

The Transformation of the Panama Canal Since the Torrijos-Carter Treaty of 1977

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Abstract

This essay examines the extent to which the reorganization and profitability of the Panama Canal improved since the Torrijos-Carter treaty of 1977. The essay discusses the multitude of changes and adaptations of the canal's use and the foreign and domestic influence that shaped its development between the signing of the treaty in 1977 and the Panamanian United States handover of the canal on December 31, 1999 to Panama. The reorganization and profitability of the Panama Canal has improved since the Torrijos-Carter Treaty of 1977, but Panamanian nationalism continues to be restrained.

Introduction

The Panama Canal was the embodiment of the United States expanding imperialism in the early 20th century, but after the conclusion of World War II the ownership of the canal became a hindrance to American foreign policy ideals and an economic drain. The conditions of the period made transferring the canal to Panama economically plausible, however, there was reluctance in entrusting this American engineering marvel to an American-influenced, yet unstable, and underdeveloped nation that was unlikely to make the canal profitable again. Surprisingly, Panamanian control of the canal led to greater efficiency, modernization, and profitability. The Panamanian-operated canal was, and still is, able to succeed in ways that the American-run canal failed. Therefore it is important to investigate the series of decisions and reactions that made the canal profitable again and allowed it to establish itself as a means of transportation for the 21st century rather than relegate it to a derelict passageway from the woebegone days of American imperialism.

It is necessary to examine to what extent the organization and profitability of the Panama Canal changed since the Torrijos-Carter Treaty of 1997. The structure of the Panama Canal was converted from a government utility to a somewhat privatized enterprise. The Panamanians improved the functions of the Panama Canal by reorganizing the operational structure and by implementing cost saving features. However the Panamanians found it difficult to make greater changes to the canal, while under allowed American influence implied in the Torrijos-Carter treaty, and while under the rule of Manuel Noriega, allowing US influence to continually penetrate Panama.

The Torrijos-Carter Treaty

In 1977, as the Carter administration attempted to gain approval for the canal transfer treaty, spokesmen for the Carter administration argued that the United States could do anything it wished under the 1977 treaty as it could do under the 1903 agreements.¹ In Washington, DC, politicians who were for and against the treaty both believed in an overriding assumption that U.S. force had the perpetual right to uphold canal interests with force and to meddle in Panamanian internal affairs if need be.² During this period the Panamanian government was suffering from economic instability that forced Panama to settle for far less in U.S. monetary compensation and investments to transfer the Panama Canal than Panama had wanted. Torrijos found the treaty frustrating, because it solidified America's presence in Panama for the next 23 years, making it susceptible to reprisals from enemies of the U.S. During the cold war this was a real threat. Exiled Panamanian and political protester, Leopoldo Aragon in September of 1997 stated that "We consider (the treaty) this as the most aberrant, disgraceful, and unacceptable type of perpetuity as a stigma that this generation and future ones will be forced to bear, for it legalizes their presence on our soil."³ Later that month he lit himself on fire and burned to death outside of the U.S. Embassy in Stockholm, Sweden to emphasize his point. Aragon's point was reaffirmed by ambassador Sol Linowitz who told the U.S. Foreign Relations Committee that "there is nothing which says that threat is to be limited to a particular type."⁴ The ambiguity of the treaty meant that it could be used as a means of exploitation of Panamanian politics. It allowed a perpetual

1 Richard A, Falk. "Treaty Trap." *Foreign Policy* 30 (1978) p.68 (hereinafter cited Falk p.)

2 Falk p.69

3 Falk p.72

4 Falk p.75

intervention in Panamanian internal affairs. The United States insistence on the “neutrality of the canal” would lead the U.S. to intervene in situations that were costly and unnecessary in order to uphold American prestige and legitimacy.⁵

