

The Panama Canal Treaties of 1977: Impact and Challenges

John P. Augelli

Department of Geography

The University of Kansas

Lawrence, Kansas 66044

By October 1, 1984, the Panama Canal Treaties, also called the Carter-Torrijos Treaties, had been operative for five years.¹ Despite the raging public debate that preceded the ratification of the documents in the United States, few Americans paid attention to this anniversary. It remains, however, that because of the wide-ranging geo-political ramifications of the canal, the treaties continue to loom vital both to the international posture of the United States and to Panama's economy. The purpose of this paper is to review the treaties in terms of their implementation and local impact in Panama to date, and to speculate about potential challenges in the future, especially in the light of the rapidly changing economic and political conditions in Central America. The item is intended as a vignette set within the specific five-year time frame of October 1, 1979, to October 1, 1984.

October 1, 1979, the day on which the treaties became operative, is already assured a place of pride in Panamanian history. With the implementation of the documents, the American-owned Panama Canal Company, the Canal Zone government (which had an American general as governor), and the zone itself were abolished. Responsibility for operating the canal until the year 2000 was assumed by a binational commission. Panama asserted its sovereignty over the entire 533 square miles of territory that constituted the zone, and promptly renamed it Area Canalera (Canal Area). The United States retained the use of military bases and other space and facilities necessary to operate and defend the canal for the rest of this century, but the American presence in the area began to fade almost overnight.

Among Panamanians, implementation of the treaties was cause for an intensely emotional outpouring of national pride. After years of effort, frustration, and even bloodshed, Panamanians had succeeded in erasing the enigma of a "state within a state" straddling the 51 mile-long canal and cutting their country in two; and in eliminating what one observer described as "a colonial enclave, a strange complex universe, inserted into the middle of [our] country and at the same time segregated from it" (ACP 1979, 17). Panama also saw October 1, 1979, as the start of a new era of economic development and modernization. Part of this optimism about the economic future stemmed from the long-held belief that geographic location and the canal are Panama's greatest resources. Panamanians argued that prior to the implementation of the treaties they could not achieve maximum exploitation and economic benefits from these assets because the United States controlled the canal and the strategically located zone. As the Carter-Torrijos Treaties abolish the zone and provide for increasing Panamanian control of the canal (the argument continues), Panama can now obtain much greater financial returns from its two chief resources (APEE 1978, 9-50).

In contrast to the jubilant Panamanian reaction, for the 14,500 people, both Americans and others, who had worked for the Panama Canal Company and the Canal Zone government, October 1, 1979, was a day of infamy and betrayal by the politicians in Washington. On that day, the 3,500 American "Zonians" and their families stopped living in what they considered to be an overseas segment of the United States and began living in a foreign country, Panama. They openly expressed distrust and even fear of the shape of things to come under Panama. Thousands of other Zonians also regarded the first day of treaty implementation with apprehension. These were Panamanian nationals, mostly blacks of West Indian origins. Fearing possible retaliation by Panama, the West Indians protested less openly than their white, American fellow Zonians. But in fact, the black community had more to lose from the change than the white (Augelli 1981a).

This is a partial scenario of the state of things in Panama and the Canal Area on October 1, 1979. What has happened since then? What impact has five years of treaty [end p. 75] implementation had on the landscape and people of the former Canal Zone and on Panama's economy?

Five years after the treaties went into effect, the changes in the former Canal Zone continue to be more real than apparent. On the landscape, the American presence is fading but has not disappeared totally. Crossing the old boundary between Panama City and the Canal Area, one experiences an abrupt change of scene. There is, however, an obvious sense of "gringo" order, cleanliness, efficiency, and architectural preference about the place; and English is still heard, particularly in the hallways and offices of the administration building that houses the Panama Canal Commission. Nevertheless, there can be no mistaking the fact that the Canal Area is now Panamanian territory. Panama's presence is reflected by the huge flag on top of Ancon Hill, by the license plates on the vehicles, the logos on the cars of the Panama Railroad, and above all, by the large number of Panamanians who work, visit, or live in the old Canal Zone. Americans use to move about with the poise and security of landlords; now it is the Panamanians who walk around as if they owned the place-which, in fact, they do.

But the bolder Panamanian relief on the landscape of the former Canal Zone cannot hide the fact that even after five years it is the Americans who are in charge, and that they are determined to remain in charge until the year 2000. In fact, the observer cannot escape the question, "How sovereign is Panama in the former Canal Zone until the end of this century?" The treaties permit Panama to reassert its de jure sovereignty over the entire Canal Area, but de facto the treaties also provide for an American presence in the area and for U.S. control of the canal and its operation until the year 2000.

