CÓPIAS DE LAS ACTAS (en inglés) DE LAS REUNIONES DE LOS
NEGOCIADORES DEL TRATADO PESEN- EISENHOWER

Volumen IV

Nº 17 Acta de la 17ª reunión. 16 de febrero de 1954.

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No 28 Acta de la 28ª reunión. 17 de agosto de 1954.

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Fin del Volumen IV (Actas en inglés)
No 17 Acta de la 17ª reunión. 16 de febrero de 1954.

ANEXOS: 1. Documento leído por el Sr. Cabot en la sesión del día 16 de febrero de 1954 en relación con el Documento "A" de Panamá.
2. Comentario de los Estados Unidos al Documento "A" de Panamá. Parágrafos 5 y 6 -Control del Contrabando.-
3. Comentario de los Estados Unidos al Documento "A" de Panamá. Parágrafo 9 - Ubicación de Comisariatos-
4. Comentario de los Estados Unidos al Documento "A" de Panamá. Parágrafo 9 - Ventas de bienes sobrantes-
5. Comentario de los Estados Unidos al Documento "A". Parágrafo 12 - Reparación de Naves-
6. Comentario de los Estados Unidos al Documento "A" de Panamá. Parágrafo 13 -Ventas a las Naves-
7. Comentario de los Estados Unidos al Documento "F" de Panamá.
Dr. Cabot informed the delegation of Panama that it would be impossible for him to continue to participate in the talks after the latter part of April, because of his recent appointment as Ambassador of the United States to Sweden.

Dr. Fábrega and Mr. Huerta Matte expressed regret that Mr. Cabot should have to withdraw from the negotiations.

After thanking Dr. Fábrega and Mr. Huerta Matte for their words, Mr. Cabot read a general statement regarding Panama’s Document A and then submitted to the delegation of Panama the comments of the delegation of the United States regarding the Panamanian proposals contained in paragraphs 5, 6, 9, 12 and 13 of Document A, and that contained in Document F (see Annex).

Dr. Fábrega stated that, pending study of the documents submitted by the delegation of the United States, he wished to make some general observations which he felt could help toward clarifying any erroneous impression entertained by the delegation of the United States with regard to the real purpose of the Panamanian proposals. First he referred to the general statement of the United States relative to Document A. He did not consider appropriate the use of the word “monopoly” by the delegation of the United States in the aforesaid statement in describing the proposal.
the proposal contained in Document A of Panama, because the word was not used in the aforesaid proposal and the effect of the latter is not the establishment of a monopoly. He explained that the opportunity for supplying the Zone that Panama requests did not constitute an absolute right inasmuch as the products may be obtained elsewhere if those offered by Panama do not satisfy the stipulated requisites with regard to quality and price. He said that Panama feels that, in accordance with the philosophy of an equitable distribution of the benefits resulting from the Canal, the Zone market is one of the benefits that should be enjoyed by Panama. He observed that the original intention of the United States had not been that of converting the Canal into a commercially advantageous enterprise and that Panama feels that, in equity and justice, all those commercial benefits that do not interfere with or prejudice the interests of the United States in the Canal should belong to Panama. He said that the difficulty arose because of the tendency of certain sectors in the United States and in the Canal Zone to try to obtain as many commercial profits as possible, to the exclusion of the benefits which the Republic of Panama should obtain. He then referred to the comments of the United States regarding the proposal of Panama in the sense of limiting sales in the Zone to articles of prime necessity. He said that he hoped to avoid getting involved in discussions regarding this matter and that he knew that the United States does not agree with Panama's thesis to the effect that the Treaty of 1903 permits only the importation of articles of prime necessity into the Zone. He then proceeded to refer specifically to the different comments submitted at this meeting by the delegation of the United States.

With regard to the comments on paragraphs 5 and 6 of Document A, he said that, notwithstanding the various measures put into effect by the United States in order to prevent or reduce contraband originating in the Canal Zone, experience has shown that contraband could not be effectively counteracted.
counteracted unless consumer articles of the Canal Zone are purchased in Panama or a formula is adopted whereby the prices of articles are almost identical in both communities. He observed that the disparity of prices in the two communities is due to the fact that one community imports articles originating in any part of the world free of duty, that agencies of the government of the United States purchase them in large quantities and that in many instances the freight is nominal because they are transported in ships of the Government of the United States. On the other hand, Panamanian merchants have to pay import duties and taxes to the Government of Panama, and the freight rates which they pay are high. He concluded by saying that the disparity in prices and the fact that a considerable number of persons residing in Panama enjoy purchasing privileges in the commissaries of the Zone make it impossible to solve the contraband problem. He observed that, commercially, Panama suffers double harm because of the Canal Zone: first, because it does not obtain to the extent expected the benefit of purchases by the Canal Zone in the Republic, and, secondly, because contraband originating in the Canal Zone harms Panama's economy. He said that, although the formula proposed by Panama in Document A might seem complex, in reality it was not and that, once its purpose was understood, better wording probably could be found. He added that the purpose of the aforesaid document was the adoption of a plan which would permit Panama to obtain commercial benefits in the Canal Zone and terminate, once and for all, the harm caused to Panama by contraband originating in the aforementioned Zone. He explained that the Panamanian proposal would bring great benefits to American commercial interests because the one would have to be supplied with American products when the products in question cannot be obtained in Panama, and because Americans—who are authorized by the Constitution and laws of Panama to do business in the country—can establish themselves in Panama and sell products to the Zone. He stated that Panama can no longer withstand the competition of the Canal Zone and that he did not think it was equitable that Panama be deprived of income from import duties.
Mr. Cabot said that as the documents submitted by the Delegation of the United States include measures for solving the problem, it would be advisable to wait until the Delegation of Panama had received all the documents so that it could understand correctly the philosophy which inspires them, which, fundamentally, consists in doing justice to Panamanian aspirations where they are just, maintaining the basic position of the United States in the Canal Zone and solving practical problems to the mutual benefit of both countries. He added that, undoubtedly, many discussions would arise regarding the replies of the United States.