American politicians were fearful that the transfer of the canal in 1977 might destabilize the Torrijos government in Panama, jeopardizing the operation of the canal. On October 1, 1979, General Wallace Nutting, commander of the United States Southern Command made his way to Panama in order to sign over the Panama canal zone to Panama.⁶ During his time in Panama, General Nutting became convinced that the treaty bolstered support for democracy and eased Panamanian tensions with America. He also stated that the treaty kept Panama “out of communists’ grasps”.⁷ These assumptions were tested on January 9, 1980 when a group of Panamanians planned to march past Balboa High School to celebrate Martyrs’ Day, an event in 1964 during which many students died attempting to raise the Panamanian flag in the Canal Zone.⁸ The 1980 march went without incident, indicating that some previous Panamanian-American tension had been resolved. Panama was able to settle some of its international problems, but it unfortunately fell into domestic turmoil due to a reliance on the acquisition of the canal as a means to bolster the Panamanian economy.⁹ One fifth of Panama’s population was out of work and the country owed \$5.5 billion to other nations, which was the largest per capita debt owed in the world at the time.¹⁰ The 1980 Panamanian elections gave Torrijos party, the PRD (Democratic Revolutionary Party), political control in Panama. In 1981

5 Falk p.78

6 Susan, Gold. *The Panama Canal Transfer*. Austin, TX: Raintree Steck~Vaughn Publishers,1999. P. 96(hereinafter cited Gold, P.)

7 Gold, p.96

8 Gold, p.96

9 Gold, p.98

10 Gold, p.99

Torrijos died in a plane crash and by 1982, Manuel Noriega, the chief of Torrijos intelligence agency, forced president Aristedes Royo to step down.¹¹ The rise of Manuel Noriega and the initial inaction of the US initiated one of the darkest periods in history for the Panama Canal Commission and the Panamanian People.

The Noriega Years

Between 1982 and 1989 General Manuel Noriega ruled Panama through blackmail, and US intelligence connections emphasized the lack of control the Panamanian government held over the canal and the country. The United States understood that they were giving the canal back when the government was conveniently stable but were uncertain about how long the stability would last. Torrijos death in 1981 created instability in Panama, which the US exploited. The CIA used Panama as a staging ground for their operations in Nicaragua and turned a blind eye on Noriega's connections with the Colombian drug trade.¹² This lack of concern for Panama's government validated how strong of a hold the US had on the canal. In the 1980's the Panamanian controlled Canal was helplessly trapped between Noriega's regime that knew enough not to tamper with the American-built water way, but did little to make it profitable or effective after Torrijos death, and the American presence in Panama which used it to fight proxy conflicts against the USSR and communism in Nicaragua, and only cared if the canal was still functioning. Through out the 1980's Noriega blackmailed many Panamanian officials, worked for both the guerrillas and government forces in Nicaragua and was also on the CIA's pay roll.¹³ The first decade of a Panamanian-controlled canal saw little improvement.

11 Gold, p.99

12 Gold, p.99

13 Gold, p.99

The lull in the CIA's role in the Nicaragua made the U.S. government reevaluate their need for Noriega. In an irrational attempt to hold onto power, Manuel Noriega nullified the May 7, 1989 election and forced the national assembly to declare war on the United States due to excessive intervention in Panama.¹⁴ This led to national protests and put the country on national alert. Finally on December 20, 1989, 24,000 U.S. troops landed in Panama and captured Panama City after President George Bush authorized U.S. troops to attack, in part because a U.S. Army official was killed while walking in Panama City.¹⁵ Manuel Noriega was sentenced to 40 years in U.S. Prison.¹⁶ Latin American countries condemned the invasion but 75% of Panamanians supported it.¹⁷ Operation Just Cause severely damaged the Panamanian economy. It created \$2 billion in damages and left 20,000 Panamanians homeless and a third of the country without work. President Bush, however, justified the invasion by referring to the conditions stipulated in the Panama Canal treaty of 1977. The treaty stated that either nation could defend the canal "against any threat to the regime of neutrality" and granted them "the right to act against any aggressor or threat that acted against the canal".¹⁸

Post-Noriega Panama allowed the Panamanian government to make positive policy changes but was weakened by poor leadership. Guillermo Endara took over as President on December 20, 1989, facing a Panama damaged by U.S. bombs and full of U.S. troops. In the following year, the United States paid \$482 million in economic aid and another \$500 million in loans and guaranties in order to rebuild homes, train a new

