, it concluded a treaty with the United States for U.S. rights to build, administer, and defend a canal cutting across the country and linking the Pacific and Atlantic oceans. (See **Figure 1,** *Map of Panama*, at the end of this report.) The treaty gave the United States rights in the so-called Canal Zone (about 10 miles wide and 50 miles long) "as if it were sovereign" and "in perpetuity." Construction of the canal was completed in 1914. In the 1960s, growing resentment in Panama over the extent of U.S. rights in the country led to pressure to negotiate a new treaty arrangement for the operation of the Canal. Draft treaties were completed in 1967 but ultimately rejected by Panama in 1970.

New negotiations ultimately led to the September 1977 signing of the two Panama Canal Treaties by President Jimmy Carter and Panamanian head of government General Omar Torrijos. Under the Panama Canal Treaty, the United States was given primary responsibility for operating and defending the Canal until December 31, 1999. (Subsequent U.S. implementing legislation established the Panama Canal Commission to operate the Canal until the end of 1999.) Under the Treaty on the Permanent Neutrality and Operation of the Panama Canal, or simply the Neutrality Treaty, the two countries agreed to maintain a regime of neutrality, whereby the Canal would be open to ships of all nations. The U.S. Senate gave its advice and consent to the Neutrality Treaty on March 16, 1978, and to the Panama Canal Treaty on April 18, 1978, both by a vote of 68-32, with various amendments, conditions, understandings, and reservations. Panama and the United States exchanged instruments of ratification for the two treaties on June 16, 1978, and the two treaties entered into force on October 1, 1979.

Some treaty critics have argued that Panama did not accept the amendments, conditions, reservations, and understandings of the U.S. Senate, including the DeConcini condition to the Neutrality Treaty. That condition states: "if the Canal is closed, or its operations are interfered with, the United States of America and the Republic of Panama shall each independently have the right to take such steps as each deems necessary, in accordance with its constitutional processes, including the use of military force in the Republic of Panama, to reopen the Canal or restore the operations of the Canal, as the case may be." However, others argued that Panama, in fact, had accepted all U.S. Senate amendments. The State Department asserted that Panama expressly accepted all amendments, conditions, and understandings to the two treaties, including the DeConcini condition. The United States and Panama signed the instruments of ratification for both treaties, which incorporated all the Senate provisions. The two countries cooperated throughout the years on matters related to the canal and established five binational bodies to handle these issues. Two of the bodies were set up to address defense affairs and conducted at least sixteen joint military exercises between 1979 and 1985 involving Panamanian and U.S. forces.

Canal Transition and Current Status. Over the years, U.S. officials consistently affirmed a commitment to follow through with the Panama Canal Treaty and turn the Canal over to Panama at the end of 1999. That transition occurred smoothly on December 31, 1999. The Panama Canal Treaty terminated on that date, and the Panama Canal Commission (PCC), the U.S. agency operating the Canal, was succeeded by the Panama Canal Authority (ACP), a Panamanian government agency established in 1997.

Under the terms of the Neutrality Treaty, which has no termination date, Panama has had responsibility for operating and defending the Canal since the end of 1999. As noted above, both Panama and the United States, however, in exercising their responsibilities to maintain the regime of neutrality (keeping the Canal secure and open to all nations on equal terms) independently have the right to use military force to reopen the Canal or restore its operations. This is delineated in the first condition of the Neutrality Treaty.

The secure operation of the Panama Canal remains a U.S. interest since about 13%-14% of U.S. ocean-borne cargo transits through the Canal. The United States provides assistance to Panama to improve its ability to provide security for the Canal and to enhance port and maritime security. U.S. officials have consistently expressed satisfaction that Panama is running the Canal efficiently, and since 2003, the U.S. military has conducted exercises with Panama and other countries to protect the Canal in case of attack.[27]

Headed by Alberto Alemán Zubieta, the Panama Canal Authority has run the Canal for more than seven years and has been lauded for increasing Canal safety and efficiency. In January 2006, the Martín Torrijos government established a social investment fund backed by Panama Canal revenues that will invest in schools, hospitals, bridges, roads, and other social projects. The initiative, according to the government, would show Panamanians that the Canal is contributing to economic development and improving the quality of life for Panamanians.[28]