Dr. Fábrega found Mr. Cabot's statement to be a reasonable one and he said that the Delegation of Panama could better understand what the position of the United States would be after having received all the comments regarding the Panamanian proposal. He stated that he did not know whether this should prevent him from referring to the comments of the Delegation of the United States with regard to paragraph 13 of Document 3.

Mr. Cabot answered that, on the contrary, the Delegation of the United States would be happy to hear any comment on the matter.

Dr. Fábrega then stated that he wished to observe, without prejudice to more complete and subsequent comments, that the suggestions of the Delegation of the United States relative to the revision of the classifications of ships' stores and sea stores, embodied in the Treaty of 1903, do not fully meet the Panamanian request formulated in the aforesaid paragraph 13. He said that this was one of the instances in which Panama feels that it has been deprived of a benefit which, in justice and equity, it should receive. He remarked that the fact that Panama does not receive the full benefit of sales to ships—which mean so much to Panama and so little to a rich and powerful economy like that of the United States—would prejudice the United States, in Panama as well as in the rest of Latin America. He said that Panama regretted having to refer to non-fulfillment by the United States of international commitments. He then referred...
referred to the classification of articles for sale to ships contained in the Treaty of 1936. He said that the aforementioned Treaty prohibits the sale of tourist goods and that in the exchange of notes which were complementary to the Treaty, the sale of sea stores was authorized, but with a surcharge which was fixed at 15% of ordinary retail prices by the authorities, so that Panamanian merchants could compete, and he stated that in the aforementioned exchange of notes it was stipulated that the agencies of the United States would gradually withdraw from the business as Panamanian merchants came to be in a position to supply the ships. He explained that, in practice, commissaries sell tourist goods to ships, and sales of sea stores are affected without a surcharge. He displayed a commissary price list, in which are enumerated various sea stores and it is stated that they will be sold without a surcharge.

Mr. Cabot said that he considered that there were two problems: one relative to fulfillment by the United States of commitments undertaken under the Treaty of 1936, which he felt should be handled through regular diplomatic channels, and the other, as to whether, in justice, further concessions should be made to Panama with regard to sales to ships. He said that, with regard to the second problem, the primary interest of the United States was not in doing this business or obtaining profits from that business but in assuring that the ships obtain the various articles at reasonable prices and of good quality. He stated that the principal difficulty arose because, in many instances, Panamanian merchants were either unable or unwilling to supply the aforementioned articles. He said that the United States did not want to commit itself to leaving this business to the Panamanians, in part because of its responsibility and in part because it feels that at present Panamanian merchants cannot supply those articles.

Dr. Fábrega agreed that the two problems referred to by Mr. Cabot existed. He said that for this reason the Panamanian Delegation had suggested at the beginning of the negotiations that time could be saved if the discussion were limited to considering methods of satisfying Panama's claims without dwelling too much in each case as to the extent of the violations which
which may or may not exist in connection with these, however, a had
to refer to the aforesaid violations not in order to prevent the back-
ground of the Panamanian proposal, he observed that although the state-
ment of the United States to the effect that it does not wish to have the
business of sales to ships because of its commercial aspect but in order
to assure the supply of articles of good quality at reasonable prices
would appear to be a feasible objective, but in actual practice the Panama
Canal Company followed another policy, namely that of acting as a commercial
firm which had to obtain profits from all fields of its commercial activi-
ties in order to cover deficits in other departments. It said that the manner
in which the aforesaid company operated justified Panama's belief that the
United States was not interested only in assuring that the ships obtain
supplies but that it was also interested in obtaining the business of sales
to ships at the expense of Panamanian commercial interests. He explained
that this statement of Panama was not a capricious one but was the result
of investigations of the matter with local merchants. He said that the
aforementioned investigations revealed, for example, that the zone has a
dairy which sells milk to the ships, despite the fact that Colon and Panama
can supply milk which satisfies all the sanitary standards, and that an ice
cream factory is being installed in the Canal Zone at a cost of one million
balboas, notwithstanding the fact that there are adequate ice cream fac-
tories in Panama.

Dr. Cabot interrupted to explain that that matter referred to paragraph
2 of Document A.

Dr. Fabrega said that that was why he was now limiting his statement
to the business of sales to ships. He said that what was happening was that
Panamanian merchants had to establish themselves in the Free Zone of Colon
in order to sell to ships and to the Canal Zone and that as the products
entering the Free Zone are exempted from payment of import duties, instead
of the United States selling to the ships with a surcharge, in accordance
with the
with the exchange of notes of 1930, Panama was selling at a discount. He stated that the situation was such that merchants were practically obliged to sell from the Free Zone, against the real purpose of the aforesaid Zone and to the detriment of the Government of Panama, which receives no revenue from sales that are made in the Free Zone.

Mr. Cabot stated that he understood that there are Free zones in the principal ports of the world where ships obtain supplies and that if Panama imposed duties on supplies sold to ships going through the Canal, the aforesaid ships would obtain a considerable part of their supplies elsewhere.

Dr. Fábrega said that that was correct and that it was precisely the competition that other ports could have with Panama which protected the aforementioned ships against high prices and inferior quality of Panamanian products. He said that Panama was willing to meet that possible competition; what it did not desire was the competition of the Canal Zone in addition to foreign competition.

Mr. Cabot said that, naturally, that was a matter that concerned Panama. He added that the Canal Zone was not primarily interested in obtaining profits but that the Canal Company had to show that it was efficiently administered and, in order to do so, its prices must have some relation to the realities of the situation. He said that all that he wished to indicate was that the sales to ships were not considered in terms of commercial profits but rather in terms of services rendered to the Canal and to the ships.

Dr. Fábrega stated that the Panama Canal Company regards itself as a commercial corporation and had been organized with that objective. He explained that Panama had always felt, in accordance with the declaration of President Roosevelt, that the interest of the United States in the Canal Zone was primarily in the political and security fields and that commercial benefits resulting from the Canal Zone should go to Panama; however, now a company with a commercial mentality exists, which thinks of making
making business free sales to ships, in commissaries and for the rendering of services, all of which affects the basis of the commercial aspirations of Panama in the Canal Zone. He said that Panama felt that it should insist that the business of the sales to ships should belong neither to the Panama Canal, the Panama Canal Company, nor any agency of the Government of the United States but to the Panamanians. He stated that Panama did not desire that right in absolute form inasmuch as, if it wished to compete with other ports, it would have to supply articles of good quality at reasonable prices.