14 Gold, p.101

15 Gold, p.101

16 Gold, p.103

17 Gold, p.102

18 Gold, p.103

police force, and help reestablish looted shops.¹⁹ With just ten years left until the U.S. completed the handover of the canal, the U.S. had established a very firm grip on Panama. Endara proved to be an ineffective president and was replaced by Ernesto Perez Balladares in the 1994 election.²⁰ Winning the presidency with a lackluster third of the vote, Balladares immediately started to prove his worth by strengthening the government and reforming the economy. In 1994 he abolished the Panamanian army, which had been used extensively by Noriega to hold on to power.²¹ However, people still feared that Balladares was only reestablishing the power Noriega had due to his association with Noriega's PRD party and the reestablishment of the police force. Balladares began to lose legitimacy when he attempted to change the constitution in order to run again for re-election in 1999, but the legislation was rejected by a two-to-one vote.²² The lack of strong political leadership in this period created doubt about Panama's ability to independently operate the Panama Canal free of U.S. aid. So much of the Panamanian economy and the rebuilding after Noriega was only possible due to U.S. aid, and lack of strong uncorrupted leadership left the opportunity for another self-serving Panamanian to follow in Noriega's footsteps.

Changes in Canal Policy and Infrastructure

Panamanians were able to rearrange the administration and management of the Panama Canal in order to make it profitable again in ways never possible during US control. Following the conclusion of World War II, the Panama Canal became a strategic liability rather than an asset, and profitability of the canal waned over the years as well.

¹⁹ Gold, p.106

²⁰ Gold, p.108

²¹ Gold, p.108

²² Gold, p.110

The process continued throughout the 1950s, and 1960s until in 1977, under the Carter Administration, the canal was signed over to the Panamanian government. U.S. President Jimmy Carter agreed to sign off the canal, because it was constantly creating friction with the Latin America region, and the Torrijos administration in Panama was likely to be the most stable for an extended period of time. Finally the Americans wanted to avoid the possibility of future violent protests near the canal.²³

The Panama Canal Commission took over canal operations in 1979, but it would not be until 2000 before full canal control would be transferred to Panama. The Panama Canal Commission faced the challenge of making the canal profitable while continuing to pay the reparations stipulated in the Panama Canal Treaty. To combat this economic threat, the Panamanians increased tolls by 29.3% in 1980.²⁴ Unfortunately the installation and operation of the Trans-isthmus pipeline resulted in the approximate loss of \$50 million in revenue. The commission raised tolls 56 percent throughout the 1980's, but it was unable to keep up with the raising prices of canal operation that increased 66% in the same time period.²⁵ The new administrator of the commission, Denis McAuliffe, used his new authority to cut the Canal workforce by 34 percent in 1980, and this created a savings of \$40 million.²⁶ The US gave an additional \$15.4 million after passing on the cost of canal operation to the Panamanian government. These cost-cutting features gave the commission the resources necessary (\$65 million) to pay the Panamanian government, which was mandated in the Panama Canal Treaty to make a profit.²⁷ All these economic decisions lead to a 15% revenue jump (Figure 1) between the late 1970's

23 Noel, Maurer, and Carlos Yu . *The Big Ditch*. Princeton, NJ: Princeton University Press, 2011, p.259 (hereinafter cited: Maurer, p.)

