



United States Department of State

Washington, D.C. 20520

20370

April 25, 1989

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MEMORANDUM FOR BRENT SCOWCROFT
THE WHITE HOUSE

Subject: Panama Policy

Attached herewith is a draft policy paper, developed in response to recent tasking by the Deputies Committee. The paper was prepared by a small team consisting of representatives from your staff, CIA, JCS, OSD(ISA), and State Policy Coordinating Committee. The paper has not been formally cleared by any agency.

J. Stapleton Roy
J. Stapleton Roy
Executive Secretary

Attachment:
Draft Policy Paper

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2005-0954-MR

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WHITE HOUSE

89 APR 25 PM : 22

SITUATION ROOM

ECONOMIC STATISTICS FOR PANAMAEconomy

	<u>1987</u>	<u>1988</u>
Real GDP growth (%)	0.4	-20.0
Labor Force (000's)	770.5	800.0
Unemployment (%)	11.6	23.0
Gross Income Flows to Panama From the Canal Area (# million) (Includes @ \$80 million annually in Canal Treaty payments)	560.5	565.4

Panama-U.S. Trade
1987, \$ million

Panama exports to U.S.:	342.7
U.S. exports to Panama:	741.6

Panama Canal

	<u>1979</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Oceangoing Transits	13,056	12,228	12,394	12,000
Tolls Revenue (\$ million)	209.5	331.0	340.5	342.0*
Panamanian Employees (as % of PCC workforce)	69%			85%

*1989 estimate

~~CONFIDENTIAL~~CURRENT COMPOSITION OF THE PANAMA DEFENSE FORCES

<u>ESTIMATED TOTAL PDF STRENGTH</u>	15,400
<u>Military zone personnel</u>	3,100
--Public order police units outside Panama City	
<u>Police</u>	4,250
--Police in Panama City, includes 1,450 civilians	
<u>Staff elements</u>	3,700
--Non-combat troops, includes 860 civilians	
<u>Tactical/combat-related units</u>	4,350
--Includes 270 civilians	
--6 rifle companies	
--2 infantry battalions	
--100 Special Forces (Noriega bodyguards and anti-terrorist unit)	
--2 MP companies	
--Medical and combat engineering units	
--350 Navy personnel	
--450 Air Force personnel	

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U.S. ECONOMIC SANCTIONS

Chronology

1987

July USG freezes economic and military aid to Government of Panama

Dec Panama ousts USAID Mission

Congress bars assistance to Panama, suspends Panama's sugar quota, mandates votes against Panama in International Financial Institutions (e.g., IDB, IMF, IBRD), bars other USG trade assistance (e.g., EXIM, OPIC) to Panama

1988

March President Reagan decertifies Panama as a nation cooperating fully with USG against narcotics

President Delvalle uses U.S. courts to freeze Government of Panama assets in U.S. banks

President Reagan orders suspension of CBI and GSP trade preferences for Panama; and orders Canal Treaty payments to be paid into escrow (based on request from President Delvalle)

April President Reagan invokes IEEPA to block GOP assets in US and prohibit payments to the regime

Sept Congress reaffirms ban on assistance to Noriega regime

1989

April President Bush extends IEEPA for one year

IEEPA (International Economic Emergency Powers Act)

-- Blocks GOP assets in US

-- Prohibits USG agencies, US firms and other US persons from making wide variety of payments to the Noriega regime.

-- Prohibited payments are to be deposited to escrow accounts at New York Federal Reserve Bank; or (after obtaining a Treasury license) firms may self-escrow the funds.

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as of April 1989

USG sanctions: Funds withheld from Noriega regime since 3/88:

Funds escrowed in Federal Reserve bank:	\$120.4 million
GOP funds in commercial banks:	\$ 29.2 million
Estimate of Petro Terminal funds:	\$ 42 million
Rough estimate of funds owed by other firms:	\$ 20 million
<u>Total (estimate)</u>	<u>\$211.6 million</u>

Blocked Acc. No. 1 funds withdrawn by Amb. Sosa:

<u>Total</u>	<u>\$8.8 million</u>
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Federal Reserve escrow accounts

-- As of April 1989, funds in the three Federal Reserve escrow accounts totalled about \$120 million:

Account No. 1	\$1.9M (GOP funds for Sosa)
Account No. 2	\$5.1M (Funds paid by US firms)
Account No. 3	\$113.4M (Funds paid by USG agencies)

-- Total funds denied the Noriega regime by USG sanctions likely amount to well over \$200 million.