Mr. Cabot said that the arguments set forth by Dr. Fábrega helped the Delegation of the United States to understand the problem better and to appreciate Panama's viewpoint.

Dr. Fábrega then referred to the Panamanian proposal relative to the location of the commissaries, regarding which he said that, although discussion of the topic could be postponed, it was advisable to explain that Panama felt that the proximity of the commissaries to the boundary line enormously aggravates the problem of contraband, particularly in view of the fact that many residents of Panama have a right to make purchases. He said that it was not worthwhile to discuss this matter at this point, before Document A had been studied in greater detail, because the acceptance of other of its paragraphs could provide a solution to the problem of contraband. He observed that the reaction of the Delegation of the United States to paragraph 12 of Document A seemed to indicate that Panama desired to operate the Canal, and that perhaps the text used in the aforementioned paragraph permitted an erroneous interpretation of it, but that it could be corrected at the proper time.

Mr. Cabot stated that these talks are useful for clarifying doubts regarding the purpose of the Panamanian proposals and that it was evident that in certain matters the viewpoint of the other side had not been understood.

Dr. Fábrega
Dr. Fábrega agreed. He then explained that what Panama desired was to obtain as much economic and commercial benefit from the Canal as possible, without affecting the efficient functioning of the Panama Canal, and that he felt that everything that was said with regard to sales to ships should be applied to other services. He stated that Panama did not wish to operate the locks or to render similar services, but that it desired an opportunity to render certain services which are already being rendered to a certain degree. He said that this did not represent a new philosophy in the matter because the Treaty of 1936 stipulated that when Panama was in a position to supply ships, the United States would withdraw from the business.

Mr. Cabot stated that the desire of the United States that Panama render the services which it is in a position to provide, without harm to third parties, which is evident in some of the comments relative to the Panamanian proposals, is due to the sympathy with which his country regards Panama's aspirations with respect to the matter.

Dr. Fábrega observed that experience had demonstrated that the solution of problems of this type is not feasible, in practice, unless there exist precise regulations in an international agreement, and that it is difficult to obtain results when it is necessary to deal with an organization such as the Panama Canal Company which considers it imperative to do business.

Mr. Cabot stated that he was only informed of Panama's objections to the organization of the Panama Canal Company. He asked that this was one of the matters that the United States was anxious to solve in the course of the talks.

Dr. Fábrega said that the Delegation of Panama would discuss the matter after carefully studying it. He then referred to the comments of the United States on paragraph 9 of Document 4 of Panama. He explained that surplus materials of the Canal Zone, such as old houses, plumbing equipment, etc., were
were being sold at prices that were too low even after payment of import duties, which rendered it impossible for local merchants to compete. He said that Panama did not wish to prohibit the sale of surplus materials nor, as one would infer from the comments of the United States, that the materials not sold to Panama should not be exported; what Panama desired was the establishment of the necessary control over the sale of surplus materials in order to avoid harming merchants established in Panama.

Mr. Cabot said that the authorization or prohibition of the importation of the aforesaid materials into Panama was a matter within the internal jurisdiction of the Republic of Panama.

Mr. Neurtematte explained that Panama had not desired to act unilaterally in this matter. He added that Panama had no claims with regard to the exportation of surplus materials and did not wish to obtain advantages from sales made outside of the Isthmus.

Mr. Cabot answered that the United States had no intention of telling Panama which surplus materials it should allow to enter the country.

Mr. Fábrega then referred to the sale of foreign surplus materials in the Canal Zone. He said that this had occurred after the war and that it was not proper inasmuch as the Canal Zone is not a commercial center.

Mr. Cabot said that there was no reason why the United States cannot take surplus materials to the zone for sale to other countries. He inquired whether those transactions harmed Panama.

Mr. Fábrega stated that that had occurred in an isolated case, but that if it were to become a regular practice, eventually the Canal Zone could be converted into a commercial center.

Mr. Cabot observed that it was a question of United States government property. He said that he felt that it was not a private transaction.

Mr. More observed that at the end of the last war the United States took sureries in order to sell surplus large quantities of equipment and munition which it was not able to store and thus they were sold to United States producers.
producers and merchants felt that they would be harmed if these materials entered the United States. As a result, Panama was one of the places selected for the sale of the aforementioned materials. He observed that it seemed all right to cause harm abroad, but not within the United States.

Mr. Cabot said that Dr. Fabrega had referred to materials brought to the Zone and sold to other countries and that, naturally, sales made in Panama were of interest to the Republic.

Dr. Sucre explained that Panama understood that the concession of the Zone had been granted for the construction, maintenance and operation of the Canal, but not in order to convert the zone into a commercial center.

Mr. Cabot said that it was simply a question of property of the Government of the United States and that the United States had a right to impose on used materials.

Dr. Sucre said that large scale sales are made in Panama. For example, the automobile agencies of Panama are agencies of United States producers, and the Government of the United States sent 1,000 Ford automobiles because they were war surplus.

Mr. Cabot inquired whether they were sent to Panama or to another country.

Dr. Sucre said that in a certain sense Panama was the geographic center and that the United States businessmen's agencies established in Panama are hurt. Naturally, Panama is harmed, as is the United States businessman, who protests such practices.

Mr. Cabot said that he did not see how Panama could be harmed if, for example, automobiles were brought to the Zone from the Galapagos Islands for sale in Puerto Rico.

Mr. Maccio said that he did not have specific information, but that he understood that during the war the United States had a large number of bases in the Caribbean area, and that when they were closed great quantities
of still usable materials and equipment were brought to the Zone. But this was a one-time operation and not a continuing procedure, as had already been indicated.

Colonel Holden reported that those who brought the materials to the Zone did not know how it would be disposed of.

Dr. Sucre inquired why those materials had not been sent to the United States.

Mr. Nesbie answered that it was more economic to take them to a central point.

Dr. Sucre inquired whether they did not believe that this was done because of the protests of United States producers and businessmen who feared that they would be harmed.