24 Maurer, p.305

25 Maurer, p.305

26 Maurer, p.306

27 Maurer, p.306

and early 1980's.²⁸

The discovery of oil in Prudhoe Bay, Alaska prompted the creation of new methods to transport oil across Panama and initiated the modernization of canal-related infrastructure. In early 1968 the Atlantic Richfield Company announced it had discovered oil near Prudhoe Bay, Alaska and on July 18th, and a Dallas firm estimated reserves between 5 and 10 billion barrels.²⁹ Transporting the oil would be difficult due to the inability to transport tankers north of the Arctic Circle, so the solution was to create a pipeline across Alaska to the town of Valdez at Prince William Sound and then ship the oil in tankers to refineries on the west coast of the United States. However the west coast only had the facilities to process two-thirds of the oil, meaning that the other portion would need to be shipped to the east coast.³⁰ The construction of the canal pipeline delayed the first shipment until 1977. From 1977 to 1981 the time to transit the canal nearly doubled due to the increase in tanker traffic, and by 1982 the number of transits increased by 17 percent.³¹ The size of the canal also prevented the largest supertankers from getting through. Although several countries were considered as candidates for the new pipeline, Panamanian leader Omar Torrijos negotiated with an American construction firm to build the pipeline in Panama. The Trans-isthmus pipeline ran from Charco Azul, a deepwater Pacific port, to Chiriqui Grande on the Atlantic.³² The new pipeline was opened in October of 1982 at a cost of \$368 million. The new company, Petroterminal de Panama S.A., was 40 percent Panamanian-owned, and the other two U.S. owners promised to return their shares to Panama in 1999 with the turnover of the

28 Maurer, p.306

29 Maurer, p.281

30 Maurer, p.282

31 Maurer, p.282

32 Maurer, p.282

canal. The Trans-isthmus pipeline was one of Torrijos's grand achievements. It hinted at Panama's ability to act independently and to attract its own investors and create infrastructure. By 1983 the pipeline produced about 3.8 percent of Panama's government revenue and 3.5 percent of the country's GDP.³³ However the pipeline's success created a loss of income for the canal. To combat the loss, the canal increased their tolls by 9.8 percent on March 12, 1983. Unfortunately even the additional \$14 million from the toll increase did not stop the canal from becoming unprofitable.³⁴ The pipeline was one of the first infrastructure changes to the canal since the Torrijos-Carter treaty of 1977 and, even though it financially hurt the canal at the time, it helped develop Panama's oil transport industry and eased the heavy tanker traffic on the canal.

The Transfer of the Canal Zone to Panama

The final transfer of control of the Panama Canal occurred on December 31st, 1999. At noon the formal Canal Zone transfer took place between the Panamanian and United States governments. This handover marked the end of the 22-year transition period of the Canal Zone. However this turnover created questions as to how the Panamanians would utilize the U.S.-owned and controlled Canal Zone. The U.S. bases throughout the Canal Zone had been in the process of transition since 1977.³⁵ This transfer of power immediately changed the resources that these cities could draw from. Under previous United States control the bases were able to draw revenue from the canal in order to maintain their upkeep.³⁶ However the military bases could also draw on U.S. military funds for building, reconstruction, and other large civil undertakings. The

33 Maurer, p.282

34 Maurer, p.284

35 John, Lindsay-Poland. *Emperors In The Jungle*. Durham, NC: Duke University Press. 2007 p.172 (hereinafter cited Lindsay-Poland p.)

36 Lindsay-Poland p.173

withdrawal of U.S. military forces signaled the withdrawal of military funding, leaving a void in the financing for canal infrastructure and forced the Panamanians to abandon or repurpose military facilities. Many Panamanians believed that the U.S. departure from Panama was a good thing as it allowed for the expansion of Panama City, which had been constricted by the Canal Zone boundaries since the 1960 (Figure 2). However some observers recoiled at the sight of degrading U.S. facilities, arguing that Panama would have to suffer the financial hardship of repurposing these properties.³⁷

During the 1977-1999 transition period and post transfer, four main concepts for use of the bases and the Canal Zone were developed. The first was a military vision that had the Panamanian National Guard forces taking over control of U.S. bases.³⁸ The second was an environmental vision transforming the Canal Zone into a national park of 122,000 acres, but this was eventually rejected due to the excessive amount of undetonated ordnance left from U.S. live fire exercises left in the region.³⁹ However certain areas were preserved in order to maintain the national watershed that feeds the canal. A commercial vision had canal properties turned over to the private sector for redevelopment with a focus on maximizing revenues.⁴⁰ Finally a social vision had the Canal Zone bases adapted to house lower income Panamanians.⁴¹ Governmental repurposing marginalized many underclass citizens but a few grassroots movements secured housing for some indigenous Kuna communities who turned military housing into residential. However most of the U.S. buildings were converted into Panamanian government buildings along with nonprofits such as the City of Knowledge complex,

37 Lindsay-Poland p.174

38 Lindsay-Poland p.177

39 Lindsay-Poland p.177

40 Lindsay-Poland p.178

41 Lindsay-Poland p.178

which as of 2001 contains the headquarters for UNICEF's Central and Latin American branch. The vision that attracted the most support was the commercial approach, which included future canal expansion and focused on canal profitability.

