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United States Department of State

Washington, D. C. 20520

Refer to CIA for concurrence  
with release

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**ACTION MEMORANDUM**

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TO: The Secretary

FROM: ARA - Elliott Abrams

SUBJECT: Our Evolving Policy toward Panama

Dept. of State, RPS/IPS, Margaret P. Grafeld, Dir.  
( Release) ( Excise) ( Deny) ( Declassify)  
Date 6/3/00 Exemption \_\_\_\_\_

**ISSUE FOR DECISION**

What should be our policy toward Panama?

**ESSENTIAL FACTORS**

-- Last week, the Policy Review Group balked at endorsing a policy aimed at dumping General Noriega. Instead, most PRG participants preferred a wait-and-see approach while we gathered additional information on the evolving situation. The PRG will continue its deliberations on July 29. We have prepared the attached options paper for use at that meeting.

The central issue remains Noriega. The decision we must still address is whether to move now to convince Noriega to step down as de facto ruler, or to hold back, seek incremental improvements, and go with the flow of events.

In reviewing options last week, the PRG identified several questions for further consideration:

-- What do we do with military and economic assistance following GOP payment of the \$106,000 in damages?

-- How actively should DOD and the Agency use their assets in country to influence the situation: Particularly, should payments to Noriega be ended?

-- How should we play the deteriorating economic/financial situation? Can we use it to convince Noriega to step aside?

In addressing these questions, the PRG must still face up to the central issue: What about Noriega? Although Noriega has few friends within the U.S. Government, he benefits from an understandable reluctance to move precipitously. Absent greater knowledge about the internal dynamics of the PDF and the resilience of opposition elements, there is little

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enthusiasm to rush actions which could lead to wholesale violence and the imposition of an even harsher military dictatorship. A showdown could also carry serious consequences for U.S. interests in Panama and the region. And so, the gainsayers argue, why take the risk?

Our previous policy designed to enhance the authority of Panama's civilian leadership as the preferred course for encouraging a return to democratic government is simply not viable as long as Noriega remains in power. I remain convinced that Noriega's departure (at some point), is the sine qua non for reducing the military's political role, putting democratization back on track, and assuring the success of elections. [The latest SNIE reaches the same conclusion.]

Events are again picking up steam in Panama. Pressures are building over the prospect of accelerated economic decline, and the first day of a two-day general strike was successful. The Crusade retains its momentum, and Noriega and the PDF are still off balance. The first suggestion of fracture lines of PDF institutional support for Noriega have appeared. Our temporizing approach, however, makes implementation of any strategy difficult because we are relegated to reacting to events. For example:

-- It gives Noriega the opportunity to split the opposition, regain his balance, and offer only minimal concessions, thus postponing and exacerbating the crunch when it inevitably comes.

-- It risks alienating the opposition to the point where they might not participate in the 1989 elections, if Noriega is able to hang on until then.

-- It undermines the credibility of our policy of unequivocal support for democracy both within the region and at home.

-- It encourages the Congress further to usurp the foreign policy prerogatives of the Executive Branch with new initiatives of its own.

Just as there is a new reality we must deal with in Panama, so too is there a new consensus here. We are already falling behind the curve from the perspective of both the Congress and the opposition in Panama. The anti-Noriega consensus on the Hill is solid, running from Kennedy/Kerry on the left to Helms/Hatch on the right. Increasingly the issue is likely to be framed in terms of alleged inconsistencies of U.S. policy in the region, which could cost us support in the fall vote on continued aid for the Nicaraguan resistance.

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Timing is everything. While we deliberate, Noriega is acting. Most recently, he closed down three opposition newspapers and moved against Diaz Herrera. As in the past when faced with criticism, he is acts to neutralize the opposition through intimidation and violence while taking steps to ensure the unity of the PDF behind his leadership. At the same time he is seeking to exploit the slightest hesitancy or indication of disunity within the U.S. Government. Playing one agency off against another is an old game for Noriega, and no one plays his hand better.