Mr. Cabot stated that what he was trying to say was that it was not done in order to harm Panamanian interests.

Dr. Sucre said that that was not the purpose, but that it was the result.

Mr. Cabot said that the case would have been different if it were shown that harm had been done to Panama, but that the fact of the matter was that the Canal Zone had been used as an appropriate area for carrying out a business that had nothing to do with the Republic of Panama.

Dr. Sucre said that that was another matter, and that there were two aspects to the problem: one, that of importation and the other that of benefits or harm which might be caused by that importation. As Panama had derived some benefits, it did not wish to prohibit importation, but to control it so that it would only be authorized when, in the opinion of the Government, it would be beneficial to the country's economy.

Mr. Cabot said that he believed that Dr. Sucre and he were speaking of different things. He inquired whether Dr. Sucre was referring to imports into the Zone or to the surplus materials of the Zone.

Dr. Sucre
Dr. Suarez said that he was referring to surplus materials sent to the Zone or to materials used in the Zone.

Mr. Cabot observed that the basic point of Dr. Suarez's statement was that surplus materials were being sold in the Republic of Panama, while he was referring to surplus materials brought to the Zone for sale to other countries.

Dr. Suarez said that that was another aspect of the matter.

Mr. Cabot stated that he understood Panama's interest with regard to surplus materials sold in the Republic of Panama, but that what he did not understand was why Panama is harassed by the fact that surplus materials are brought to the Zone for sale in another country.

Dr. Suarez said that it would be the attitude of a bad neighbor to tell the Zone that it cannot dispose of its surplus or excess materials, but that what militated against the economic interests of Panama was the sales made in the Zone of materials brought from other places, thus converting the Zone into a commercial center.

Mr. Cabot said that Panama could do as it wished with regard to the introduction of surplus materials into Panama and that the Delegation of the United States was willing to negotiate with Panama in order to see whether it was possible to arrive at a mutually satisfactory agreement regarding bilateral central. He stated that he understood Panama's interest in the matter perfectly well but that what he did not understand was the objection to the sale of surplus materials to other countries.

Dr. Fábrega said that the objection to the sale to another country of surplus brought to the Zone was based principally on a question of principle, because, if it became a practice, it would tend to convert the Zone into a commercial center. With regard to economic harm, he stated that it could affect Panama's exports and that it could affect the Free Zone, which engages in export business.

Mr. Cabot
Mr. Cabot said that he hoped that the problem would be solved, and he asked Dr. Fábrega whether he wished to make other comments.

Dr. Fábrega said that he only wished to add to what he had said regarding sales to ships. He stated that Panama's complaints with regard to the aforesaid sales are also applicable to sales made to warships of other nations. He said that the Delegation of Panama had information to the effect that such sales occur frequently.

Mr. Cabot said that he would investigate the matter and that he would appreciate learning of concrete cases.

Mr. Hermeto said that he had in mind the recent visit of Peruvian ships and a Peruvian squadron in February 1952; the Delegation of Panama understood that the crew and cadets of the aforesaid ships had been given an opportunity to make purchases in the Post Exchanges.

The meeting adjourned at 4:20 p.m.
The United States assumes that the primary purpose of Sections 5 and 6 of Document A was further to control the contraband traffic.

The Canal agencies are (a) scrupulously carrying out the restrictions on sales undertaken in Section 1 of Article III, 1936 Treaty, (b) maintaining elaborate and costly contraband-control procedures in pursuance of Section 4 of that Article, (c) cooperating actively with the designated Panamanian representative in reference to the smuggling problem. The Canal agencies are now applying all practicable and reasonable procedures for the prevention of smuggling. We believe that these procedures are proving effective, and that the volume of this traffic is small.

In Section 1 of Article III of the 1936 Treaty the United States undertook to limit the sale to individuals of goods imported into the Canal Zone or purchased or produced therein by the United States to the classes of persons specified in that Section. In Section 4 of the same Article, the United States also undertook that it would continue to cooperate in all proper ways with Panama to prevent violations of the immigration and customs laws of Panama, including the smuggling into Panama of goods imported into the Canal Zone or purchased, produced or manufactured therein by the United States. In Accessory Note No. 6, the United States undertook that the Governor would be prepared to appoint a representative to meet with a representative appointed by Panama in order that regular and continuing opportunity might be afforded for mutual conference and helpful exchange of views bearing on the question of smuggling.

The Panama Canal Company and the Canal Zone Government are scrupulously carrying out the aforesaid undertakings. Policies and procedures in effect for so doing include the following:

(a) The
(a) The establishment by the Governor of strict regulations governing the granting and use of the commissary, gasoline, storehouse, and importation privileges.

(b) The maintenance of a staff of eight special investigators whose sole duty is to enforce these conditions and regulations. These inspectors are in almost daily contact with the offices of the Administrator General of Customs of the Republic and of the Port Captains in Panama and Colón.

(c) The use of an elaborate and carefully controlled system of identification cards which cards must be presented before merchandise is purchased. The commissary purchases of local-rate employees receiving these cards are restricted to the amount of their earnings.

(d) The restriction of entrance to commissary stores to persons having the commissary privilege and the wholly dependent members of their families residing with them. Persons violating this restriction are subjected to arrest and prosecution for trespassing.

During the past year there were 493 arrests of this kind.

(e) Prohibition of the purchase of excessive amounts of any articles, and particularly of commodities such as cigarettes, tobacco, sugar, rice, potatoes, or milk.

(f) The punishment of violations of purchase regulations, in the case of employees of the United States, by withdrawal of privileges, suspension without pay, or discharge from the service.

(g) Continuous cooperation by the representative appointed by the Governor under Accessory Note No. 8, with the Panamanian representative. These representatives maintain a continuing study and observation of contraband control procedures.

(h) The representation by the Canal Zone Customs Service of Panamanian Customs in receiving, at Canal Zone ports, passengers, baggage and freight destined to the Republic, and the consequent protection
protection of Panamanian customs revenues. Officials of the Canal Zone Customs Service and Panamanian Customs work in close and harmonious contact.

Measures taken by the Armed Forces in this regard include the following:

1. The Armed Forces make use of the identification privilege card to control all sales to military personnel, military civilians, and their dependents.