As the Panama Canal handover progressed the most important change in authority accrued when the Panamanian legislative assembly passed legislature in 1997 that created the ACP.⁴² The ACP stands for the Panama Canal Authority (Autoridad del Canal de Panamá), which was charged with the responsibility of the operation, maintenance, modification, and improvement of the canal. Prior to the change, the canal had been operated under the Panama Canal Commission, which was chaired by the president of the United States since 1977.⁴³

The purpose of the APC is to operate the Canal in a safe, uninterrupted, profitable manner that is financially autonomous but integrated into the Panamanian national maritime strategy. More importantly the canal funds are not associated with the state's budget and are submitted to the Panamanian Cabinet council for approval and then must be brought before the legislative assembly.⁴⁴ The ACP has a board of eleven officers in which nine are appointed by the President of Panama and then must be approved by the cabinet council and a majority of the legislature. The legislative branch selects the director of the ACP, and the chair of the board, who is also the Minister of State and Canal affairs, is appointed by the President of Panama.⁴⁵ The ACP controls ships during transit, acting as a commander of movement in the canal but does not take responsibility of the goods on the ships, which are under the protection of the captain who is legally

42 Francisco J. Montero Llacer. *Panama Canal Management*. Puerto Real, Spain: Faculty of Nautical Sciences, 2004. P.33 (hereinafter cited Montero Llacer p.)

43 Montero Llacer p.32

44 Montero Llacer p.34

45 Montero Llacer p.34

responsible for them if they spill. This keeps the ACP free of legal blame should disasters occur. The lack of government intervention helps to foster economic decisions reflecting the needs of growing international maritime traffic and the profitability of the Panama Canal. In August of 1999 the ACP approved the damming of three rivers to increase the canal's water supply in preparation for the third set of locks. This ousted more than a 100,000 Panamanians from their homes and may have caused ecological damage to floating aquatic life.⁴⁶ All of this raised the question if Panama's actions would continue to support that canal and the international revenue that it brought in, or would it work towards the development that served the Panamanian citizens.⁴⁷ It is unquestionable however that these developments in the canal have helped to grow the Panama economy and have helped develop Panama City.

Foreign Influence

While US influence in Panama has weakened, other countries have begun to extend their influence over the canal. Beginning in the 1990's Chinese firms moved in to occupy open spots and exploit the previously monopolized shipping and port business in Panama. On March 19, 1997, the Panamanian government sold the operating right to the two U.S.-built ports, Balboa and Cristobal, on the Atlantic and Pacific coasts, to the Chinese shipping firm Hutchison Whampoa Ltd.⁴⁸ Retired Adm. Thomas H. Moorer testified before the United States Senate Foreign Relations Committee, saying, "My main concern is that this company is controlled by the communist Chinese".⁴⁹ This collaboration along with growing concerns brought forth by former Soviet military

46 Lindsay-Poland p.184

47 Lindsay-Poland p.184

48 Robert, Morton. "As U.S. Leaves the Panama Canal, China Moves In." *Insight on the News*, 5 April 1999, 29. Database on-line. Available from Questia, (hereinafter cited: Morton)

49 Morton

officer Col. Stanislav Lunev, who stated that “ the Chinese intention to develop oceangoing capabilities for its navy is well known”, citing Chinese entrepreneur’s interest in abandoned port facilities in strategic locations as a way to expedite expansion.⁵⁰ When President Clinton initiated the withdrawal of U.S. forces from Panama in 1997, the Bank of China issued a 15-year \$120 million loan to Panama with a three percent interest rate as a gesture of good will. As Panama and the Panama Canal progress into the 21 century, it is obvious that the canal will continue to be a source of tension in the maritime world as more and more cargo becomes dependent on it for transportation. The ACP has made plans for an additional third set of locks (Figure 3) that will be bigger than the original two sets built in 1914 by the US. The set of new locks will allow the size ships that transit to double in TUI count (Twenty-foot equivalent units), up to 13,000. However, the ACP is relying on French contractors for the project, showing that other nations are taking position in the absence of the US.