There is a window of opportunity offered by indications of PDF concern over direction of events, particularly the prospect of serious economic troubles as the crisis continues. Even while we mount a full court press using all of our assets to probe for more information about the PDF and the opposition, we should move to exploit this opportunity. It may not come again. The opposition is still gathering momentum and is in no mood to compromise. Noriega is in trouble. In contrast to just two months ago when he was telling Cerezo in Guatemala that he would step down in 1992, he and his associates are talking about his going in early 1989 amid hints that 1988 may be negotiable. We should explore this, even though I suspect that he is still confident he can ride things out.

This argues for a strategy based on the application of sustained U.S. pressure (private as well as public) on Noriega and an honest broker role with the opposition to get the transition to democracy firmly on track. Delays in setting the process in motion risk aggravated damage to our broader interests in Panama, whatever the doubts about the effects of an activist approach[on the operational relationships which tend to dominate DOD and CIA thinking.]

RECOMMENDATION NO. 1

That you approve the attached options paper for transmittal to the White House.

Approve

Disapprove

RECOMMENDATION NO. 2

That you authorize the State representative at the PRG meeting to support the second option outlined in the attached paper.

Approve

Disapprove

Attachment:

As stated.

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The July 22 PRG hesitated to endorse a policy specifically aimed at unseating General Noriega but agreed on the need to pressure the GOP and the PDF for major changes in the direction of democracy and civilian government. Resolution of a number of issues remains pending.

The central issue is finding the best strategy for protecting US interests while working for democratization.

#### THE CONFLUENCE OF EVENTS: A NEW PLATEAU

Events in Panama continue to move rapidly. The initial success of a two-day general strike has only increased the concern of Noriega and the Government about the prospect of a damaging economic downturn. Particularly vulnerable is Panama's vital banking sector. Embassy and intelligence reports note that a threat to the country's offshore banking operation and the monetary structure of the country is no longer a fear, but now a growing possibility. A major institution, First Chicago, will reportedly announce later this week it is leaving Panama. Bankers Trust is also considering pulling out. Echoing concern for Panama's financial health and noting the possibility that bloodshed and further confrontations could permanently discredit the PDF, former PDF Commander Paredes has called on Noriega to resign. An unstable Diaz Herrera commenting publicly on the institution was one thing, a former PDF commander, even if a political foe of Noriega, is another. According to Ambassador Davis, PDF Chief of Staff Colonel Justines stated that Noriega plans to retire on January 1, 1989. These developments, rather than Diaz Herrera's ramblings, suggest the first fracture lines in the PDF's institutional solidarity.

The situation continues to unravel rapidly on the economic side of the house, precisely where Noriega's vaunted manipulative skills are least effective. In an effort to mollify and divide the opposition, Noriega and the PDF have unilaterally begun to make concessions. For example, President Delvalle announced last week that three government agencies, the National Railroad, the National Resources Institute, and the Civil Aeronautics Institute are reverting to civilian leadership. Noriega, however, is still in control with military support; he still has the guns and the means to intimidate and harass, and the ability to strike back at U.S. interests. But economics may do what politics could not: force the PDF to make a decision on Noriega.

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Last week's consensus favored keeping our options open so as to minimize the risk to our base rights and other operations while we sought fuller information on the direction of events. In the face of recent developments, we see two basic choices with a series of specific actions to be taken in accordance with the general approach adopted.

**OPTION ONE: FORMAL DEMOCRACY/STAND FAST.** Takes the high road with a strong public stance in defense of democracy, human rights, and press freedom. Cool but correct U.S. diplomatic and military relations with the regime. Future actions guided by a 'wait-and-see' posture.

**PRO:**

-- Noriega still appears to retain the support of the PDF.

-- PDF's recent ability to control opposition demonstrations suggests that opposition lacks staying power, leaving no political alternative to the present GOP for short term.