2. Non-military personnel are checked by sentries when leaving military reservations. They are also checked on entering military reservations.

3. Persons not authorized to purchase in the commissaries and PX's are not allowed to enter same.

4. Appropriate penalties and punishment are applied violators of the above.

5. Contractors occupying yards on Army reservations are required to make monthly reports to USARCAKE relative to the amount of material transferred to the Republic of Panama.

6. The importation of construction materials is closely controlled by the Engineer, USARCAKE, by careful scrutiny of the contractor's bill of material. A deviation of only 5% is permitted by the Engineer on materials ordered.

The expense of the identification system and the investigative staff exceeds $70,000 annually. The estimated expenditure for services rendered Panama by the Canal Zone Customs, which also include immigration services rendered Panama at Canal Zone ports, is $275,000 annually.

I submit that the United States has put into effect all practicable measures on its part to prevent this traffic. Unfortunately, control measures have been practically unilateral on the part of the United States. Panama has done little on its part in this regard and yet it is a matter over which Panama professes great concern. As are not disposed to impose restrictions on individual purchases by limiting total purchases to a percentage
percentage of income. Such systems are inequitable and, in any case, the United States position is that all practicable measures of control, on its part, are now in effect.
In paragraph 6 of Document A it is proposed that the United States agree not to locate commissaries and other similar establishments at a distance less than 1,000 meters from the boundary line between the Canal Zone and the Republic of Panama and that present establishments located within this distance will be relocated within a period of one year.

It is assumed that this proposal is advanced with a view to remedying the so-called contraband problem; that is, the problem of purchases in the Canal Zone by unauthorized persons, or by authorized persons for unauthorized purposes, resulting in the unlawful entry of the purchased goods into Panama.

The problem of contraband and measures in effect to combat traffic in contraband have been treated in some detail in a separate paper. The United States is of the opinion that the reported volume of contraband may be exaggerated but that, in any event, the removal of sales outlets from within 1,000 meters of the boundary is not an effective way to try to eliminate abuse of the purchase privileges. This proposal, if put into effect, would be of doubtful benefit to Panama and would result in substantial cost to the United States as well as in very considerable inconvenience to residents of the Canal Zone who depend on these facilities.

In view of the foregoing, the United States considers this proposal to be unacceptable.
Paragraph 9 of Document A sets forth the proposal that "Sales of surplus materials in the Canal Zone shall be made only to the Government of the Republic of Panama or to such entity as the latter may designate to affect the purchase thereof." As drafted this proposal would apply to all sales of surplus materials in the Canal Zone whether such materials are destined for introduction into the Republic or for shipment off the Isthmus.

Among the surplus or obsolete materials the entry of which into the Republic has been of concern to the Panamanian Government, and to certain business interests in Panama, are used lumber, plumbing equipment, et cetera, from old buildings and structures demolished in the Canal Zone by buyer-contractors under contracts let pursuant to competitive bidding. Materials such as scrap metal, and some of the larger items of surplus equipment, are normally sold for shipment off the Isthmus.

This proposal would impose an unqualified obligation on the United States agencies concerned to sell to the Panamanian Government or its designee, even though a much better market for particular materials or equipment should exist in the United States or elsewhere off the Isthmus; it makes no provision as to the disposition of items which are not desired by the Panamanian Government or its designee; and it makes no provision for competitive bidding or other means whereby the market, and the appropriate price for the items, could be ascertained and determined. Moreover, the proposal is contrary to pertinent laws of the United States governing sales of surplus by Government agencies. For these reasons, this proposal as drafted is unacceptable to the United States.

It should be noted here that all sale and demolition contracts let by United States agencies in the Zone require the contractor to present appropriate clearance from the Panamanian Government covering all materials which
Paragraph 12 proposes that with respect to

(a) repairs to ships and accessories thereof, dry-docking and,

(b) other services indispensable to the operation of the Canal, opportunity shall be given to shops, mechanics, technicians, and craftsmen residing in territory under the "full jurisdiction" of the Panamanian authorities and that whenever they cannot perform them, agencies of the Government of the United States shall be given such services to perform.

As regards repairs to ships and their accessories and dry-docking the proposal contains no limitation to ships arriving at the Canal Zone or passing through the Canal. It would therefore, as drafted, apply to repairs to vessels regularly stationed in the Canal Zone, including Panama Canal Company vessels utilized in the maintenance and operation of the Canal and United States military vessels engaged in the defense of the Canal. This portion of the proposal, moreover, would appear also to apply to vessels operated by the United States which arrive at the Canal Zone, including warships and auxiliary vessels used for military and strategic purposes.

The clause relative to "other services indispensable to the operation of the Canal" is so extremely broad that it is hardly possible to anticipate its full scope. It would appear, however, that it would apply substantially to all services of a mechanical, technical and craft nature now performed by the Panama Canal Company for itself in connection with the maintenance and operation of the Canal, and in connection with the conduct of operations incident to such maintenance and incident to the civil government of the Canal Zone, including operations serving the Company, the Canal Zone Government, employees, and others. In particular this phase of the proposal would appear to include:

1) the maintenance and operation of the locks and related installations and facilities;

2) the
2) the maintenance of dredging equipment and ferries;
3) the construction and maintenance of buildings and structures, and roads, streets and sidewalks;
4) the construction, installation, operation, and maintenance of public utilities, including water, sewerage, telephone and electric power systems;
5) the operation of central garages and repair shops for motor vehicles; and
6) the maintenance of the Panama Railroad roadways and rolling stock.

Enumeration of the various operations which apparently would be encompassed by this proposal in the form in which it has been presented should, in itself, serve to indicate clearly that it is impracticable and unacceptable to the United States. Obviously, the United States would not be disposed to waive its right to repair and dry-dock its own ships. The United States likewise would not consider turning over responsibility for the maintenance of Canal installations to other interests. All other considerations aside, the responsibility of the United States for the maintenance and operation of the Panama Canal is not one which could appropriately be divided.