Canal Expansion Project. On April 24, 2006, the Panama Canal Authority presented to President Torrijos its recommendation to build a third channel and new set of locks (one on the Atlantic and one on the Pacific) that will double the capacity of the Canal and allow it to accommodate giant container cargo ships known as post-Panamax ships. The proposal would also widen and deepen existing channels and elevate Gatun Lake's maximum operating level. According to the proposed plan, the overall project would begin in 2007 and take from seven to eight years to complete. The estimated cost of the project is $5.25 billion, to be self-financed by the ACP through graduated toll increases and external bridge financing of about $2.3 billion that would be paid off in about 10 years. The Panamanian government would not incur any sovereign debt as a result of the project. According to the ACP, the overall objectives of the expansion project are to (1) achieve long-term sustainability and growth for the Canal's financial contributions to the Panamanian national treasury; (2) maintain the Canal's competitiveness; (3) increase the Canal's capacity to capture

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[27] Senate Committee on Armed Services, Hearing, "Testimony on United States Southern Command, United States Northern Command, and United States Joint Forces Command in Review of the Defense Authorization Request for Fiscal Year 2008 and the Future Years Defense Program," March 22, 2007, *Federal News Service*.

[28] Rainbow Nelson, "Canal Cash to Pay for Social Development," *Lloyd's List*, January 18, 2006.

the growing world tonnage demand; and (4) make the Canal more productive, safe, and efficient.[29]

President Torrijos and his Cabinet approved the expansion project on June 14, 2006, and the Legislative Assembly overwhelmingly approved it on July 10, 2006, with 72 out of 78 deputies voting for the project. Pursuant to Panama's Constitution (Article 319), the project had to be submitted to a national referendum no sooner than 90 days from the date of approval by the Assembly. The Torrijos government chose to hold the referendum on October 22, 2006, close to the anniversary of October 23, 1977, the date when Panamanians approved the two Panama Canal treaties in a national plebiscite by a two-to-one margin. A poll from early September 2006 showed almost 64% public support for the Canal expansion project, but on election day the expansion project received 78% of the vote.

The referendum in part can also be viewed as support for the Torrijos government, which advanced the project as integral to Panama's future economic development. The government maintains that some 7,000 direct jobs will be created by the project, as well as some 35,000 indirect jobs. President Torrijos asserts that increased revenue from the Canal arising from the expansion project will allow the government to launch social development programs and improve living conditions in the country.[30]

There had been some vocal opposition to the Canal expansion project. The organization known as the Peasant Coordinator Against the Dams (CCCE, Coordinadora Campesina Contra los Embalses), consisting of agricultural, civil, and environmental organizations, asserts that the expansion project will lead to flooding and will drive people from their homes. An umbrella protest group known as the National Front for the Defense of Economic and Social Rights (Frenadeso), which was formed in 2005 during protests against social security reforms, called for a "no" vote.[31] Former Presidents Jorge Illueca and Guillermo Endara, as well as former Panama Canal administrator Fernando Manfredo, also opposed the expansion project, maintaining that the price is too high and too much of a gamble. Critics fear that the total price tag could rise considerably and are concerned that toll increases could make alternative routes more economically attractive.[32]

The ACP is moving ahead with the Canal expansion project. In April 2007, Panama announced plans for new toll fees to be implemented gradually beginning in

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[29] Autoridad del Canal de Panama (ACP), "Proposal for the Expansion of the Panama Canal, Third Set of Locks Project," April 24, 2006.

[30] "Panama: Torrijos Wins Backing to Expand Canal," *Latin American Weekly Report*, October 24, 2006; "Panama's Torrijos on Referendum Results: 'Opportunity to Materialize Our Hopes," Open Source Center (*Panama City TVN*), October 23, 2006.

[31] "Torrijos Appeals for Approval of Canal Expansion," *Latinnews Daily*, September 1, 2006.

[32] "Panama: Torrijos Reveals Plans to Expand Canal," *Latinnews Daily*, April 25, 2006; Chris Kraul and Ronald D.White, "Panama is Preparing to Beef up the Canal," *Los Angeles Times*, April 24, 2006; John Lyons, "Panama Takes Step Toward Expanding the Canal," *Wall Street Journal*, April 24, 2006.

July 2007. In early May, the ACP offered its first construction tender for the project. The Panamanian government officially launched the Canal expansion project on September 3, 2007, with a ceremony led by former President Jimmy Carter whose Administration negotiated the Panama Canal Treaties.