The instrument of American control is the Panama Canal Commission, which is supervised by a binational board of directors composed of nine members appointed by the President of the United States. Five of the members are American citizens and the remaining four are nationals of Panama. The American members of the board must cast their votes as directed by the U. S. Secretary of Defense or his designee. No business may be transacted by the board unless a majority of those present are American nationals. It is this majority of American nationals that assures that the board of directors (and the commission) will be controlled by the United States until the year 2000 (Augelli 1983, 163-164).

As for the American defense posture, the U.S. military establishment and Panama's national guard (whose name was changed to Panama Defense Forces in 1983) have adjusted well to each other. The two military establishments are represented on the treaty-mandated Combined Board for the Defense of the Canal. They plan, coordinate, and participate in the annual canal defense exercise and other joint maneuvers; and they maintain effective communications (State Dept. 1982,5-6; 1983, 3, 5). The growing importance of the American military base and training center at Puerto Castilla in Honduras may eventually lessen dependence on Panama. For the present, however, Article IV of the basic treaty makes clear that while both Panama and the United States commit themselves to protect and defend the canal until 2000, the primary responsibility for the waterway's defense will rest with the United States. In short, despite the de jure sovereignty, there is no way that Panama can expel the American military until the year 2000.

Perhaps the most apparent changes in the Canal Area are among the remaining Americans. They have experienced a marked deterioration in the quality of life as compared to the pre-treaty days. Initially, the treaties protected all of their traditional fringe benefits (paid vacations in the United States, free medical care, hardship pay, and others), but by October 1, 1984, they had lost most of these privileges. Living conditions had become particularly trying for those Americans residing at the Atlantic end or in relatively isolated locations along the waterway. The Department of Defense commissaries are inadequate to meet their shopping needs, so these employees and their families must either make a 50-mile trip to the Pacific side or shop in Colón, a port city many Americans consider to be both dangerous

and unsanitary. Housing for Americans is in short supply everywhere in the Canal Area, and there have been deficiencies in street maintenance, traffic lights, mosquito control, and other services since Panama took over these operations.

As mandated by the treaty documents, the American employees of the Panama Canal Commission are gradually being replaced by Panamanians. The vast majority (more than 75 percent) of the work force is already Panamanian (1984), and with each passing year the ratio of Panamanians to Americans gets larger (Canal Commission 1982, 25). Also as provided by the treaties, following a 30-month transition period, on March 31, 1982, American jurisdiction over the courts, prisons, and police ended. Panama assumed total responsibility for local government and the American community in the canal area became increasingly subject to Panamanian authority (Augelli 1983, 162).

No wonder that the remaining American Zonians are experiencing nostalgia for the past and anxiety for the future. They have lost the economic security, the reassuring social identity, the promise of continuity, and the strong sense of mission that gave such special meaning to their pre-treaty way of life. In fact, the discontent among American workers and their rate of departure for the United States has become such that the Canal Commission deemed it necessary to offer a \$4 million financial incentive package to keep at least 1,000 of the remaining 1,700 skilled Americans on the job (State Dept. 1983). The money in question came out of Panama's share of the canal revenues, and, as a result, the Panamanians strongly objected and accused the United States of violating the terms of the treaties. **[end p. 76]**

The former Zonians of Panamanian citizenship and West Indian origins fared even worse. They lost most of the fringe benefits and special privileges; their communities, Pedro Miguel, Paraiso, and Rainbow City, have come under Panamanian jurisdiction, and most, importantly, their very existence as a cultural group is in jeopardy. As Panamanian citizens, West Indians have become a vulnerable minority in an unsympathetic Panamanian milieu that seems determined to Hispanicize them: As an example, the name of Rainbow City has been changed to Ciudad Arco Iris.

In summary, like its counterpart in pre-World War II British India, the anachronism of the pre-treaty Zonian community with its aura of nineteenth century colonialism is well on its way to extinction five years after treaty implementation.

As to treaty influence on Panama's economy, the first important impact was the financial windfall that implementation provided for Panama. It is estimated that on October 1, 1979, roughly \$100 million in U.S. property was turned over to Panama; additional property has been turned over every year since; and by the year 2000 the total value of all American facilities and equipment given to Panama will be almost a billion dollars. Included in these properties are the Panama Railroad and the port facilities of Balboa at the Pacific entrance to the Canal and of Cristobal on the Atlantic side (Augelli 1981b).