The proposal would accord to Panamanian industry the opportunity to perform the services, but would impose upon that industry no correlative responsibility. It would enable Panamanian industry to select, on an individual job basis and from day to day, the services it desired to perform. The proposal would not enable the United States to withdraw from the performance of the services, or any of them, and dispense with its plant, facilities and staff. On the contrary, the proposal contemplates that the United States would bear the continuing burden of standing by at all times, and necessarily with a complete complement of technicians and craftsmen and with all the necessary plant, facilities, parts and materials, in order to perform any job which Panamanian industry might, at the
at the time, be unable or unwilling to perform. The proposal in this respect is economically unjustifiable.

The following data concerning the activities of the Industrial Division of the Marine Bureau of the Panama Canal Company during fiscal year 1953 will be of value in considering further the nature of the problem presented by this proposal. The functions of this Division include the construction and repair of ships and floating plant, heavy machine work; and the manufacture, inspection, and repair of instruments, machines and equipment. The Division serves other units and shipping and other Canal Zone interests requiring the use of mechanical and marine shop, dry-dock or repair-wharf facilities.

Of the total work of the Division, 70.3% was performed for agencies of the United States and 29.7% was performed for outside interests.

Of the total volume of work, 73.0% consisted of work on or for ships and floating plant, the remaining 27.0% consisted of instrument repair, steel shape fabrication, miscellaneous welding, etc.

Of the work on or for ships and floating plant, 62.2% consisted of work for agencies of the United States; 37.8% was performed for outside interests.

Of the total volume of work other than work on or for ships and floating plant, 92.3% was performed for agencies of the United States and 7.7% was performed for outside interests.

The Division operated at a deficit after application of all pertinent charges.

The data given above indicates clearly that a substantial proportion of the work of the Industrial Division (which encompasses most of the work covered by the Panamanian proposal) is performed for agencies of the United States. The United States Government has provided at great expense modern docks and wharves in dredged harbors, and extensive repair facilities including plants, parts, and materials, for the benefit of vessels calling at Canal Zone ports or transiting the Canal. In view of the existence
existence of such facilities, the United States is not disposed to let
work of this nature for United States agencies to outside contractors
while it has the facilities in the Canal Zone to perform the work itself.

As shown above, only 37.8% of this Division's ship-repair work in
fiscal year 1953 was performed for outside interests. Outside interests
can, in view of the Industrial Division's labor costs and other burdens,
have their work done more cheaply elsewhere. As a consequence, the
Industrial Division obtains only such work of this nature as cannot in
particular circumstances be performed elsewhere. It would appear,
therefore, that as Panama develops the facilities for the performance
of this kind of work, Panamanian industry will be in a very favorable
position to solicit and obtain such work of this nature as it may become
able to perform for private interests.
The principal elements of this proposal, as understood by the United States, are:

1. Panama aspires to a monopoly with respect to sales to ships of items considered "sea stores" and "ships' stores". (Panama was, in effect, granted such a monopoly with respect to so-called "tourist and luxury goods" in 1936.)

2. With regard to "ships' stores" their sale, by United States Government agencies only, would continue in the Zone but the United States would progressively withdraw from this field as Panama might become able to supply the demand. "Ships' stores" would include only the items specifically mentioned in the Panamanian proposal. (In this connection, it might be pointed out that the listing in 1936 attached to Accessory Note #10 was illustrative, not exhaustive.)

Paint would no longer be considered an item of "ships' stores" and would be included under the arrangement pertaining to "sea stores".

3. With regard to sales of "ships' stores" in the Zone a minimum price-fixing formula, based on New York retail prices, would govern. Panamanian suppliers would not be subject to this formula. This formula, presumably, would result in an increase in the prices charged by United States agency suppliers to a point where Panamanian suppliers could more readily compete for this business.

4. Since oil and other petroleum products are the only items of "ships' stores" now sold in the Zone by private companies, this proposal would require these private companies to cease operations and the United States would have to take over these businesses.

5. Panamanian suppliers of "ships' stores" would be guaranteed "free and easy access" to ships. The full meaning of this provision is not entirely clear.
6. The proposed general rule governing sales to ships, as expressed in the first sentence of paragraph 13 of Document A refers to "ships of all kinds arriving at the Canal Zone or passing through the Canal" and would confer a monopoly in favor of Panama with respect to such sales. As drafted this general rule would apply equally to ships owned or operated by the United States Government.

CONCLUSION:

Although reference is made in the Panamanian proposal to competition with respect to sales to ships, it is in fact carefully designed to avoid real competitive conditions and, instead, to establish a monopoly in favor of Panamanian suppliers.

It might be observed that even if the United States should withdraw completely from this field, Panamanian suppliers would still be under the necessity of meeting world prices since ships would doubtless supply their needs at other ports if Panamanian prices were not competitive.

Moreover, the United States has full responsibility for the operation and maintenance of the Canal. Yet in the important respect of supplying ships using the Canal the United States is asked to relinquish all voice over the quality and price of essential supplies required by vessels transiting the Canal. And, in the case of those items over which Panama requests an absolute monopoly there would be no guarantees that needed items would always be in satisfactory supply. It is indeed the case that Panama today is not in a position to supply certain items of "sea stores" and yet acceptance of this proposal would confer a monopoly on Panamanian suppliers with respect to those, among other, items and preclude the United States from selling them to vessels which needed them.

The United States is entirely agreeable to extending its full cooperation toward the end that Panamanian suppliers may enjoy the fullest opportunity to compete for the market offered by transiting vessels. At the same time, the United States considers that it must, in the discharge
discharge of its responsibilities with respect to the Canal, take the
necessary measures to insure that ships requiring essential supplies
will find them available at fair prices, satisfactory quality and in
adequate amounts.

To this end, therefore, the United States is willing to modify the
provisions of Accessory Note #10 to the 1936 Treaty in such manner as to
treat both sea stores and ships' stores, including paint but excluding
fuel and lubricants, in the same manner as sea stores are now treated
in the Note. The sale of fuel and lubricants would continue to be
handled within the Canal Zone as at present and the United States would
retain its right to furnish sea stores or ships' stores to Government-
owned ships or those under its control in the Canal Zone.