-- Exemptions exist to allow U.S. firms to continue operations, but U.S. business community now pushing for further exemptions or lifting sanctions entirely. A major effort to have the sanctions lifted or modified can be expected after the May 7 election. Without a change, US firms may start to leave Panama.

-- Regime efforts to collect revenue by coercing U.S. firms to evade the sanctions continue and have likely become more successful in recent months. Firms support USG policy goals but, in absence of policy progress, are more willing to challenge IEEPA in court.

-- USG agencies face pressure from Panamanian employees whose assets and health benefits have been put at risk by Noriega's response to sanctions.

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Economy

-- Panama's economic problems predate the political crisis and U.S. economic measures. The IEEPA sanctions are not a trade embargo, but are aimed at denying resources to the regime.

-- Business confidence very low; no recovery likely until political crisis is resolved.

-- Recession started with 1987 political crisis. 1987 GDP growth only 0.4%. 1988 GDP growth was -20%.

-- Major economic decline continues; outlook dismal.

-- Unemployment more than doubled in 1988 to 23%.

-- Food supplies appear adequate but agricultural credit tight.

-- Canal operating normally. Pipeline (transshipments of Alaska oil) flow dropped 18% in 1988.

Fiscal Situation

-- Economic decline and sanctions cut regime revenues by 50%.

-- Regime is having hard time making salary and bonus payments, but regime technocrats are creative and have adapted quickly to exigencies.

-- Regime slashed outlays to try to cover salaries and minimal operating expenses. Regime has quietly trimmed bloated public sector payrolls. Broader cutbacks have long been rumored, may be implemented after May 7 election.

-- Ability to provide essential public services (education, health care) is visibly deteriorating, as is the quality of the services provided. Maintenance of public facilities (roads, traffic signals) appears to have virtually ceased.

-- Sanctions alone will not cause Noriega's ouster.

-- Panama's external debt is now over \$4 billion. Regime is in default or in arrears to commercial banks (by about \$400 million), to International Financial Institutions (by over \$300 million) and to bilateral creditors.

~~SECRET/EXDIS~~U.S. ELECTORAL SUPPORT ACTIVITIESBackground

Noriega knows of U.S. interest in exposing electoral fraud and suspects substantial U.S. support to the opposition. In order to limit damage from exposure of a stolen election, he is taking active measure to prevent independent observers and journalists from going to Panama. He has taken control of all hotel and rental car reservations, refused to issue visas to a number of potential Venezuelan observers, and is toying with a variety of press restrictions. On April 18, his regime announced that U.S. citizens would require visas from his consulates to enter Panama. Requests for visas will be carefully scrutinized; we expect visas for observers and journalists will be denied.

Observer Effort

The Department of State is encouraging and assisting a number of observer missions from the U.S. The main effort is focused on the observer mission from the National Republican and Democratic Institutes, which is being funded through USAID. They are moving ahead with their plans but may suspend their effort if Noriega's restrictions become severe enough. Small observer missions are also being mounted by others;

We are also encouraging Congressional observer missions. We hope to see the formation of a bipartisan Congressional delegation and have designated a senior officer to coordinate with Congress on this. Congressman Richardson of New Mexico is heading up a small independent observer group; the American Conservative Union, which has primarily been interested in the Canal Treaties and includes a number of Congressmen, is forming another group in response to our invitation from the opposition.

We have been encouraging friends and allies around the world to play an active role in support of the elections. In Europe, delegations are planned by the Christian Democratic International, the Liberal International, the European Parliament and the Italian Christian Democratic Party. We expect a large additional number - perhaps as many as 70 - from Latin America and Europe in response to invitations issued by the Panamanian opposition. There is some interest in Japan and the Phillipines in sending small observer missions.

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Assuming that all potential observers are able to enter Panama, we currently expect the total number to be about 150, more than sufficient to certify regime fraud. Further significant restrictions by the Noriega regime, particularly restrictions on visa issuance and admission into Panama at ports of entry, would severely inhibit the observer effort and exposure of fraud.

Media

The Department of State and USIA have mounted a concerted effort to focus press attention on the elections. An Interagency Task Force has prepared briefing materials for journalists and observers and talking points for use by senior USG officials in discussions with the press, foreign leaders and others. USIS and VOA will set up a temporary operation in Panama to assist the media.

