

**THE ATLANTIC COUNCIL
OF THE UNITED STATES**

**Panama Canal Transition:
The Final Implementation**

POLICY PAPER

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THE ATLANTIC COUNCIL

OF THE UNITED STATES

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FOREWORD

On the map, Panama appears as a small country on the border of Central and South America, but Panama and the United States share a century of often stormy and closely intertwined history. When the United States transfers its remaining facilities and the canal to Panama at the end of this year, the temptation may be great to place Panama on the outer margins of U.S. foreign policy. However, both Panama and the United States have an important stake in a positive and conspicuous bilateral relationship beyond 1999. Most of the commerce passing through the canal is destined for or departing U.S. ports. Furthermore, as trade expands, the canal is increasingly important to link core U.S. markets in Asia, Europe and the Americas.

The authors of this report, specialists in foreign policy and inter-American relations, help to guide us through the remaining steps of the transition and offer a useful progress report of what has taken place to date. They also take a hard look at what might go wrong if inadequate consensus exists in both countries to resolve the issues that remain. Most importantly, they offer suggestions for ensuring that things do not go wrong.

The authors consulted with prominent government officials and private sector representatives in both countries. This report is based mainly on facts emerging from these discussions, though the policy content is the responsibility of the authors.

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DAVID C. ACHESON

President

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Panama Canal Transition: The Final Implementation

CONCLUSIONS AND RECOMMENDATIONS

The implications of the transfer of the Panama Canal go well beyond U.S. relations with Panama. This complex transition provides an important lesson for Latin America and the rest of the world on how countries of vastly different size and outlook can work together. The success of this 20 year process lies mainly in first identifying the primary common interest of the United States, Panama and the major canal users: access to an open, safe and efficient canal. Important but secondary concerns, including U.S. military access to facilities in Panama, were addressed during the process but never were allowed to displace the primary interest. By focusing on this clear, compelling key objective, both Panama and the United States were able to accommodate fundamental changes in the political, economic and security context, including several changes in administrations, tough negotiations and even a military confrontation.

Today, the implementation of the treaty is a good news story that largely has been untold in the United States and is not fully appreciated in Panama. Overall, the transition is going better than expected, according to most informed U.S. and Panamanian observers. The 1977 treaty will be fully implemented on schedule, on 31 December 1999. This will result in the transfer of the Panama Canal, the withdrawal of U.S. military forces and the transfer of the buildings and property that constituted the old canal zone. Well-coordinated preparations for the canal transition should result in a seamless transfer that will benefit both the United States and Panama.

For the United States, divestiture of the canal will reduce chances that the canal might become the target of terrorists while at the same time, U.S. goods and ships will continue to have access to an open, safe and efficient waterway.

For Panama, national sovereignty will be consolidated over the entire territory of the country. Revenues from the canal, related businesses and reverted properties are

expected to offset much of the economic loss associated with the withdrawal of U.S. troops.

Nevertheless, the final months of the 20-year treaty implementation period are by far the most challenging. More than half the total acreage and buildings must be transferred in 1999. Panama must absorb and maintain several billion dollars worth of assets and convert them to other uses in a timely and efficient manner to maximize their value for the benefit of the people of Panama.

How well the United States and Panama manage these final months will set the stage for future relations. To be avoided are developments that could make the transition more of a “messy divorce” than a celebration of a relationship that has finally come of age. For example, the failure in 1998 of bilateral negotiations to establish a Multinational Counternarcotics Center (MCC/CMA) contributed to a lack of confidence that the governments can work together on difficult issues.

Such negative images of the transition probably will be compounded by the controversy over cleaning up the military firing ranges. A relatively small amount of land in remote areas cannot be rid of unexploded ordnance. Panama should resist any temptation to turn the issue into a long-term cash cow by demanding compensation, because it probably will backfire and could hamper future relations. Likewise, the United States should acknowledge a willingness to help Panama manage the problem. Both governments need to establish a mechanism to deal with range-related safety and health concerns over the long term, that is, beyond the property transfers in 1999.