Before the treaties, Panama was receiving \$2.3 million annuity for the canal from the United States. After October 1, 1979, Panama began receiving a good deal more. The exceptionally large volume of traffic passing through the waterway (including oil from the Alaska North Slope) paid Panama \$74,952,599 during the first treaty year; \$76,862,970 during the second; and \$81,193,887 in the third year. During the fourth year of operations, however, there was a "significant" decline in vessel traffic and canal operating revenues. This was partly because of a worldwide recession in the maritime industry and partly because of the diversion of Alaskan oil to the trans-Panama pipeline, which was completed in 1982 (State Dept. 1983, 1).

Although Panama is receiving more money from canal operations than before 1979, there is still little

evidence that the treaties have altered significantly the nature of Panama's economy, or that they have increased dramatically the country's march to modernization. As has been frequently noted, Panama is a country with two economies (Augelli 1981b). The national economy is experiencing difficulties from unemployment, labor unrest, inflation, a growing foreign debt and other causes; the international economy is sound but has little bearing on the local scene. Unemployment is high everywhere, but in Colon, which has the highest number of jobless, the rate is more than 40 percent. Inflation in Panama hit 30 percent in 1974 and has been double-digit virtually ever since. Labor unrest is mounting everywhere but especially among former Panama Canal Company workers (such as railroad and dock employees), who were transferred to the Panamanian government by the treaties. In April 1980, for example, 400 maintenance workers who had been transferred from Canal Company employment to Panama went on strike. They complained that since being shifted to Panama, they had not been paid the American minimum wage, which they used to get from the Canal Company, and that the deduction by the Panamanian government for social security and other reasons had sharply reduced their take-home pay (Augelli 1981b). Since that time, Panama has been plagued by the unrest of the work force (mostly of West Indian origins), which the treaties shifted from the employ of the Canal Company and the Zone government to Panama.

Despite some irritations between Panama and the United States over interpretation of the treaty documents, the implementation of the Panama Canal treaties proceeded as planned between 1979 and 1984. The few disagreements between the two countries centered on minor matters such as Panama's rights to tax imports by Americans and their dependents residing in the Canal Area, or to tax American contractors employed by the Panama Canal Commission and the U.S. Department of Defense. There were also protests by the United States over violation by Panama of certain commission installations and the detention of Americans arrested by Panama (State Dept. 1982, 2-7; 1983, 3). On the whole, however, the partnership between the United States and Panama in operating the canal is working. There is a constantly increasing Panamanian involvement in the waterway's operation. Barring some unfortunate development, there now exists little doubt that Panama will be able to assume total responsibility for the waterway in the year 2000, and that like the Egyptians in the case of Suez, the Panamanians will have the competence to do the job.

But the remaining years before the total Panamanian takeover of the canal in the year 2000 are not without challenge. The growing possibility of competition from alternate routes for canal traffic, the threat of obsolescence of equipment and facilities, the need to expand the waterway to handle larger ships, the restrictions on debt financing for improvements imposed by the treaties--all of these and others confront the Canal Commission in the years ahead. One of these challenges is already a reality. The trans-isthmian pipeline built by Panama from Puerto Armuelles on the Pacific to Chiriqui Grande on the Atlantic, is completed. The pipeline is siphoning off the Alaska North Slope oil, with a resulting estimated annual loss of millions of dollars in canal revenues (State Dept. 1983, 1). To offset this loss, the Canal Commission authorized an increase of 9.8 percent in canal tolls as of October 1, 1982. But such rate increases may stimulate alternate routes (land bridges using rail, highway, and **[end p. 77]** pipelines) across the isthmian narrows of Central America and Mexico. The Mexicans are already beginning to operate such a land bridge across the Isthmus of Tehuantepec, and others such as Costa Rica may not be far behind.

Even more worrisome is the growth in the size of ships. Between 1981 and 1982, for example, the size of vessels with beams of 80 feet or more rose from 45.5 percent to 51.1 percent of all transits through the canal; and almost half of the increase in large beam transits was by vessels with beams equal to or greater than 100 feet (Canal Commission 1982,7). Many ships, of course, are already too large to pass through the canal, and the economic consequences are disturbing. Before the completion of the trans-isthmian pipeline, for example, oil shipped in supertankers too large for the waterway had to be transferred to smaller ships with a resulting increase in both cost and time of transit. Currently, a ton of

coal in the larger ships can be sent from New York to Japan by way of Africa's Cape of Good Hope as cheaply as it can be sent through the Panama Canal in smaller ships, even though the trip around Africa is 5,600 miles longer.