Experience has shown that in the case of sea stores the arrangement
described in Accessory Note #10 puts Panamanian suppliers in a position
where they can compete for the market on a profitable basis. All liquors
and practically all tobacco are now sold by Panamanian merchants and it
is estimated that Panamanian merchants supply 35% of other sea stores
purchased by ships transiting the Canal or arriving at the Canal termi-
nals. As a matter of policy most steamship agents will purchase from
the Panamanian supplier if the desired items are available. The 35%
figure is no greater largely because Panamanian suppliers are not in a
position to furnish cold storage products. As Panamanian suppliers become
able to furnish such products there is every reason to believe that
Panama's share of the sea stores market will increase under the present
arrangement, without resorting to the monopoly device. The same result
will no doubt be manifested with respect to ships' stores, especially
paint, under the proposed extension of the provisions of Accessory Note
#10.
STATEMENT REGARDING PANAMANIAN DOCUMENT "A"

Because of the complex nature of Document "A", dealing as it does with a number of separate, although somewhat related, matters we have found it desirable to prepare separate papers covering the various matters with which this Document is concerned.

We have broken down Document "A" into separate subjects and we have prepared separate papers under those headings. Thus, we have papers on the following subjects which we are prepared to consider with you at this and subsequent meetings:

1. Panamanian participation in the Canal Zone market (Par. 1-4).
2. Limitation of purchasing privileges (Par. 1).
3. "Buy American Act" (Par. 4).
* 4. Contraband control (Par. 5 and 6).
* 5. Commissary location (Par. 6).
* 6. Alcoholic beverage imports (Par. 8).
* 7. Sales of surplus property (Par. 9).
  8. Manufacturing activity in the Zone (Par. 10).
* 9. Repairs to ships (Par. 12).
* 10. Sales to ships (Par. 13).

We have approached the proposals presented in Document "A", as we have approached the other Panamanian proposals, in a spirit of willingness to make such adjustments as we consider can be made which will serve to meet those Panamanian aspirations as may have a practicable basis and which do not infringe upon the fundamental position of the United States in the Canal Zone.

I must point out, however, that the United States cannot agree that one of the benefits to which Panama is entitled is that of an unrestricted monopoly with respect to the sale of supplies which are brought into the Canal Zone, nor are we able to accept the "prime necessity" formula with respect to sales of items in the Zone.

While
While the United States is unable to accept the basic premise underlying Document "A", the Panamanian delegation will derive considerable satisfaction, I believe, in the positions we have found it possible to take on several of the points raised in the document. Most important of the positive positions we are presenting to you in these papers is, in my opinion, that dealing with the matter of commercial activity in the Canal Zone. Our position regarding sales to ships will also, I think, be a matter of encouragement to you. Details concerning these, as well as other subjects covered in this document, will appear in the papers as they are presented.
Panama proposes, in Document F, the establishment of a Joint Commission to be composed of five members charged with planning for civil defense measures in the event of attack directed against the Panama Canal and neighboring communities and of putting into effect an adequate system of civil defense in that area. It is noted that, under this proposal, two of the members would be designated by the Government of the United States, two would be designated by the Government of Panama and the fifth would be selected by both Governments. It is proposed that except for the salaries of the members of the Commission, which would be borne equally by the two Governments, all expenses connected with the Commission’s operations would be borne by the United States.

It is the view of the United States that the situation does not require a joint commission possessing such final authority as proposed by Panama, but instead there should be increased cooperation in matters of civil defense between the two jurisdictions since there are aspects of their respective programs which require close coordination. There are many areas within the United States which involve more than one political jurisdiction and yet the civil defense leaders in those critical areas are responsible to the separate authorities of their respective local governments.

There is a common misconception that a civil defense program consists of buying a great deal of equipment, constructing shelters and stockpiling materials. Actually the backbone of the program is in volunteer services and in utilizing facilities already available through efficient local government organization to meet disaster.

There is already in existence a Joint Civil Defense Committee with one representative each from the Republic of Panama, the Canal Zone Government, the United States Embassy in Panama, and the United States Armed Forces in the Canal Zone. This Committee was established for, and
is entirely adequate for, the purpose of coordinating civil defense matters among the interested agencies in the Panama area. It meets once a month or more frequently if desired by any member. Through this Committee, representatives of the Republic of Panama have the opportunity to obtain without cost the latest technical information on civil defense as published by the Federal Civil Defense Administrator; to study civil defense organization in the Canal Zone; to witness Canal Zone civil defense tests; and to discuss any and all matters pertinent to civil defense. Through this Committee many benefits have already accrued to the Republic of Panama such as obtaining a direct hook-up with the Canal Zone air raid alarm system; obtaining fire hose fittings; attending disaster control exercises and lectures, some of which have been presented in Spanish solely for a Panamanian audience; and obtaining assistance in organizing amateur radio operators.

The United States suggests that as a practical means of improving its civil defense position, Panama may wish to:

a) more fully utilize the services of the existing Joint Civil Defense Committee by bringing more problems to it and/or by increasing its representation on the Committee to two or three full-time members; and

b) initiate a positive civil defense program within the Republic of Panama by taking steps to disseminate information to individuals on what immediate action to take in the event of emergency attack, to organize wardens and volunteer services, and to prepare plans for coordination of already existing government agencies such as fire, police, and hospitals. Such a program would require very little expenditure of funds.
No 18  Acta de la 18ª reunión. 23 de febrero de 1954.

ANEXOS: 1. Declaración relacionada con el Proyectado Programa de desarrollo económico de Panamá.
Mr. Cabot opened the meeting with the reading of a statement on Panama's Document I, which was then distributed to the Panamanian Delegation (see Annex).

After reading the statement, Mr. Cabot stated that it was presented as a basis for discussion and he invited any questions which the Panamanian Delegation might have.

Dr. Fábrega inquired whether the United States proposal to spend a million dollars a year for a period of ten years would cover the four fields indicated in the paper.

Mr. Cabot replied affirmatively, saying that the United States wants to have a joint program for projects of mutual benefit. He cautioned that the Department must keep in mind the necessity of securing Congressional approval for anything proposed which requires funds or other Congressional action. It is of the greatest importance, therefore, he said, that there be at least incidental benefits to the United States.