Much of what constitutes the U.S.-Panama “special relationship” no longer will exist after 1999. Most notably, the U.S. military will be absent for the first time in 158 years (since the construction of the cross-isthmus railroad), and the old Panama Canal Commission no longer will exist. The transition also provides a relatively clean break with the past as new political leadership takes office in Panama and a new U.S. ambassador assumes his responsibilities. Nevertheless, both countries will remain important to each other, and each will need to reconsider how to manage bilateral relations.

For the United States, the nature of the relationship will shift from concerns about canal operations to mainly economic and law enforcement interests. Bilateral security concerns will be limited largely to illegal drugs and related transnational crime. The major change in the way U.S. leaders think about Panama is that they no longer will need to feel responsible for what happens in Panama. In the past, senior officials were generally of the view that they could not afford to let Panama fail. This is no longer the case. Also, U.S. military forces no longer will be tethered to bases in Panama, but will be operating from a variety of locations throughout the region. U.S. counter drug operations are shifting to Florida, Puerto Rico, Ecuador, Curaçao, Aruba and other locations.

Without the infrastructure that underpinned the “special relationship” with the United States, Panama’s leaders will have to work much harder to gain the access, attention and resources they have come to expect from the United States. Also, a smooth political transition is important as a new president, Mireya Moscoso, takes office in September, just a few months before the canal turnover. The new government may be inclined to reverse some of the market-oriented reforms instituted over the last few years because the economic benefits have not yet been realized by most of the people. But these reforms are crucial to Panama’s ability to compete in international markets and attract foreign investment. At the same time, the new government will face substantial challenges in dealing with poverty, drugs and corruption, areas which merit high priority attention. International investors and shippers will watch closely how the new government manages its “new” assets. Especially, they will monitor how it honors contracts and commitments made under the previous administration, the transparency of new economic deals, and its administration of the canal.

Both governments need to focus attention on the few remaining tasks so that the transition is completed on a positive note. To do this, communications should be improved both within the governments – especially Panama – and between Panama and the United States. Effective structures, people and habits can help launch a mutually beneficial new relationship, and the stakes remain high for both countries.

THE CANAL BECOMES A BUSINESS

Close cooperation and extensive planning should result in a nearly “seamless transition” when Panama assumes full responsibility for operating the canal on 31 December 1999. This is mainly the result of the U.S. and Panamanian members of the Panama Canal Commission (PCC) working as one team with one mission. Over the last 20 years, Panamanians increasingly have assumed leadership positions in canal management and operations. For example the canal’s administrator has been Panamanian since 1990, and the current administrator, Alberto Alemán Zubieta, will continue in that role under the new Panama Canal Authority (PCA). More than 70 percent of all professionals and managers are Panamanian, as are over 93 percent of the skilled craftsmen, 82 percent of the floating equipment operators and 72 percent of all canal pilots. Although Panamanians will fill the vast majority of positions, the Government of Panama has made provisions for some U.S. and other foreign nationals to continue to work for the canal. This is important to ensure competition with international standards for key jobs.

While there will be no noticeable change in the technical operation of the canal, the PCA will be free to manage the canal as a business, whereas under U.S. law the canal has operated mainly as a government service. The prospects are good that the PCA will be able to realize a much greater return for Panama. In 1996, Panama received about \$105 million as its share of the revenue generated by the canal. Under Panamanian management, several additional opportunities will become available that could double that return. For example, under current operating arrangements the canal keeps about \$300 million in cash reserves in the U.S. Treasury without drawing interest. The PCA will be able to invest these reserve funds and also hopes to benefit from new business opportunities such as ship repair, other maritime services, power generation and water supply that were not possible under the U.S. administration.