Privatization of Two Panamanian Ports and the China Issue. A controversy that arose in U.S.- Panamanian relations in 1996 and continued through 1999 relates to the privatization of two Panamanian ports at either end of the Panama Canal, Balboa on the Pacific and Cristobal on the Atlantic. In July 1996, the Panamanian government awarded the concession to operate the ports to a Hong Kong company, Hutchison International Port Holdings, one of the world's largest container port operators and a subsidiary of the Hutchison Whampoa Limited Group. The company operates the concession in Panama as the Panama Ports Company, S.A.

Then U.S. Ambassador to Panama William Hughes complained about the lack of transparency in the bidding process in which several U.S. companies competed. The Panamanian government responded with a communique describing the process by which Hutchison was awarded the 25-year concession. Panamanian officials maintain that Hutchison had the highest bid, agreeing to pay Panama $22.2 million annually over the life of the concession. In May 1997, six U.S. Senators charged in a letter to the Federal Maritime Commission that irregularities in the bidding process denied U.S. companies an equal right to develop and operate terminals in Panama. After a review of the issue, the Commission responded that while the port award processes were unorthodox and irregular by U.S. standards, it saw no evidence that U.S. companies were subjected to discriminatory treatment. A May 1997 Senate Foreign Relations Committee staff report on the issue also concluded that while the bidding process was unorthodox, U.S. officials found no evidence of illegality.[33]

In addition to the privatization process, some press reports in March 1997 raised the issue of Hutchison's relationship with the Chinese government and the China Ocean Shipping Company (COSCO) and suggested that China would gain control of the Panama Canal or threaten the operation of the Canal. Over the years, U.S. officials, however, have consistently confirmed that Hutchison's operations of the ports does not constitute a threat to the Canal. The same May 1997 Senate Foreign Relations Committee staff report mentioned above concluded that legal safeguards in the Panama Canal Treaties and Panamanian law guarantee the continued operation of the Canal and ensures its access to all nations. (Also see CRS Report 97-476, *Long Beach: Proposed Lease by China Ocean Shipping Company (COSCO) at Former Naval Base* by Shirley Kan.)

In early August 1999, Senator Trent Lott raised questions about Chinese influence over the Canal in a letter to Defense Secretary William Cohen. Subsequently, both the State Department and the Department of Defense made statements responding to the concerns raised about potential Chinese influence in Panama. In an August 12, 1999, press briefing, the Department of Defense noted that it does not consider Hutchison's ownership of two port facilities as a threat to U.S.

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[33] Senate Committee on Foreign Relations. *Staff Report on the Privatization of Panamanian Ports*. May 1997.

security. DOD asserted that "the company does not have any ability to stop or impede traffic through the Canal" and noted that under the Neutrality Treaty, "the United States has a unilateral right to maintain the neutrality of the Canal and reopen it if there should be any military threat." The State Department, in an August 12, 1999, press briefing, noted that it has seen "no capability or interest on the part of the People's Republic of China, a major user of the Canal, to disrupt its operations."

According to September 29, 1999, congressional testimony by Peter Romero, then Acting Assistant Secretary of State for Western Hemisphere Affairs (before the House International Relations Committee, Subcommittee on the Western Hemisphere), the U.S. intelligence community also studied the question of the influence of China in Panama as a result of the concession. Romero testified that, after reviewing the study, the State Department concluded that the Hutchison concession "does not represent a threat to canal operations or other U.S. interests in Panama."

On October 22, 1999, the Senate Armed Services Committee held a hearing on Canal security. Officials from the Department of Defense, the Panama Canal Commission, the SOUTHCOM, and the Department of State testified, and all concluded that the Hutchison's port operations did not constitute a threat to the Canal. Ambassador Lino Gutierrez, Principal Deputy Assistant Secretary of State for Western Hemisphere Affairs, stated that the Department found no information to substantiate the allegation that Hutchison is a front for the People's Republic of China. He noted that Panama's contract with Hutchison (Law 5) does not give China any role in determining which ships will pass through the Canal or in which order they will travel, and it does not give Hutchison any control over Canal pilots. Alberto Aleman Zubieta, Administrator of the Panama Canal Commission, stated that "Hutchison has no authority whatsoever to interfere with, dictate or influence the operation of the Canal, nor will it ever be allowed to do so." Gen. Charles Wilhelm, SOUTHCOM Commander in Chief, stated: "We are not aware of any current internal or external threats to the Panama Canal, and we have no evidence that it has been targeted by terrorists or foreign governments."