Key Next Steps As Of April 25

--Release of a Presidential statement encouraging free elections, clarifying the U.S. position in the event of fraud, reiterating the policy of no accommodation with a Noriega regime.

--Demarche to American, Asian and European democracies asking that they issue similar statements, support a significant international observer presence, react publicly and strongly in the event of fraud. We are asking a number of governments to press the regime on the matter of visa issuance.

--Ask Presidents Ford and Carter to head the NRI/NDI observer mission.

--Include prominent Administration and private sector representatives in the Congressional observer delegation.

--Promote high profile visit by Secretary Cheney to U.S. military installations in Panama prior to the election to arouse Noriega's concerns about his personal safety and emphasize U.S. concern for free elections and the unacceptability of accommodation in the aftermath of a stolen election.

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--Opportunity: new Administration in U.S., strong public support in U.S. and Panama for moving decisively against Noriega, and Congressional desire to resolve issue could combine to foster bipartisanship, renew internal opposition to Noriega in Panama, and employ May 7 election as a potential triggering device.

--Opportunity: public support for strong anti-drug policy gives Administration a virtually free hand to move against Noriega.

--Opportunity: Noriega's control based on fear and inertia; his own polls reveal almost total lack of support for him and regime; 70-80% of Panamanians want him gone; if PDF thinking could be shifted, he would be isolated in Panama.

--Opportunity: PDF not monolithic and not a happy institution; troops' morale suffering from economic pinch, possibility of facing off against their own people; Cuban-Nicaraguan presence arouses underlying anti-Communist impulses of the institution; majority of officer corps fears institutional collapse if Noriega leaves; professional soldiers see him as the problem and would prefer a professional military institution.

--Vulnerability: U.S. policy decision would be implemented largely in the aftermath of a stolen or cancelled election which could produce:

- o preemptive PDF violence and civil unrest in which the U.S. community is at risk;
- o more serious PDF harassment and Treaty violations which render normal Canal/SOUTHCOM operations difficult or impossible;
- o negative public reaction to the election outcome which leads to job actions by Panamanian USG employees, accommodation of opposition elements to Noriega, and demands for an end to U.S. sanctions.

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--Vulnerability: as shown by the recent arrest of U.S. citizen Kurt Muse, the USG has difficulty at present countering or neutralizing regime efforts to use U.S. citizens as hostages.

--Vulnerability: USG unpreparedness and continuing exposure to regime pressure means first stage of policy implementation must be devoted to regaining control over security of U.S. community and USG operations; actions will be taken in the full glare of aroused public and Congressional opinion.

--Vulnerability: unresolved conflict within USG prolongs policy paralysis, sends mixed signals to PDF and Noriega, permits continued erosion of U.S. Treaty rights, leaves USG personnel and operations exposed to regime pressure.

--Vulnerability: failure to resolve the Panama situation by September 1 (end of Delvalle's term) will confront the Administration with fallout from a perceived foreign policy failure and a renewed fight over the 1977 Panama Canal Treaties, with strong negative implications for U.S. Central America policy and the Administration's general ability to shape U.S. foreign policy.

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~~SECRET~~/NODISTHE CURRENT CRISIS AND THE PANAMA CANAL TREATIES

Since the Treaty framework is the bedrock of the U.S. relationship with Panama, the question of whether or how the Treaties might be used to facilitate a resolution of the crisis naturally arises. Would U.S. suspension of Treaty implementation or a threat to abrogate the Treaties provide leverage against the Noriega regime? Conversely, would vigorous assertion of our Treaty rights better secure our policy?

Status Report On Treaty Implementation

The U.S. has operated the Canal for a decade under the Treaties and their implementing legislation, the Panama Canal Act (PL 96-70).

Most of the implementation provisions of the 1977 Panama Canal Treaty which require the U.S. to meet specific objectives by a fixed date have already been met. Only two actions remain which must be completed by specific dates:

- the appointment of a Panamanian citizen to the post of Panama Canal Commission Administrator by January 1, 1990;
- the transfer of the Canal to Panamanian control and the withdrawal of the U.S. Forces from Panama by December 31, 1999.

Planning for the orderly, cost-efficient accomplishment of those actions is going forward. Voluntary early turnover of some DOD and Panama Canal Commission facilities has also been considered.