Restructuring the workforce probably could save about \$25 million annually by a reduction of about 1,300 personnel by the end of this year from the workforce of 10,300.¹ Additional reductions may be appropriate. For example, the canal preference for using in-house personnel to do special project studies could be reconsidered. Contracting with outside firms may provide a better mix of skills and new ideas. In any event, reductions should be accomplished in ways that would minimize the impact on workers who face job losses by coordinating retirements and job changes within the workforce.

Managing the canal as a business also means providing value to customers and paying more attention to their needs than was the practice in the past. Some users have characterized the old canal management as adversarial and arbitrary in its

¹ Discussions with Panama Canal Commission researchers, January and April 1999.

dealings with Panamanians and shipping interests. Satisfaction for most shipping lines means low tolls and rapid transit times.

To help make the transition to a more businesslike approach, the canal management has developed a new set of performance measures (see Table I). These metrics focus on key customer needs such as total time in canal waters and costs per transit. Customer satisfaction in such key areas is essential for the canal to remain competitive with intermodal transportation. Efficiency also will be gauged by several cost and performance measures such as overhead as a percentage of total costs and labor cost per transit. Safety and security, of course, must remain high priorities.

Table I

PANAMA CANAL NEW CORPORATE PERFORMANCE MEASURES	
Customer Satisfaction	Canal Waters Time Booked Transits Non-booked Transits
Manpower	Actual vs. Estimated Work Years
Financial	Actual vs. Estimated Labor Costs Overhead Cost as a Percentage of Total Cost Overtime Work Years as a Percentage of Total Basic Work Years Overtime Cost as a Percentage of Total Basic Cost Actual vs. Budgeted Expense, Revenue and Income Direct Transit Cost per Wire* Direct Labor Cost per Wire Total Cost per Transit/Wire Total Cost per Ton Average Inventory Value
Canal Operations	Direct Transit Man-Hours per Transit Wire Equipment Availability Operational Transit Delays Number of Accidents Scheduled vs. Transit Vessels
<p>* "Wire" refers to the line between a ship and a locomotive that guides the ship through a set of locks. The number of wires required for each ship increases with the size and tonnage of the ship. Because each wire requires handlers on the ship and onshore, it is one measure of the Canal labor cost required to handle a particular ship.</p>	

Source: Panama Canal Commission Secretariat, March 1998.

Politics and the Organic Law

The Government of Panama has attempted to insulate the PCA from political interference. In 1994, for example, the constitution was amended to establish the PCA as an autonomous agency with independent budget authority. The 11-member PCA board already has been appointed by President Balladares and approved by the legislature. A few appointments were controversial because they involved the president's relatives, but most were well qualified, including several who had prior experience serving on the PCC board. In addition, an international advisory board will be established to provide multinational input to the canal decision-making process.

To implement the constitutional amendment, the legislature passed an organic law giving the PCA authority to make regulations that have the force of law. This will enable the canal to maintain a merit-based personnel system independent from the rest of Panama's labor laws. For example, strikes are prohibited, but a system will be established for resolution of labor disputes. The scope of the PCA authority also will be expanded to include the entire canal watershed area. This is significantly larger than the old canal zone, and prior PCA approval will be needed for any construction or proposed development in this region. This is necessary to ensure that there is adequate water available to supply the canal, since about 52 million gallons of fresh water are used for each ship transit and more than 12,000 ships transit the canal each year.

Traffic and Tolls

The United States is turning over the canal in good operating condition, free of any liens or debts, as called for by the treaty. Traffic forecasts project continued growth so a substantial revenue stream will be available. Modernization projects already underway should result in a 20 percent increase in the canal's operating capacity, in addition to greater reliability, increased safety and lower maintenance costs. These projects, costing about \$1 billion, include widening the narrowest part of the canal by removing about 33 million cubic yards of rock in an 8-mile long narrow stretch so that two-way traffic will be allowed 24 hours a day. Other capital improvement projects include modernizing and increasing the locomotive fleet. The tugboat fleet will be increased from 17 to 24 boats. The electrical-mechanical gears for the lock gates are to be replaced by modern hydraulic systems. Some of these projects will not be completed by the time of turnover, but they are funded through the existing toll base so completion can be assured soon thereafter.