In April 2004, the issue of Hutchison's operations of the ports was raised during a hearing of the Senate Armed Services Committee. In response to a question, General James T. Hill, Commander of SOUTHCOM, asserted that Hutchison's operations of the ports in Panama have not had a negative impact on the security of the Canal.[34]

Contamination of Firing Ranges and San Jose Island

Another issue in relations has been Panama's desire to have the United States clean up three former firing ranges (Empire, Piña, Balboa West) used by the U.S. military for live-fire exercises and testing of ground explosives during its tenure in the country. The Piña range was turned over to Panama in June 1999, while the Empire and Balboa West ranges were turned over in July 1999. Some 60,000 Panamanians live in areas surrounding the ranges, and reportedly at least 24

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[34] Hearing of the Senate Armed Services Committee, "Defense Authorization Request for Fiscal Year 2005," April 1, 2004, *Federal News Service*.

Panamanians have been killed in the last two decades by coming into contact with the explosives.[35] Estimates of the cost to clean up the unexploded bombs and other contaminants range from $400 million to $1 billion.[36]

U.S. officials maintain that it is not possible to remove the unexploded ordinance without tearing down the rain forest and threatening the Canal's watershed. They also point to a Canal treaty provision which states that the United States is obligated to take all measures "insofar as may be practicable" in order to ensure that hazards to human life, health and safety were removed from the defense sites reverting to Panama. In response to a press question while attending Panama's centennial celebration in November 2003, Secretary of State Colin Powell maintained that the United States had already met its obligations to clean up the ranges.[37]

The controversy over the U.S. cleanup of the ranges at times has been an irritant in the bilateral relationship, but at this juncture appears to be somewhat of a dormant issue. Officials of the Pérez Balladares government (1994-1999) believed that the United States was reneging on its treaty commitment and wanted to press the United States to clean up the firing ranges regardless of economic cost. The Moscoso government raised the issue during her October 19, 1999, meeting with then President Clinton in Washington. At the time, President Clinton stated that the United States had met its treaty obligations to clean up the ranges to the extent practicable, but did say that the United States wanted to stay engaged and work with Panama on the issue. The issue also came up during then Secretary of State Albright's visit to Panama on January 15, 2000. In a December 2001 letter to Secretary of State Colin Powell, Panama's Foreign Minister reiterated his county's call to clean up the three firing ranges.[38] In April 2003, Panamanian Foreign Minister Harmodio Arias asserted that the issue of clearing the firing ranges was not dead.[39] As noted above, during a November 2005 visit to Panama, President Bush reiterated the view that the United States had met its obligations under the treaty.

On another sensitive issue, U.S. Embassy officials in Panama announced in May 2002 that a plan was being prepared to clean up Panama's San Jose Island, which was contaminated with chemical weapons used in training exercises during World War II.[40] The Organization for the Prohibition of Chemical Weapon (OPCW) had

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[35] "No Home on Panama's Range, U.S. Munitions Scattered Over Canal Training Zones," *Washington Post*, January 10, 2000; Vanessa Hua, "U.S. Weapons, U.S. Mess? Panama," *Bulletin of the Atomic Scientists*, July 1, 2002.

[36] "An Expensive Farewell to Arms: The U.S. Has Abandoned 51 Military Sites in Canada." *The Gazette (Montreal)*, April 28, 2001.

[37] U.S. Department of State. International Information Programs. Washington File. "Colin Powell Hails Panama's 100 Years of Independence," November 3, 2004.

[38] "Panama Asks U.S. Military to Clean Up Former Bases," *Agence France Presse*, December 27, 2001.