Conclusion

The extent of the changes in the structural organization of the canal, from a support role under the U.S. government to a profitable enterprise under the Panamanians, signified that the changes brought and acted upon by the Panamanians succeeded in improving the function of the canal. The shift toward profitability did not result in immediate social improvements for the country and originally did little to improve the lives of the lower and working classes. This disregard for the Panamanian citizen when it came the use of the canal land, which has become a symbol of Panamanian infrastructure and success, was disturbing because it showed that the Panamanian government was willing to exploit its water way without investing in it people. However the trickle down

⁵⁰ Morton

effects of the new economically sound canal can be felt. The Panamanian reorganization of the tolling system allowed the Panama Canal to enhance its profitability. The ACP's immunity from politics allowed it to make economic decision free of political intervention. The Chinese firms that invested in the canal helped to renovate the ports in proximity to the canal as well as expand the free trade zone in Colon, Panama. The construction and use of the Trans-isthmus Pipeline and the repurposed use of the Panama Canal Railroad, illustrated that diversification of transportation helped to expedite the transit of goods and brought in more revenue for the ACP. Under U.S. control this was never considered, because the canal represented a strategic utility for war ship movements, rather than an efficient transit hub. Without U.S. intervention, unfortunately, General Manuel Noriega was able to exploit Panama for his own means without being threatened by the U.S. due to his agreements with the CIA. Not until Noriega had worn out his usefulness did U.S. forces remove him from power. The ease at which the U.S. exerted their strength over Noriega leads one to believe that U.S. dominance and influence was still prevalent in Panama. Since the final transition away from American power in 1997, Chinese influence has grown rapidly in the region, which is a concern for the US as well as other countries in the Americas. Despite the growing Chinese influence and the inefficient use and development of the canal under Noriega, the Panamanian people have been resilient in their efforts to make the canal their own through ACP officials appointed by different segments of government. This distribution of power is something rare in Latin America and especially in Panama, where prior to the turnover the president of the United States held authority over the Panama Canal. The Panama Canal was essential in maritime transportation in the 20th century, and because of this the

U.S. sought to exert its control over the canal. It is apparent that the Panama Canal will be essential to maritime transportation in the 21 century as Panama has successfully improved its organization and increased its profitability, but these improvements may encourage other nations to try to exert their influence over the canal.