Traffic projections estimate 2-3 percent growth in traffic each year for the next 10-12 years. This means that within 20 years additional canal capacity will be needed to keep pace with likely demand. A study is underway to determine a range of options

for increasing canal capacity and the financing required. The PCA will have to make its longer-term plans clear and have them backed up with credible financing so that ship builders will continue to design ships that are optimized for the future canal capabilities.

The PCC has been sensitive to the problems that would be created if tolls were increased soon after Panama takes charge. Therefore, the PCC increased the rates twice in the last few years so that Panama would not have to raise them again in the near term. And the PCA has reiterated that it plans no toll increases anytime soon.

Most important for the PCA, continued transparency of management and operation will be essential to allay any suspicions of corruption because of the large amounts of money involved in canal operations. The canal's annual report, for example, must continue to provide details of revenues, expenditures, capital accounts and other indicators. It must pass the highest international auditing standards.

The PCA board is expected to become more directly involved in day-to-day canal operations than was the case for the PCC which met monthly and focused mainly on policy and major budget issues. While potentially helpful, such a direct role also may raise concerns about the possibility of politics infecting canal operations.

MILITARY PROPERTIES

The initial concept for transfer of the extensive military properties and facilities in the old canal zone envisioned that they would be transferred to Panama's defense forces (PDF) for like use. At the time treaty implementation planning began, U.S. forces numbered about 10,000, which was about the size of Panama's military forces. Under this approach, the barracks, motor pools, ranges and other facilities would be transferred for similar use by the PDF. The difficulties of extensive cleanup were not anticipated specifically.

This plan, however, had to be changed after the United States intervened against the Noriega military dictatorship in December 1989 and helped reestablish a legitimate government by installing the civilian leadership that won Panama's 1989 presidential election. One of the early acts of the new government was to disband the PDF so that it no longer could threaten civilian rule. As a result, the basic transition plan was modified. The new plan, approved in early 1992, was designed to comply fully with the original 1977 treaty schedule and support the democratic and economic development of Panama. To help with the transfer, Panama developed a master plan for land use of the reverted property and established the InterOceanic Regional Authority (Spanish acronym is ARI) to manage the newly acquired property.

(Map goes here)

Subsequently, the two governments have worked together so that the property could be absorbed by Panama while still keeping to the original treaty mandate of completing the transfer by the end of 1999. At the beginning of the implementation period, U.S. military forces administered about 93,000 acres and 5,000 buildings.

The value of the facilities alone now is estimated at about \$3.8 billion, not including the land. By mid-1998, only about 32 percent of the land and 45 percent of the buildings had been transferred. In some cases, ARI requested a delay in the transfer schedule so that Panama could be better prepared to absorb the property. Just the cost of maintaining these facilities in the tropical climate until they can be leased or sold is substantial. Also, some facilities were held until the final year of transition because of ongoing U.S. military operations and the possibility of establishing a multinational counternarcotics center, which failed to materialize. As a result, more than half the property and buildings, valued at about \$2 billion, must be transferred in the final year.

Completing the transfer in 1999 is an enormous job for both countries. For the United States, it means redeploying about 76,000 pieces of military equipment, 4,000 military personnel, along with families, including about 3,000 pets. About 175,000 pieces of non-military equipment in Panama will be declared excess and available to Panama in barter arrangements in exchange for services and temporary support during the transition. SOUTHCOM will distribute it throughout Latin America and the Caribbean, with much of it used to offset damages caused by Hurricane Mitch which devastated Central America in November 1998.

For Panama the job is even larger. It requires a country with an \$8 billion-a-year economy to absorb assets worth many billions, including the canal and base-related infrastructure, and to convert them to productive use. ARI is responsible for managing this conversion. The average time for converting military bases in the United States to alternative use is three-to-five years. In many cases, ARI has turned bases and facilities around more quickly. For example, Fort Espinar was 85 percent privatized after three years and Albrook Air Station was 90 percent privatized after one year, according to ARI reports.