[39] Foreign Broadcast Information Service, Highlights: Central America Press, April 8, 2003 ("Panamanian Foreign Minister Says Firing Range Cleanup Not Dead Issue," *La Prensa*)

[40] "U.S. Creates Chemical Weapon Clean-up Plan on Panamanian Island." *EFE News* (continued...)

confirmed in July 2001 that there were several live chemical bombs on the island, and Panama evacuated residents of the island.[41] In September 2003, however, Panama rejected a U.S. offer for the environmental cleanup of the island that would have reportedly offered more than $2 million in equipment and training so that Panama could clean up the island. According to Foreign Minister Harmodio Arias, Panama rejected the offer because it did not want to sign a document releasing the United States from all liabilities.[42] A provision in the FY2004 Foreign Operations appropriations measure (P.L. 108-199, Division D) would have permitted Foreign Military Financing for the San Jose Island cleanup.

During a November 2004 visit to Panama, Secretary of Defense Donald Rumsfeld indicated that issues involving both the firing ranges and San José Island were considered closed.[43] At the time, Panamanian officials, however, maintained that both were pending bilateral issues.[44]

Former U.S. Military Presence in Panama

Under the terms of the Panama Canal Treaty, all U.S. military forces withdrew from Panama by December 31, 1999, since no mutual agreement was reached to continue their presence. At that time, Panama assumed responsibility for defending as well as operating the Canal. Nevertheless, under the terms of the Treaty on the Permanent Neutrality and Operation of the Canal, often referred to as the Neutrality Treaty, the United States will have the right to use military force to reopen the canal or restore its operations.

Former Role and Presence of U.S. Troops. Over the years, U.S. military forces in Panama had several functions. The primary purpose of the troops was to provide for the defense of the Panama Canal, as set forth in the Panama Canal Treaties, until December 31, 1999. Another function served by the presence of the U.S. military in Panama stemmed from its activities throughout Latin America. Until late September 1997, Panama served as the headquarters of the U.S. Southern Command (SOUTHCOM), a unified command responsible for all U.S. military operations south of Mexico. In March 1995, President Clinton announced that SOUTHCOM headquarters, located at Quarry Heights in Panama, would be moved to Miami. The move began in June 1997 and was completed by the end of September 1997. U.S. bases in Panama provided assistance to Latin American

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[40] (...continued)
Service, May 27, 2002.

[41] "Panama-U.S. Panama Clears Isle After Finding World War II Chemical Weapons." *EFE News Services*, September 6, 2001.

[42] Victor Torres, "Foreign Minister Explains Why Panama Rejected U.S. San Jose Island Cleanup Offer," *La Prensa* (Panama), October 12, 2003 (as translated by Foreign Broadcast Information Service).

[43] "Donald H. Rumsfeld Holds Joint News Conference with the Panamanian Minister of Government & Justice," *FDCH Political Transcripts*, November 13, 2004.

[44] "Donald Rumsfeld in Panama Says Contaminated Firing Ranges 'Closed Case,'" *BBC Monitoring International Reports*, November 14, 2004.

nations combating drug trafficking with aerial reconnaissance and counter-narcotics training. Howard Air Force Base in Panama provided secure staging for detection, monitoring, and intelligence collecting assets. Panama also provided unique opportunities and facilities for military training, including the Jungle Operations Training Center (which was deactivated on April 1, 1999) at Fort Sherman, Panama.

By the end of December 1999, all U.S. forces had withdrawn from Panama, and all of the U.S. bases and facilities had reverted to Panamanian control. Ten major installations were returned to Panama over a four-year period: Fort Davis and Fort Espinar in early September 1995; Fort Amador, at the Pacific entrance to the Canal, on October 1, 1996; Albrook Air Force Station on October 1, 1997; Galeta Island (a former U.S. Naval Security Group Activity that passed to Army control in 1995) on March 1, 1999; Rodman Naval Station on March 11, 1999; Fort Sherman, on the Atlantic side, on June 30, 1999; and Howard Air Force Base, which ceased air operations in May 1999, was officially turned over to Panama on November 1, 1999, along with Fort Kobbe. Finally, Fort Clayton and was turned over on November 30, 1999.

Failed Negotiations. In September 1995, President Clinton and President Pérez Balladares met in Washington and announced that the two countries would begin informal discussions to determine if there was mutual interest in the United States maintaining a military presence in Panama beyond the end of 1999. Those talks never materialized, but instead there were a series of bilateral talks regarding a U.S. contribution to a Multinational Counternarcotics Center (MCC). President Pérez Balladares had announced in July 1996 that Panama would be willing to allow the United States to use Howard Air Force Base, at no cost, as an international drug interdiction center. He stated that Panama would "provide the facility free of charge as part of our contribution to the drug war."