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Appendix

Figure 1

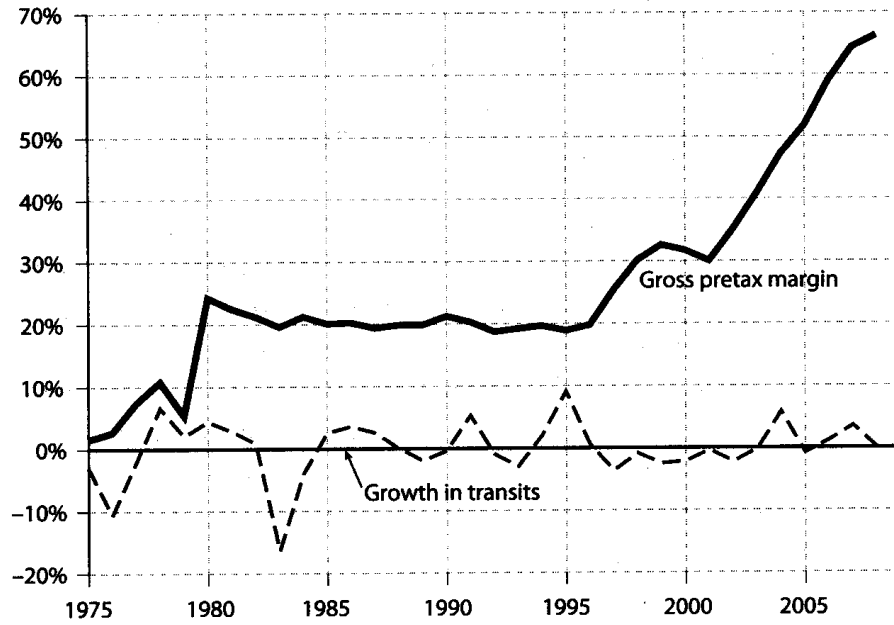
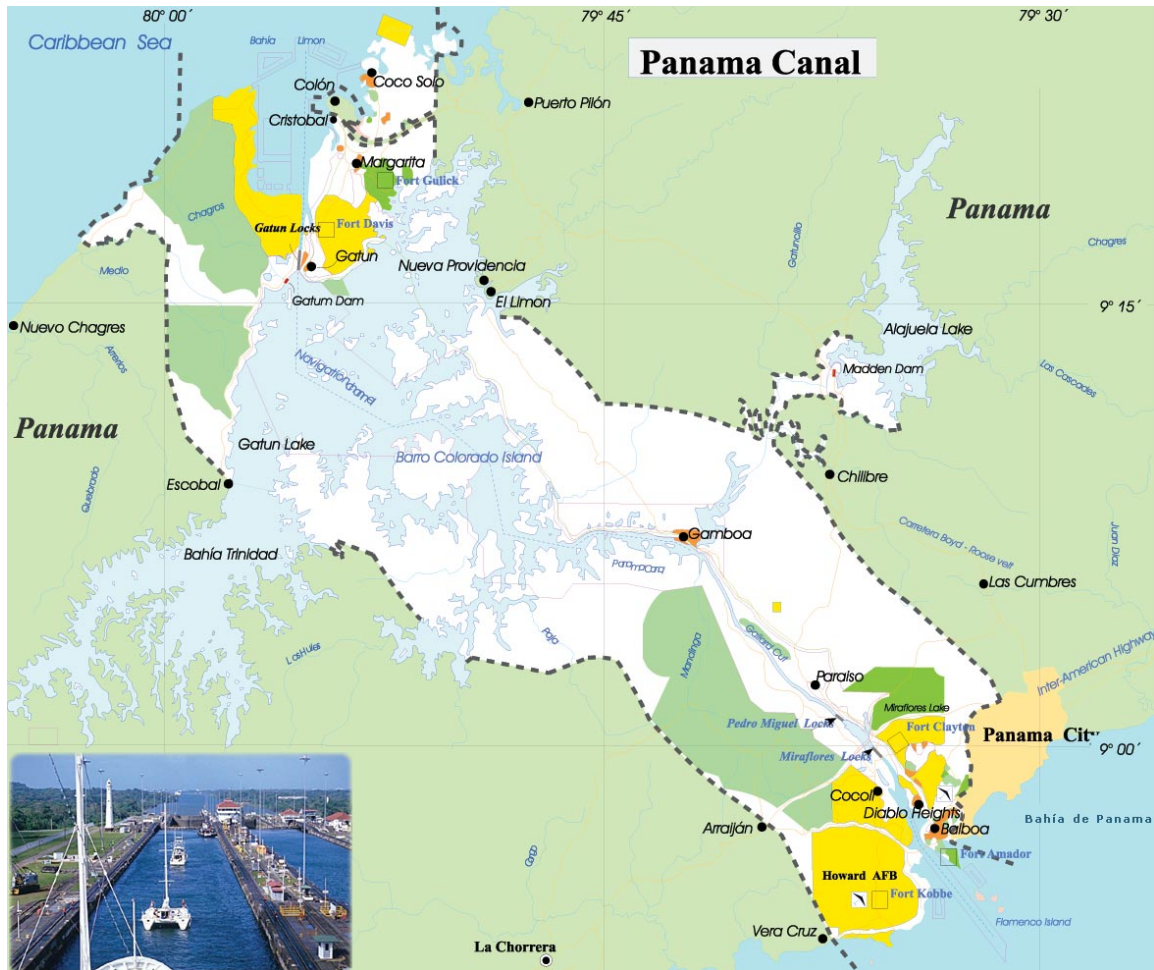