Options:

- U.S. Suspension of Treaty Implementation
- U.S. Abrogation of the 1977 Panama Canal Treaties
- Vigorous Assertion of U.S. Treaty Rights

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U.S. Suspension of Treaty Implementation

Pros:

- Would be popular in the U.S.
- Entails no short term fiscal costs.
- Sends a signal to Noriega that USG may be seriously considering Treaty abrogation unless the democratic process is restored.
- Could temporarily quiet domestic criticism and defuse advocates of Treaty abrogation.

Cons

- Would, at this point, be a relatively toothless exercise with little positive effect for USG Panama policy and some deleterious effects on USG planning for full Treaty implementation.
- U.S. failure to appoint a Panamanian Administrator would give the Noriega regime grist for its propaganda mill which constantly alleges U.S. Treaty violations and U.S. intentions to renege on final transfer of the Canal and would probably stimulate regime-orchestrated demonstrations at PCC facilities.
- Could also have an adverse effect on the PCC work force and public opinion in Panama, always sensitive to actions which touch on the Canal and Panamanian sovereignty.

Comment

Suspension of the Treaty-mandated turnover of the Canal, whether it equates legally to abrogation or not, would generate widespread international condemnation and an anti-U.S. backlash in Panama - Noriega or no Noriega. Unhappiness with Noriega aside, it is also an open question whether it is really in the national interest for the U.S. to continue to be solely responsible for operating the Canal.

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Suspension of USG planning for full Treaty implementation might be an option. However, because of the complex planning and budgeting involved, shutting down and re-starting the process will be confusing and add expense in the future. Moreover, since planning is an internal, self-imposed function, little political gain could be obtained from its "suspension."

Abrogation of the 1977 Panama Canal Treaties

Pros:

- Shows U.S. resolve not to transfer the Canal to an undemocratic government controlled by an indicted drug trafficker.
- Could provoke preemptive action by Noriega and PDF against U.S. interests in Panama.
- Would appease domestic advocates of Treaty abrogation.

Cons:

- Will not solve Panama's political crisis or the problems between Panama and the U.S.; likely to make resolution of Panama's political problems and resumption of normal relations with the U.S. difficult, perhaps impossible.
- Will not return the parties to the status quo ante. The only "rights" the U.S. would have would be those it would be willing to assert by force of arms.
- Could jeopardize U.S. ability to operate and defend the Canal and protect the U.S. citizen community in Panama.
- Would be opposed by those in U.S. who favor a more collegial relationship with Latin America and support the Treaties.
- Would play directly into Noriega's hands by giving him what he has been unable to win on his own: an effective issue of Panamanian nationalism versus U.S. imperialism which he could use to gain support within Panama and Latin America.

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- By increasing long-term uncertainties, would negatively affect Canal users and Canal competitiveness.
- Would make the U.S. appear to the world as an unreliable Treaty partner. Currently, 35 nations are parties to the Protocol to the Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal; abrogation would be strongly opposed by these states and others who would fear that the USG had destroyed the international legal regime which ensures the permanent neutrality of the Canal.

Vigorous Assertion of U.S. Treaty Rights

Pros:

- Puts pressure on Noriega and PDF.
- Improves security situation for U.S. community.
- May reduce harassment.
- Could dampen domestic criticism of USG policy.
- Would encourage opposition.
- Compliments all policy options.
- Supports U.S. short term objectives.
- Enhances U.S. ability to protect strategic interests.

Cons:

- Crosses the threshold of military force.
- Won't work as a bluff; must be tied to choice of a policy option.
- Puts those involved at risk.

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- Could invite a counter-response from Noriega.
- Offers regime a possible propaganda opportunity.

Comment

Examples of actions the USG might take to vigorously assert its Treaty rights include but are not limited to:

- conducting more frequent and higher intensity "Canal defense" exercises using U.S. Forces already in Panama;
- conducting more frequent and higher intensity "Canal defense" exercises combining U.S. Forces in Panama with deployments of additional troops from the U.S.;
- responding to PDF harassment by systematic "freedom of movement" challenges;
- closing U.S. military installations to unimpeded access by the PDF and other Panamanians; instituting gate checks, document inspection, vehicle searches for non-U.S. access to or passage through USG installations.