Unfortunately, well-publicized missteps early in the transfer undermined confidence in the then Government of Panama. The current government has corrected many of the earlier problems, but not without criticism. Cumulatively, these events left some doubt about the ability of the government to manage the property transfer well and to limit corruption.

With the bulk of the job remaining, the two governments need to work together even more closely (see Table II). If they work well together, then public confidence probably will be restored and foreign investment will not be deterred. Among the many business attractions in Panama is the hemisphere's largest free trade zone in Colón, which has an annual turnover of \$11 billion. It provides a tax-free environment for export processing and transshipment to markets in North, Central and South America as well as to other destinations. Panama also benefits from using the U.S. dollar as legal tender so that there are no exchange controls and no central bank.

Panama also can take additional steps to make tourism and investment more attractive. Some of these measures include better roads, improved water service and waste treatment so that sewage is not dumped into the bay, and special canal rates for passenger ships that stop in Panama. Improvements in crime prevention also would help create a more favorable environment. Income from the sale of property now goes into a billion dollar national fund for social development, which could help to support these badly needed improvements.

Table II

1999 MAJOR PROPERTY TRANSFERS	
<i>March</i>	Galeta Island (communications facility)
<i>April</i>	Rodman Naval Station (Port facilities, base facilities, 86 houses)
<i>June</i>	Fort Sherman and Pina range (29,000 acres, base facilities, 67 houses) Cocoli (162 houses, community center) Panama Canal College
<i>July</i>	Balboa West and Empire ranges (26,000 acres) Camp Rousseau (storage area)
<i>August</i>	Balboa High School (77 classrooms, pool, gym, shops, athletic fields)
<i>November</i>	Howard Air Force Base (international airport, base facilities, 806 houses) Fort Clayton (1,392 houses, 2 schools, base facilities) Fort Kobbe (5,196 acres, 264 houses, school)
<i>December</i>	Corozal (60 houses, machine shops, cold storage warehouse, base facilities)

Source: ARI Calendar of Property Transfers, July 16, 1998, revised May 1999

Range Cleanup

The most sensitive issue is cleaning up the military ranges; this single issue, if mismanaged by either side, could poison relations for years to come. This is an emotional rather than an economic issue, for the ranges are located far away from developed areas, their potential for alternative use is low, and they represent a small

fraction of the assets being turned over to Panama. Also, the ranges are located within the canal watershed, which further limits their potential for development because of the need to protect the canal from silting and to provide an adequate water supply to operate the canal.

The controversy is mainly over the extent to which unexploded ordnance should be removed. The treaty calls for the United States to take all measures to ensure “insofar as may be practicable” that every hazard to human life, health and safety is removed from any defense site or military area. The treaty also calls for full and open consultation on measures being taken to fulfill these responsibilities. A joint commission on the environment was established under the treaty to advise on such problems, but it has not been successful in resolving the issue.

People in Panama are aware of the dangers posed by unexploded ordnance as seven trespassers have been injured or killed inside the ranges since 1984. Some Panamanians fear the United States will walk away from the problem at the end of the transition. Some also feel that if the ranges were located in the United States, more money would go into clean up efforts.

However, the United States is in fact applying the same standards and methods to clean up the ranges in Panama as it does in the United States and abroad. Roughly 15 percent of the ranges are tropical forest where clean-up is made impractical by rugged terrain and dense vegetation and would be inconsistent with efforts to save rainforests. According to a Defense Department report, of the almost 50,000 acres involved, 41,000 acres will be cleared for unlimited use and about 8,000 acres consisting of remote forest will not be cleared and will therefore need to be restricted. This determination was the result of engineering surveys that divided the ranges into 156 categories of topography, soil type, vegetation and unexploded ordnance density. If a parcel is determined to contain unexploded ordnance and is either inaccessible to demolition personnel and equipment, cannot be cleared without significantly impacting the environment, or poses safety risks for clearance operations beyond Defense Department standards, then the risk on that parcel is managed by contain-and-control measures to keep people away from the unexploded ordnance. Signs are erected, barricades are placed across roads and paths and extensive educational campaigns are conducted to teach those who live or work around the ranges to use the land safely.²