Figure 8.1: Panama Canal margins and annual growth in interoceanic transits. *Source: Panama Canal Company/Commission, Annual Reports; Autoridad del Canal de Panamá, Annual Reports.*

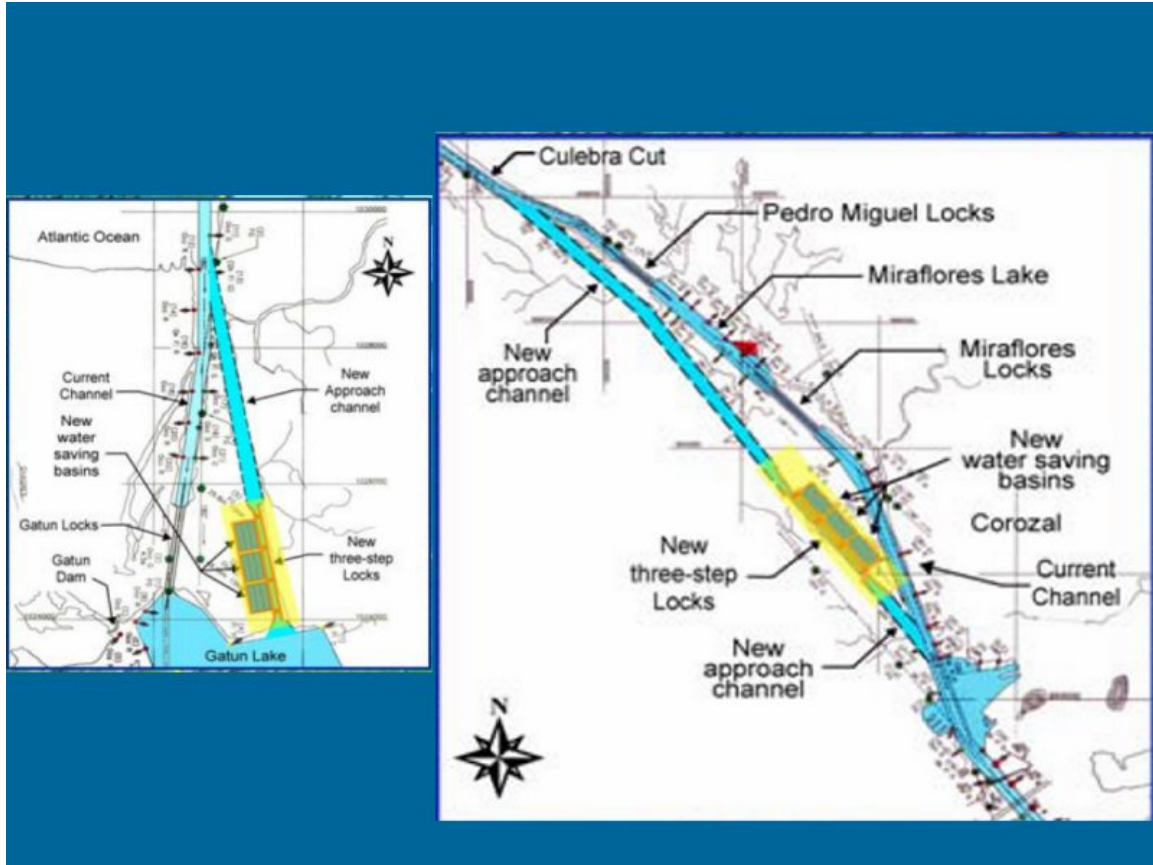
(Maurer p. 306)

Figure 2



("Panama Canal Zone." Geographic Guide. <http://www.geographicguide.com/america-maps/canalpanama.htm> (accessed January 29, 2012).)

Figure 3



"Panama Canal-Maps and Images." Globalsecurity.org.

<http://www.globalsecurity.org/military/facility/images/panama-canal-expansion-image2.jpg> (accessed January 29, 2012).