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<u>U.S. Southern Command</u>	<u>Number</u>
Military and Civilian Employees (off-post)	2701
Dependents (off-post)	3000
Military and Civilian Employees (on-post)	9281
Dependents (on-post)	<u>10,747</u>
Sub-Total	25,729
 <u>Panama Canal Commission</u>	<u>Number</u>
Civilian Employees (in housing areas)	996
Dependents (in housing areas)	2258
Civilian Employees (outside housing areas)	56
Dependents (outside housing areas)	<u>135</u>
Sub-Total	3,445
 <u>Other USG</u>	<u>Number</u>
Civilian and Military Employees (on economy)	258
Dependents	<u>205</u>
Sub-Total	463
 <u>Non-USG Residents</u>	<u>Number</u>
Private Sector Employees	2040
Host Government Employees	24
Students, Missionaries, Clergy	245
Dependents	5911
Others	<u>2250</u>
Sub-Total	10,470
 TOTAL U.S. CITIZENS AND DEPENDENTS IN PANAMA	40,107

LIMITED OFFICIAL USE

~~SECRET/NODIS~~STRATEGIC ALTERNATIVES

The strategic alternatives which follow examine the costs and benefits of the full range of U.S. policy choices with respect to Panama.

Accommodation Track

Wait Noriega Out: non-recognition, non-accommodation policy would continue, but U.S. would not take direct action to oust Noriega.

- Leaves Canal/SOUTHCOM operations and some employees vulnerable to continuing regime pressures.
- Invites regime actions which continue to erode U.S. Treaty rights.
- Surrenders initiative to Noriega.
- Would be deeply discouraging to anti-Noriega forces with increased likelihood that many would seek accommodation with the regime.
- Leaves Administration exposed to public and Congressional criticism.
- Invites Congressional efforts to manage policy.
- Undermines credibility of USG anti-drug policies.
- Guarantees Congressional crisis over Canal Administrator appointment unless this issue could be finessed.
- Undermines U.S. policy objectives in Central America.
- Postpones resolution of fundamental USG policy conflict, with increasing likelihood that policies will be determined by events rather than Administration action.
- Eliminates risks and costs of direct U.S. action.
- Eliminates security risks for those USG personnel who would have to be withdrawn.

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Accommodate To Noriega Regime: U.S. would recognize new regime, resume official contacts with civilian and military officials, end sanctions, release frozen assets and Treaty payments, and return to the status quo ante of January 1988.

- o Release of U.S. and Panamanian assets could allow Noriega to perpetuate repressive, criminal regime.
- o Anti-Noriega forces could capitulate or become radicalized and deeply hostile to U.S.
- o Resumption of cooperative Treaty relationship likely to be difficult and could compromise Canal/SOUTHCOM operations.
- o Would invite Congressional action and public support for abrogation or suspension of 1977 Treaties.
- o Signals to the Sandinistas, Central American democracies and internal opposition that U.S. is unable to protect its interests. Would likely strengthen Sandinista and FMLN intransigence, demoralize democratic allies, and strengthen rightist militant elements in Central America who argue the U.S. is an unreliable ally.
- o Compromises regional and hemispheric interests, particularly U.S. policies on democracy, human rights, drug-trafficking, non-political military.
- o Does not risk military confrontation with PDF and attendant dangers.
- o Might permit evolutionary change in Panama and eventual negotiation of Noriega out of power.

Disengage: U.S. would liquidate USG assets and presence in Panama, begin immediate relocation of U.S. Forces operations, consider early transfer of the Canal and expedited reversion of remaining USG areas and installations, end all joint defense and law enforcement operations, consider breaking diplomatic relations, and reduce Mission to necessary consular functions.

- o Writes off U.S. interests and objectives.
- o Not politically acceptable in U.S.
- o Compromises U.S. leadership role, global interests and objectives.

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Pressures Track

Organize U.S. military operation to remove Noriega and neutralize PDF: U.S. would organize and execute a large-scale military operation to remove Noriega from power, neutralize the PDF until it could be reformed and reconstituted under new leadership, and foster democratic transition.