Demands by Panamanians for clean-up at the expense of the United States beyond that contemplated would likely anger many Americans, especially in Congress. Such demands would be perceived as inappropriate, intended to gain as much as possible by an unappreciative government that already benefits from a transfer worth billions.

² See *Range Transfer Report*, October 29, 1998, by U.S. Army South, U.S. Air Combat Command, U.S. Army Technical Center for Explosives Safety, U.S. Air Force Safety Center, U.S. Southern Command Treaty Implementation, U.S. Army Environmental Center, U.S. Department of Defense Explosives Safety Board.

The requirement to manage the preserved land will continue indefinitely. However, for the most part, this does not represent a major change in responsibilities. Panama has always been responsible for limiting access to the land and preventing scavengers or squatters from encroaching on the ranges. The United States, working through the ambassador, should continue to provide reasonable assistance to Panama in managing the preserved land after the transfers are completed. This could include advice on how best to deal with the safety and health risks associated with unexploded ordnance.

WHAT MIGHT GO WRONG?

What will happen if a problem occurs after the transition that is beyond Panama's capacity to cope? To some extent, this already has been anticipated and agreements are in place to deal with accidents such as spills of hazardous materials, radioactive contamination and similar problems. Under these agreements, PCC emergency response teams would be augmented quickly by the National Response Team (NRT) of the U.S. Environmental Protection Agency. PCC and NRT officials are consulting on possible problems and appropriate responses. Although this is an arrangement between two U.S. government agencies, the PCA should reach similar agreements with the NRT before it takes over at the end of 1999. Furthermore, an international canal advisory panel would provide a useful way both to anticipate problems and mobilize international help.

Potential problems affecting the security and operation of the canal could involve much more than incidents within the canal operating area. Conditions in Panama could be destabilized by several kinds of problems that also would likely affect the canal. For example, a natural disaster could overwhelm Panamanian capabilities. Economic conditions could deteriorate further for the large percentage of the population living in poverty. This could produce political pressures on the government to backtrack on reform and seek to pull more profits from the canal at the expense of needed capital improvements. Violence along the border with Colombia could escalate, requiring a larger, sustained response by the government of Panama. The corrupting influence of drug trafficking and money laundering could reach epidemic proportions, and this could have adverse effects on canal administration and operations.

While such developments are unlikely, the risks are too great to ignore the possibility of worst case scenarios. The best course of action is for both governments to take preventive measures where they can. This might be possible if effective responses are triggered by early warning indicators that conditions are worsening. Such indicators could help donor banks, the United States and other canal users anticipate problems and work together to develop and implement international assistance programs.

One priority for contingency planning is to address natural disasters. Central America is exceptionally vulnerable to earthquakes, storms, flooding and hurricanes. Panama is a logical place from which to stage search and rescue and relief operations, making use of airfields, warehouses and other parts of the existing infrastructure. Panama would benefit both economically and politically from hosting such operations.

The risk of terrorist attack in the canal should be reduced as a result of the transfer of sovereignty. U.S. targets are far more at risk to such attacks and the canal no

longer will be in this category. In the 1960s and 1970s, the canal was a target for Panamanian nationalists. The 1977 treaty largely defused this threat, and, after 1999, the canal will be an international waterway under Panamanian sovereignty, so any attack would cause losses mainly to Panama and to international shippers.

Nevertheless, while the risk of terrorist attack may be low, the consequences could be very serious, so Panama must continue to assess vulnerabilities and take steps to deter such an attack. The PCC, for example, commissioned a study along these lines in 1997 which provided recommendations for hardening critical facilities.