Proposals to widen the canal have to be weighed against alternatives, such as consideration for a sea-level waterway or another set of locks. The Panamanian representatives on the Commission's Board of Directors have expressed their country's desire to initiate a project to widen Gaillard Cut at a cost of \$500 million. It is the U.S. view, however, that "traffic forecasts do not support the sense of urgency advocated by the Panamanian representatives for immediate decisions regarding such a major expansion of the canal" (State Dept. 1981). Equally pertinent, under treaty provisions the canal must be turned over to Panama debt-free in the year 2000. This means that any canal-improvement costs that cannot be met from revenues by December 31, 1999, are ruled out unless there is a treaty revision.

The treaties permit the United States to build another set of locks, but there is still some question as to whether the available water supply from the present canal watershed is sufficient for another set of locks. An even greater obstacle is the prospect of Congress authorizing such an expenditure, given that the canal will be turned over to Panama in the year 2000.

Clearly, the United States is reluctant to make any huge additional investment in the present waterway. In fact, during the Reagan administration, the Americans suggested that the Panama Canal Commission be restructured so as to become a government corporation similar to the pre-treaty Panama Canal Company. This would permit the commission to function as a business and, perhaps, enable the United States to reduce its present appropriations for the canal (State Dept. 1982, 7; 1983, 6).

As to the alternative of a sea-level canal, Article XII of the Panama Canal Treaty commits the United States and Panama to conduct a joint study prior to the year 2000. In compliance with this article, the Canal Options Preparatory Committee, consisting of the United States and Panama with Japan as an invited and full member, is advancing its preparations for a feasibility study of a sea-level canal and other alternatives (State Dept. 1983). On October 1, 1984, however, any serious consideration of a sea-level canal seemed a long way off.

The real challenge to the Panama Canal Treaties in the years ahead may be political. Of the two leaders responsible for the documents, President Jimmy Carter and General Omar Torrijos, one is no longer president and the other is dead. Ronald Reagan, a major opponent of the treaties before ratification, is now in office. More importantly, the policies of the Reagan administration vis-a-vis El Salvador, Nicaragua, and Honduras not only add new economic and political dimensions to the Isthmian region, they also have the potential for generating disagreements between the United States and Panama over the treaties. For example, one of the reservations in the basic treaty states that any action taken by the United States to assure that the canal remains open 'shall not be interpreted as a right to intervene in the internal affairs of the Republic of Panama or interfere with its political independence or sovereign integrity.' Given current U. S. policy with reference to the Sandinista regime in Nicaragua, the Panamanians are left to ponder how valid this assurance is, particularly if Panama installs a government considered undesirable by Washington.

Potential disagreements between the two countries are always possible. Even under a conservative, quasi-military regime, Panama has not always marched in step with the United States. Note, for instance, in the Falkland War when Panama strongly favored Argentina; and Panama's membership in the Contadora Group. More pertinent, on July 31, 1984, Panama's President Jorge Illueca accused the United States of violating the treaties and stated that, on October 1, Panama's Defense Force would occupy Fort Gulick, the home of the U.S. Army's School of the Americas, where 1,900 soldiers from various Latin American countries are receiving training. The treaties left open the possibility that the

United States might negotiate the retention of Fort Gulick. Apparently, such negotiations broke down when the American-controlled Canal Commission voted to provide the afore-mentioned \$4 million compensation package for 1,000 of the remaining 1,700 American workers in the Canal Area (AP Report 1984).

In conclusion, the major provisions of the Carter-Torrijos Treaties mirror both the heated, soul-searching debates that preceded their approval by the United States, and Panama's stubborn determination to uphold its claim to sovereignty over the canal and the former Canal Zone. Ultimately the treaties represent a compromise that neither the Americans nor the Panamanians consider fully satisfactory. And herein lie the possible roots of disagreement over interpretations in the future, especially given the political unrest elsewhere in Central America. Five years after their implementation, the jury was still out on the ultimate impact and challenge of the Panama Canal Treaties of 1977.

NOTE

1. The 1977 agreement (implemented on October 1, 1979), between the United States and Panama, includes two separate treaties. One is the "Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal"; the other is the basic "Panama Canal Treaty." Also pertinent is the enabling legislation passed by Congress and known as the Panama Canal Act of 1979 (Public Law 96-70).

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