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## DIRECTORATE OF INTELLIGENCE

14 March 1988

PANAMA: HOW NORIEGA WOULD REACT TO US SANCTIONS

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## Summary

Noriega probably would respond to the imposition of new US political and economic sanctions with specific measures designed to up the ante for Washington. The regime, however, would be constrained by the desire to avoid harming its own interests:

- Noriega probably would increase harassment of US diplomatic and military personnel and might stage potentially violent demonstrations at the Embassy and other US facilities. He could evict some key Embassy personnel and put others under tougher surveillance. He might also officially ask for the withdrawal of the headquarters of the US Southern Command.
- Although the regime can take virtually no financial measures that would hurt US business interests without seriously damaging Panama's own economy, Noriega might lash out nonetheless. For example, halting the flow of US oil through the Trans-Panama Pipeline would pose a costly logistics problem for US oil companies and cause a sharp drop in revenues for the pipeline's US owners.

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- Noriega probably would not demand the removal of US forces or disrupt shipping operations through the Canal to avoid giving Washington a pretext to renege on the Canal Treaties, but he might allow some harassment of their operations.

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Over the long term, continuing deterioration of Panama's economy and relations with Washington would increase Noriega's incentives to develop stronger ties with Communist countries and Libya and to involve Panama more deeply in drug trafficking. Increased support for radical leftists in the region is less likely, because it would provide few concrete benefits for the regime other than spiting the US, and the present General Staff would be hesitant to support such actions. Nonetheless, the military's siege mentality and the more leftist inclinations of up-and-coming majors probably would allow Noriega to move in that direction if he felt he had no alternative.

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The embattled Defense Chief has adopted a restrained stance thus far:

- The regime would be very reluctant to take the provocative action of demanding the departure of US troops defending the Canal, since such action would open Panama to charges of breaching the Canal Treaties.
- In addition, the regime would be unlikely to risk its long-term economic equities in the Canal by abrogating the Treaties or attempting to disrupt Canal traffic or occupy Canal facilities.
- He may, however, cut off trash collection and fire and police protection or encourage pro-Noriega Canal workers to stay home to protest the escrowing of US payments to the Canal Commission.

Short of such extreme actions, further deterioration of the government's fiscal position as a result of US actions could lead Noriega to up the ante significantly. This paper discusses the range of retaliatory measures Noriega could take against US interests in Panama.

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### Political Options

Noriega probably believes he would have little to lose by exposing certain US activities in an attempt to discredit the current US administration. For example, the Defense Chief might try to provide credible new evidence to the US media or Special

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Prosecutor Walsh that would incriminate US Government officials in the Iran-Contra affair. He might also approach the US media with information about secret US policy overtures to Panama [REDACTED]

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Besides planting stories of alleged US efforts to use Panama against Nicaragua, Noriega in the longer term could try to complicate US policy interests by adopting anti-US positions on Central American issues. The regime, for example, might support Nicaraguan positions in the Central American peace process in a bid to win allies in Latin America and raise the specter of US interference in regional affairs. Most Latin governments, however, probably would be wary of cooperating with the military-dominated regime. [REDACTED]

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### Options Against US Officials and Installations

Targeting US officials and installations would be the regime's easiest means to take direct action against US interests in Panama. The regime probably would declare key Embassy personnel--such as the Ambassador, DCM, and the Economic Counselor--personae non gratae and intensify surveillance on others. Such actions would inhibit the Embassy's ability to meet with and report on the activities of business and opposition leaders. While potentially violent demonstrations in front of the US Embassy and some US military installations are likely, we do not believe Noriega would order physical attacks against US personnel. [REDACTED]

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If tensions escalate, the regime might formally demand the removal of the headquarters of the US Southern Command from Panama and prohibit United States military activities not strictly related to the defense of the Canal. Both the regime-controlled National Assembly and a group of middle-level officers have called for the ouster of SOUTHCOM. Noriega probably would calculate that such a move would send a strong signal to the United States without directly violating the Canal Treaties. Actions such as forbidding flights from Howard Air Force Base except to and from the United States, denying permission for US soldiers to transit Panamanian territory between defense sites, [REDACTED]

[REDACTED] probably would be imposed selectively in response to US measures. [REDACTED]

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### Financial Options

The importance of US business to Panama hinders Noriega's ability to move against US financial interests without damaging Panama's economy. US fixed assets, which amount to \$1.5 billion, extend into all sectors of the economy but are concentrated in banking, the Trans-Panama Pipeline, and oil refining. In addition, the US is Panama's primary trading partner, supplying more than \$700 million each year in imports and absorbing more than 50 percent of Panamanian exports. If the regime seized or obstructed the operation of US banks and businesses by actions such as nationalization, the freezing of US assets, or demanding a controlling voice in their activities, Panama's reputation as a stable banking sector and an attractive investment site would be irrevocably damaged. [REDACTED]

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Panama City, however, could stop US oil companies from using the Trans-Panama Pipeline if the US Government is successful in preventing US companies from paying pipeline revenues to Panama. Panama earns \$7 million each month from pipeline operations, in addition to taxes on oil company activities. Halting the flow of oil would pose a costly logistical problem for US oil companies and cause sharp losses for the pipeline's US owners. [REDACTED]

### Longer-Term Options

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The continuing deterioration of relations with the United States would increase Noriega's incentives to promote stronger ties to the Soviet Bloc and Libya, although the General Staff's wariness of these countries would be a limiting factor.

- The regime, having recently entered into agreements with Moscow for Aeroflot landing rights in Panama and the repair of Soviet fishing fleets, could grant even broader commercial access. Noriega, however, would be unlikely to accept any Soviet military presence in Panama.
- Noriega also might expand existing intelligence links with Cuba and Nicaragua and could even approach Libya.