Other threats have been postulated, but they seem unlikely to directly affect the canal or Panama's basic security. For example, Panama's national police cannot prevent rebels and paramilitaries from crossing the Colombian border and creating unrest in the Darien and San Blas regions. But these activities have been going on for years. Furthermore, these forces are concerned with influencing the situation in Colombia and are not operating to overthrow the government of Panama or to disrupt the canal. Yet if unchecked, the loss of Panamanian sovereignty over the border region may erode confidence in the government

Concerns also have been expressed about a potential threat to the canal posed by China. Unfortunately, some of this thinking is beginning to resonate in Washington. These concerns usually are linked to the Hong Kong based company, Hutchison-Whampoa, which won the contract to operate some of the ports outside the canal. However, it is unlikely that China would want to disrupt the canal or to destabilize Panama.

Nonetheless, in cases where a serious foreign threat emerges, the United States may have to act. Under the Neutrality Treaty and its amendments and understandings added during ratification, the United States and Panama agreed to the right of the United States to act unilaterally to meet any threat to the canal, including the use of U.S. military forces in Panama. This treaty, designed to ensure the permanent neutrality of the canal, has no expiration date. Although politicians in both countries prefer to underplay or even ignore the Neutrality Treaty because discussions would likely highlight different interpretations, it nevertheless remains in effect. Furthermore, ambiguity on this issue will help preserve maximum flexibility.

While it is useful to be prepared for possible serious threats, the circumstances under which any future decision to send forces to Panama might be made by the United States are best left unstated. With the Neutrality Treaty in the backdrop and the 1989 precedent in mind, Panama still will have an implicit security relationship with the United States.

ENSURING THINGS GO WELL

Panama will be under close international scrutiny just after the transition, so any problems probably will be magnified. Therefore, the way in which they are handled will be important in building confidence. It will require unprecedented cooperation among leaders of factions in Panama who are not accustomed to working well together. Internal divisiveness, which has characterized much of Panama's history, often results in a president elected without the mandate of the majority of voters. Most recently, it also has resulted in different parties in control of the legislature and presidency, making consensus on important issues more difficult. But this divisiveness should end at the water's edge and ideally, Panama should present to the outside world a unified commitment to manage domestic problems more effectively.

Furthermore, without most of the structure that underpinned the "special relationship," leaders in Panama will have to work much harder to gain the access, attention and resources they have come to expect from the United States. It is not likely Washington will do anything to consciously degrade relations, but once the transfer ceremonies fade into memory, U.S.-Panamanian relations are likely to be boringly "normal." The U.S. ambassador is already becoming the single focal point for bilateral communications, and even he is likely to see his influence in Washington limited after December 31. He will have to fight for resources to sustain even modest assistance programs. To do this effectively, he must make a compelling case for the value of cooperating with Panama on important U.S. interests in the region.

The transfer of the canal provides as opportunity for greater international cooperation. Major canal users, including Japan, Taiwan and China, plus several South American nations, all have important stakes in a smooth transfer and continued efficient operation of the canal. They may be willing to provide assistance to Panama in dealing with potential problems that can adversely affect the operation of the canal. Similarly, the World Bank, the International Monetary Fund and the Inter-American Development Bank should increase their attention to Panama during this critical transition and be prepared to lend assistance and advice if problems develop beyond Panama's capabilities.

The overall focus, however, must be on the economic and political health of Panama because this is the greatest guarantee of the efficient operation of the canal and ultimately, of peace and stability in the hemisphere. Among the most difficult challenges facing the new administration in Panama are poverty, drug trafficking and corruption. One common aspect of dealing with such problems is the judicial system which, according to Panamanian leaders and outside observers, is subject to political manipulation and bribery and is therefore in need of strengthening. Furthermore, Panama's non-governmental organizations, its press and, most of all, the Panamanian public, will have important roles as watchdogs monitoring economic and political developments in this country, which will be theirs to more fully manage.

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