-- Recent concessions made by Noriega and the military create an opportunity to press for evolutionary change without the risks inherent in a more activist approach.

-- Too overt a move against Noriega at this time could force him into a corner, stimulating retaliation against our interests/operations in Panama and increasing prospects of an unsalvagable economic crisis.

**CON:**

-- Dawning PDF recognition that Noriega is the problem and his eventual departure is essential creates missed opportunity.

-- Fails to exploit PDF/Noriega vulnerability to the substantial economic pressures building as a result of the protracted crisis.

-- Risks alienating the opposition to the point where they will not participate in the 1989 elections.

-- Seriously undermines credibility of our regional policy and the principle of support for democracy on which it is based.

-- Creates the possibility that Congress, critical of this action as not sufficiently vigorous, will take over the foreign policy reins with initiatives of its own.

-- By reacting to events, limits the effectiveness of any carrot-and-stick approach.

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OPTION TWO: SUSTAINED PRESSURE. Work for Noriega's departure sooner rather than later, with interim Delvalle government focusing on 1989 elections. U.S. actions selected to exert sustained pressure.

PRO

- Takes advantage of first fracture lines in Noriega's PDF support.
- Uses mounting economic pressures to exploit Noriega's vulnerability.
- Uses timely action in effort to resolve crisis, prevent economic downturn, minimize anti-US criticism.
- Builds on strong bipartisan congressional support and preempts congressional action if crisis deepens.

CON:

- Involves risk of reduced operational effectiveness of military and intelligence facilities if Noriega believes he is being pushed into a corner.
- Requires application of sophisticated pressure during a time of fast-moving events.
- Ignores fragmented, weak condition of opposition which remains opposed to dialogue.
- Increases opportunity for Noriega to play nationalist card.

SPECIFIC ISSUES

Whether Option I or Option II is favored, there are a number of specific issues requiring urgent decision. These include:

- What do we do with military and economic assistance following GOP payment of the \$106,000 in damages?
- How actively should DOD and the Agency use their assets in country to influence the situation?
- How should we play the deteriorating economic/financial situation?
- Whether to talk with Noriega about his future, and, if so, how?

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-- What should be our approach to the Congress?

Under Option I, we would resume ordinary security and economic assistance programs at previous levels. We would avoid mounting any special effort to gather information so as not to disrupt existing institutional relationships. We would avoid making any fundamental changes in existing relationships with members of the Defense Forces. At the same time, we would avoid becoming involved in decisions by individual financial institutions other than to encourage them to ride out the crisis, and we would avoid economic sanctions, such as denying CBI eligibility, on the basis that a weakened economy would work against our interests. In effect, we would try to maintain our relationships as close to normal as possible and rely principally on private suasion in order to bring about internal change in an evolutionary manner. Meanwhile, we would consult with the Congress and attempt to explain why a less active approach than favored by a broad bipartisan consensus best protects U.S. interests.

In contrast, under Option II, we would either suspend economic and security assistance programs in whole or in part, or, at a minimum, announce that we are reviewing these programs and making decisions on a case-by-case basis. We would employ our military and station assets to get as much information as possible and to project to Noriega and the PDF that we are unwilling to resume business as normal for as long as Noriega continues in place. Meanwhile we would endeavor to convince Noriega, by private conversation and other means, that he should step down earlier rather than later and that we are prepared to do what we can to assist in the execution of that decision. We might use Ambassador Davis for this, and consider a high-level Washington messenger, known to General Noriega, to re-enforce the message. We would be prepared at the same time to reassure senior PDF officers that their institution is not being threatened, to pursue an honest broker role with the opposition, and to make clear our willingness to employ selected economic leverage in the absence of a positive decision by Noriega. Finally, we would brief key Congressional leaders before the August recess on the thrust of our approach and solicit their views on the availability of various "carrots" in the event that Noriega were to indicate convincingly a willingness to accept democratic reforms and to depart.

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