We believe there is little support at present in the military for closer cooperation with these countries. Nevertheless, Noriega's determination to stay in power, the military's bunker mentality,

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and the more leftist inclinations of the majors who command the troops and will soon move into leadership positions could make such actions tempting to the Defense Chief if cornered. [REDACTED]

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Noriega might be willing to expand Panama's role in narcotics trafficking to relieve the government's critical cash shortage while damaging US drug interdiction efforts. Money-laundering operations reportedly are already being increased, and the regime could try to turn Panama into a major transshipment point and safe haven for drug barons. [REDACTED]

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Noriega is unlikely to increase cooperation with radical leftist groups in the region because Panama would have little to gain besides spiting the United States. Moreover, the military is reluctant to support such activity and would insist on maintaining controls over leftist operations that probably would limit Panama's use as a subversive base. [REDACTED]

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## ANNEX:

## US MILITARY PRESENCE

The United States maintains a considerable military presence in Panama involving all the services and a substantial number of civilian workers:

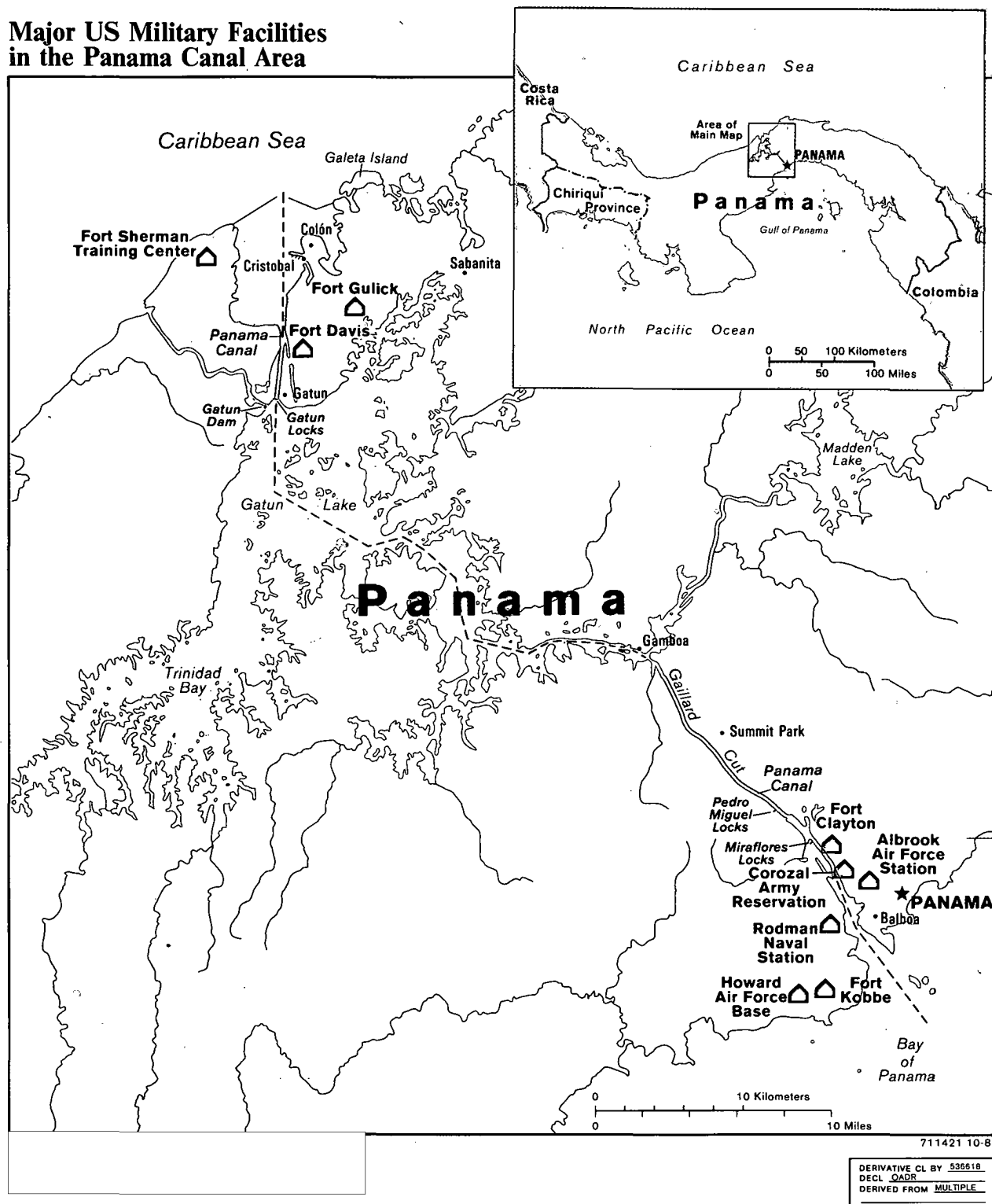
- The US Department of Defense has a total of some 16,000 personnel in Panama, including 10,000 active duty military and about 6,000 civilians. In addition to active duty military and civilian personnel, nearly 14,000 US dependents also reside in Panama.
- The US military maintains five major base complexes, which include several facilities (see map). These major bases are to remain under US control until the end of 1999, according to the 1977 Panama Canal Treaties, but can be transferred earlier by mutual consent.
- In addition, there are 66 other areas that the US military is able to use in Panama. Of these, 28 include training, weapons firing, and bomb testing sites. The other 38 areas are related to civilian activities and include housing, schools, and health clinics.

The military installations also support US military operations in Central and South America. These activities include security assistance programs, personnel exchanges, and support for emergency evacuations in various countries.

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# Major US Military Facilities in the Panama Canal Area



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