- o Requires major commitment of U.S. resources, including long-term commitment of resources to reform and support the PDF.
- o Operation has potential to extend over weeks, if not months.
- o Assumes U.S. casualties.
- o U.S. would be responsible for deciding Noriega's fate:
 - trial in U.S., with possibility of greymail or no conviction;
 - exile, indictments still in force;
 - exile, indictments dropped;
 - exile, indictments dropped, no extradition;
 - allowed to remain in Panama;
 - does not survive operation.
- o U.S. would have primary responsibility for PDF during the transitional phase.
- o Would evoke an extremely negative response in Latin America and throughout the Third World, perhaps extending to U.S. allies.
- o Would awaken anti-U.S. opinion in Panama and revivify Panamanian dependency, complicating efforts to negotiate PDF reform and democratic transition.
- o Would sharply polarize U.S. domestic opinion, provide a range of opportunities for attacks on Administration.
- o Advances U.S. interests and objectives.

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Mount a snatch operation to seize Noriega: U.S., assisted by PDF forces loyal to Delvalle, would seize Noriega through a snatch operation in response to Delvalle request to arrest Noriega. U.S. military forces would block PDF attempts to intervene.

- o Risky and complex; possibility of exposure and failure.
- o Assumes possibility of U.S. casualties.
- o U.S. would be primarily responsible for Noriega's fate (same choices as in preceding alternative).
- o Certain to evoke Latin American and international criticism, which would be very costly if operation failed, likely to abate quickly if it succeeded.
- o Domestic reaction would probably depend on success or failure of the operation.
- o Could resuscitate Panamanian dependency, although to a lesser degree than the preceding alternative.
- o Risks to people and property greatly reduced, if not eliminated.
- o Operational phase is relatively short.
- o Resource requirement smaller than in preceding alternative.
- o Allows USG agencies to normalize operations relatively quickly.
- o Opens way for negotiated U.S.-Panamanian approach to PDF reform and democratic transition. However, if action were to occur after a May 7 win by fraud of Noriega's ticket, it would not resolve the problems of U.S. relayions with a regime seen as illegitimate.

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Organize PDF coup using covert and other means: U.S. would use covert and other means to organize a PDF coup to depose Noriega and transfer power within the PDF to anti-Noriega forces.

- o Risky and complex: scope of action beyond unilateral U.S. control; high possibility of leakage, penetration by Noriega forces.
- o Could degenerate into shoot-out among PDF/paramilitary forces with substantial loss of life and property damage.
- o Could easily fail or be revealed to Noriega.
- o Assumes possibility of U.S. casualties.
- o Leaves window for Noriega-directed reprisals, hostage-taking.
- o Failure would invite severe repression, longterm damage to anti-Noriega forces.
- o Failure would bring international condemnation, severe embarrassment to USG.
- o Would evoke less criticism than two preceding alternatives, especially if successful.
- o PDF would be primarily responsible for Noriega's fate.
- o Noriega could be killed in the attempt with U.S. blamed.
- o Does not settle question of what to do if Noriega is extradited to U.S.

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Removal of Noriega by credible threat of use of military force: U.S. would make all preparations necessary to make the U.S. use of force credible, while using all appropriate assets to bring Noriega to a negotiated departure and stimulate PDF action to remove him.

- o Won't work as a bluff.
- o Will be disruptive for USG agencies and personnel.
- o Could invite preemptive Noriega retaliation, including hostage-taking.
- o Difficult to predict how long it would take to work; since U.S. hasn't put pressure on PDF before, don't know how brittle institution may be.
- o U.S. would have less control over PDF command succession than in preceding alternatives.
- o Opens up possibilities of Sandinista and Cuban involvement in Panama in defense of Noriega and the Canal.
- o Eliminates major security risks for USG personnel.
- o U.S. could begin recovering eroded Treaty rights.
- o Maximizes subsequent choice of alternatives if PDF does not act or PDF coup fails.
- o Evidence of U.S. inserting itself as an active player will:
 - encourage opposition;
 - open up choices for all Panamanians;
 - unsettle PDF;
 - raise threshold of uncertainty for Noriega.
- o Could persuade Noriega, facing growing pressure from within PDF, to negotiate his out.
- o Could resolve the Noriega problem through PDF action.



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USG/NORIEGA REGIME CONTACTS

Since February 29, 1987, the U.S. Embassy in Panama, in line with our non-recognition policy, has interrupted all formal contact with the Noriega/Solis Palma regime. On the basis of interagency discussion and agreement, all USG agencies operating in Panama were instructed to limit contacts with regime officials or personalities to an absolute minimum. When contacts are required to carry out joint responsibilities under the Panama Canal Treaty, they are to be conducted in a correct and formal manner.