Talks on a potential MCC began in late November 1996 and ultimately led to a tentative agreement, announced December 24, 1997, on the establishment of a MCC with the United States contributing troops for the center. Despite the tentative accord, progress on a final agreement was stymied during 1998, and on September 25, 1998, both countries announced that they were ending the MCC talks without a final accord.

As described in the press, the MCC would have involved about 2,000 U.S. troops operating at Howard Air Force Base, Rodman Naval Station, and Fort Kobbe on the Pacific side of the Canal. Other facilities reportedly to be utilized would have been communication facilities at Galeta Island and Corozal. Panama would have provided free use of the bases, while the United States would have been expected to pay for such facilities as housing. The MCC reportedly would have been established for a 12-year period, renewable for additional five-year periods, with the potential participation of other Latin American nations. Reportedly the MCC would have had a Directors' Council made up of the foreign ministers of participating countries and presided over by Panama's foreign minister. If the United States and Panama had agreed on the MCC, the next step would have been for Panama's Legislative Assembly to approve the agreement, which then would have been subject to a national referendum in Panama.

As early as April 1998, the Clinton Administration had expressed concern that negotiations would have to be concluded soon, or the United States would be forced to locate the U.S. anti-drug operations elsewhere. Although the text of the draft MCC accord was not made public, press reports indicated that one problem in the negotiations was a provision that would permit U.S. soldiers to engage in other missions beyond counter-narcotics. Panama and several Latin American nations expected to join the MCC expressed reservations about this aspect of the accord, with concerns centered on the potential for U.S. military intervention in the region. U.S. officials, however, maintained that U.S. military activities beyond anti-narcotics work would consist of such benign activities as search and rescue and disaster relief. Another reported problem in the negotiations was the U.S. rejection of Panama's call to allow a change in the agreement, whereby the center could be dissolved after three years if the drug trafficking problem diminished.

Some participants, including former Ambassador Thomas McNamara, the lead negotiator in the talks with Panama, believe that the main reason that an agreement was not reached was Panama's internal politics. While Panamanian opinion polls overwhelmingly favored a continued U.S. military presence, the President appeared concerned about vocal opposition, even from within his own party, to the proposed center. Moreover, President Pérez Balladares was actively seeking a constitutional change for a second term of office, and this appeared to have influenced the MCC negotiations.

In early December 1998, U.S. officials announced that they had begun talks with several Latin American countries to find new bases of operation in Central and South America for the anti-drug missions formerly undertaken in Panama. Short-term interim agreements were concluded in April 1999 to have Forward Operating Locations (FOLs) in Ecuador, Aruba, and Curaçao for U.S. aerial counternarcotics missions. Subsequently, the United States concluded longer-term 10-year agreements with Ecuador and with the Netherlands (for Aruba and Curaçao) for the anti-drug FOLs. An additional FOL site also was being sought in Central America, and on March 31, 2000, a 10-year agreement was signed with El Salvador.

In 1999, some Members of the U.S. Congress and politicians in Panama suggested that there was still an opportunity for the United States to negotiate the use of facilities in Panama for U.S. anti-drug flights, similar to the FOLs negotiated with Ecuador, Aruba, and Curacao. Press reports suggested that President-elect Moscoso was interested in allowing the U.S. military to use Panama as a staging area for anti-drug flights. In 2000, however, President Moscoso turned down a request from the United States for a visiting military forces agreement. On September 26, 2000, she announced that Panama would not participate in a visiting forces agreement with the United States.

U.S. Congressional Views on U.S. Military Presence. Before December 1999, Congress had twice gone on record favoring negotiations to consider a continued U.S. presence in Panama beyond the end of 1999, and in the 104th Congress the Senate approved a non-binding resolution on the issue. In 1991, Congress enacted legislation (P.L. 102-190, Section 3505) expressing the sense of Congress that the President should begin negotiations with Panama to consider whether the two nations should allow the permanent stationing of U.S. forces in

Panama past 1999. Twelve years earlier, Congress had approved the Panama Canal Act of 1979 (P.L. 96-70, Section 1111) which states that "it is the sense of the Congress that the best interests of the United States require that the President enter into negotiations" with Panama "for the purpose of arranging for the stationing of United States military forces after the termination of the Panama Canal Treaty." And on September 5, 1996, the Senate approved S.Con.Res. 14, expressing the sense of Congress that the President should negotiate a new base rights agreement with Panama, while consulting with Congress regarding any bilateral negotiations that take place.