Pursuant to interagency guidance, U.S. contacts with the regime have continued at various levels - such as the Joint Board, Combined Board and Panama Canal Board of Director meetings - but in a sporadic and estranged manner. At lower working levels where daily exchanges with technical counterparts are required (e.g. IRHE or the Port Authority) SOUTHCOM and PCC contacts continue on a more or less routine basis.

The Embassy has maintained its boycott of any contact with Noriega regime officials, particularly at the Foreign Ministry and political level. DEA/LEGATT/Customs maintain working level liaison but have been instructed to restrict contacts to lowest possible level. [REDACTED] (b)(1)

[REDACTED] (b)(1) In the implementation of our non-recognition policy, liaison between law enforcement agencies and the regime continues to be the USG's Achilles heel since the Department of Justice continues to obtain whatever help possible on drug questions from the PDF, so as to avoid any criticism on their anti-drug efforts, while Noriega gets propaganda mileage from any contact or cooperation.

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The indictments against Noriega were obtained without allowing foreign policy and other concerns to be addressed by State and Intelligence Agencies. The question of the role of the indictments remains a central issue in the formulation of U.S. policy decisions on Panama. Possible options to deal with the indictment question are:

o Make sustained effort to pursue indictments and prosecution

--To pursue the indictments and prosecution we would have to be prepared to go after Noriega either by executing a "snatch operation" or supporting a PDF (exiles) operation. Both of these scenarios would involve authorization by President Delvalle to give the operation legitimacy.

--Going after Noriega would lend substantial credibility to the seriousness of the Administration's war on drugs.

--To pursue Noriega's prosecution we must be prepared to accept casualties in carrying out the arrest operation. We must also be prepared to confront a "greymail" defense by Noriega if he is brought to trial and the possibility that sensitive intelligence material and operations could be compromised.

o Leave indictments standing but do not pursue

--The option of not pursuing the indictments would be predicated on a negotiated agreement that he depart power and leave Panama for an agreed period. Noriega would have to be convinced that, if he were to retire to an agreed country (Spain, for example), we would not seek extradition. There would be Congressional and public criticism, but we believe it would be manageable.

--The most serious drawback to this option is that Noriega, having seen the problems that followed Ferdinand Marcos after his departure, will not be satisfied with being allowed to go into exile without U.S. assurances on the indictments. During the May, 1988, negotiations he said that dropping the indictments was the bottom line for any deal. He is probably even more inflexible on this issue now.

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o Drop the indictments

--Quashing the indictments would be predicated on a negotiated arrangement, possibly following the outline of the agreement reached in the Kozak/Noriega talks of May 1988. While this is the minimum required for any arrangement dealing with Noriega's departure from Panama and power, he has seen that DEA continues to initiate new indictments against Panamanians. Quashing the current indictments may not be enough at this point.

--In agreeing to drop the indictments, the administration would face a firestorm in the Congress and domestic public opinion. This would also undermine the Administration's credibility with regard to its drug policy.

~~SECRET/NODIS~~INVENTORY OF PROTECTIVE ACTIONS

No matter what the final policy choice, the U.S. must act to reduce the continuing exposure of the U.S. community and the vulnerability of USG operations in Panama. Such actions also represent tactical opportunities to regain the political and operational initiative from Noriega, counter domestic public criticism, and pursue an active rather than a reactive policy in Panama.

Improve security for U.S. citizen community:

- Accelerate and complete U.S. Forces Reduction of Off-Post Personnel.
- Reduce U.S. Mission to mission-essential personnel.
- Prohibit travel of non-Command-sponsored dependents to Panama.
- Encourage use of PCC voluntary departure program.
- Reassert U.S. Treaty rights, aiming especially to end PDF challenges to U.S. right to unimpeded freedom of movement.
- Review and test key elements of U.S. Mission's Emergency and Evacuation Plan.
- Promote and publicize visits to USG facilities/operations by senior Administration officials and members of Congress.

Reduce vulnerability of USG operations:

- Close U.S. military installations and Canal operating areas to unimpeded access by PDF and other Panamanians; require gate checks, document inspections, and vehicle searches prior to entry or transit.
- Review current definition of "Canal defense" in light of changed circumstances and to include protection of Canal workforce.
- End USG reliance on local transportation, i.e. rental vehicles, public transportation.

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