In the 106th Congress, numerous measures were introduced relating to a continued U.S. military presence in Panama as the Canal turnover approached, but no legislative action was taken on these measures. The measures would have urged the President to negotiate a new base rights agreement with Panama to permit U.S. troops beyond December 31, 1999 (S.Con.Res. 59, S.J.Res. 37, H.Con.Res. 233); expressed the sense of the Congress that the United States should negotiate security arrangements with Panama to protect the Canal and to ensure Panama's territorial integrity (H.Con.Res. 186/S.Con.Res. 61); authorized and directed the President to renegotiate the Panama Canal Treaties to provide for the security of the Canal (H.R. 2244); and expressed the sense of the Senate that the President should negotiate security arrangements with Panama regarding the protection of the Canal and that any attack on or against the Canal would be considered an act of war against the United States (S.Res. 257). One measure (H.R. 3452) would have provided that unpaid balances of the Panama Canal Commission be payable to Panama only upon completion of an agreement that leases half of Howard Air Force Base to the United States.

In the second session of the 106th Congress, H.R. 3673, introduced by Representative Benjamin Gilman, and reported by the House International Relations Committee (H.Rept. 106-803, Part I), would have provided Panama with certain benefits if Panama agreed to permit the United States to maintain a presence there sufficient to carry out counternarcotics and related missions from Panama. The benefits would have been preferential trade access to the U.S. market; a scholarship program for Panamanians to study in the United States; and assistance for infrastructure construction. Supporters argued that the bill offered an opportunity for the United States to regain its traditional military presence in Panama and restore full U.S. military capability to perform anti-narcotics missions in the region. Opponents argued that Panama had not expressed interest in regaining a U.S. military presence in the country and believed that it could jeopardize talks underway with Panama for a "visiting forces" agreement. The State Department expressed opposition to the bill for several reasons. It maintained that there was a lack of credible support in Panama for any agreement to re-establish a U.S. military presence there; that the quid pro quo nature of the offer to Panama would give the appearance of the United States paying rent for the right to establish a military presence, and U.S. policy was not to pay rent for foreign bases or base rights; and that the trade benefits offered for Panama could violate the most-favored-nation obligation of the World Trade Organization. State Department officials also pointed out that trade benefits for Panama and other Caribbean Basin countries had been enacted into law in May 2000 as part of the U.S.-Caribbean Basin Trade Partnership Act (Title II of P.L. 106-200).

In the 107th Congress, just a single resolution was introduced related to the stationing of U.S. troops in Panama, but no legislative action was taken on the measure. H.Con.Res. 296, introduced by Representative Bob Barr on December 20, 2001, would have urged the President to negotiate a new base rights agreement with Panama in order for U.S. Armed Forces to be stationed there for purposes of defending the Canal.

In the 108th Congress, H.Con.Res. 9, introduced by Representative Virgil Goode, is identical to H.Con.Res. 296 introduced in the 107th Congress described above. The resolution would urge the President to negotiate a new base rights agreement with Panama for the purposes of defending the Panama Canal.

Panamanian Views on U.S. Military Presence. Prior to the departure of U.S. troops at the end of 1999, public opinion polls in Panama cited overwhelming support for a continued U.S. military presence. Some Panamanians focused on the importance of continuing a U.S. military presence to help conduct counternarcotics operations in Panama and in the region. They pointed with concern to incursions of Colombian narco-traffickers into the Darien jungle region of Panama. Despite the polls, Panamanian opponents to the MCC were vocal and staged protests at various times. In 1997, there were several protests by student, human rights, and labor groups who opposed a continued U.S. presence. An umbrella organization was formed known as the Organizations Against Military Bases, which included some 30 labor, peasant, and student groups. In early 1998 another umbrella organization against U.S. military presence was formed, the National Movement for the Defense of Sovereignty, consisting of labor, student, and professional organizations. These groups argued for the need to break what they regarded as Panama's dependent relationship with the United States and recover its own national identity.

Figure 1. Map of Panama

Source: Map Resources. Adapted by CRS. (5/25/06)

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