Mr. Courtensatte referred to the very effective assistance Panama has been receiving through the Point IV program and inquired whether the proposed development program would be substituted for the present Point IV program.

Mr. Cabot
Mr. Gabet replied that the proposed development program is
entirely apart from and not a substitute for the present Point IV work,
although the continuance of the Point IV program, being subject to
Congressional appropriation, could not be guaranteed.

Dr. Fábrega noted the reference in the statement to moving employees
to Panamanian jurisdiction as helping to reduce many of the existing
difficulties in connection with the commissaries, and he inquired whether
he could correctly assume that those Canal Zone employees who would be
moved into Panama would no longer have the right to buy in the commissaries.

Mr. Anson and Mr. Gabet affirmed that this was the general trend
of their thinking, Mr. Gabet adding that he would rather not make a
categorical statement on the question at this time.

Dr. Fábrega stated that his delegation will be glad to transmit the
United States proposal to its Government for its study, after which
the Panamanian position will be defined. He thought, nevertheless,
that it might be helpful to have the immediate and frank reaction of
the Panamanian Delegation to that proposal. That reaction, he said,
is one of disappointment. One of the things which stand out as a gross
lack of equity in relations between the United States and Panama, he said,
is the small amount of annuity that is paid. He asserted that it is
the unanimous reaction on the Isthmus, that the annuity is outdated and
outmoded, the result of the unfortunate circumstances previously men-
tioned in connection with the negotiation of the 1903 Treaty. Panama,
he said, believes that it should be revised in order to achieve justice
and equity in the relations between the two countries. On the question
of the annuity, he said, it had been expected that the discussion would
center on the reasonableness of the amount requested and that it was

not expected
not expected that an aid program would be offered in lieu of an increase in the annuity. Such an aid program, he said, was considered to be in line with the present policy and disposition of the United States to uphold the economies of all the Latin American countries, particularly in the case of Panama, but the matter of the annuity was regarded as separate.

In the Treaty of 1903, Dr. Fábrega said, the United States acquired the canal concession and the rights of the Panama Railroad Company, for both of which the United States became obligated to pay only the same amount that previously had been paid to Colombia each year by the railroad concession, that is, $250,000 a year. From the viewpoint of equity, aside from the legal text of the Treaty, he contended, there was no separate consideration owing to Panama for the much more important canal concession. Consequently, he said, in the present attempt to revise United States-Panama relations on an equitable basis, perhaps the first thing that occurred to Panama was to try to reach an agreement on the payment of an equitable annuity to Panama. He said that he did not think that anyone would seriously contend that the present annuity is a reasonable payment for the canal concession, which goes far beyond any other concession made by any nation on the subject of canals.

Dr. Fábrega said that even a cursory comparison with the Suez concession discloses that Panama has made far greater grants of rights to the United States than Egypt did in connection with the Suez Canal. The Suez concession, he noted, expires in the next ten years, while the Panama Canal concession was contracted in perpetuity. Moreover, he maintained, the benefits that Egypt derives from the Suez concession are much greater than those Panama derives from the Panama Canal concession. He mentioned that in 1939 the Egyptian Government was given a percentage
a percentage of the income of the company and the right to impose numerous
taxes. He is authoritatively informed, he said, that the Egyptian Govern-
ment receives nearly twelve million dollars a year from the Suez concession
despite its limited duration. And Egypt, he said, despite the additional
inducement offered, does not want it extended.

In the other hand, he declared, Panama, while giving a concession
in perpetuity, is getting practically nothing because the $20,000 is
for the United Railroad concession. Therefore, he said, the Panamanian
legation is surprised at the United States position that it will
continue to give nothing for the canal concession. He asserted that
the comparison with the Suez concession is favorable to Panama's claims
not only in connection with the pecuniary benefits which it has received
but also in the extent of the rights granted to United States. The
rights granted by Egypt were limited in time, were given not to a
foreign government but to a company, and were rights that Egypt could
even have expropriated, if it desired, in the exercise of eminent domain.

Looking at the matter from another angle, Dr. Fábrega continued,
it is found that the United States, when deciding to build the Canal—and
this is borne out by official documents—did not intend to build
the Canal as a commercial proposition but was immediately interested
in building it for political and security purposes.

Mr. Calot interposed that there was full agreement that the purpose
of the United States in building the Canal was other than commercial.

Dr. Fábrega declared that the Canal Commission in its study of the
project anticipated that the Canal would lose money but should be built
nevertheless, as read the following statement from a report of the
Canal Commission:

"A traffic
"A traffic per year of seven million tons at $1.00 per ton will yield a revenue of $7,000,000. The operation and maintenance expense of the Panama Canal have been estimated at $2,000,000 annually and those of the Nicaraguan Canal at $5,300,000. On this basis the net revenue of any of the two routes would not be sufficient at the opening of the Canal to pay an interest rate on the capital investment that would serve as compensation to a company for the risks of the business. The opinion of the Commission, however, is that there are involved in the matter considerations of greater importance than the revenue. It may even be convenient for the United States to reduce tolls to a sum that would cover more or less the operation and maintenance costs."

"An Isthmian Canal will strengthen the unity of the national and political interests of the United States, will develop its territories of the Pacific, and will stimulate the commerce and industries of the whole country."

"The benefits that Europe will derive will be commercial. Ours, besides those, will be political and industrial."

Despite the above, Dr. Fábrega said, the facts show the Canal from a commercial standpoint exceeded the most optimistic anticipations. The traffic of the Canal far surpassed all predictions, he said, so that, if the true commercial investment of the United States in the Canal is analysed, the Canal is found to have paid for itself already.

Dr. Fábrega then referred to a statement in a 1932 report of the Governor of the Canal Zone to the effect that the commercial investment in the Canal was $275,818,000. The 1935 report of the Governor, he said, gives the value of the United States net investment in the Canal at $325,311,991, the fifty-million dollar difference being the interest that was charged during the period of construction.

Dr. Fábrega then quoted the following statistics from a report of the Governor on traffic and revenues of the Canal up to 1939:

"Up to June 20, 1939, toll-paying traffic (of 500 or more net tons) Panama canal measurement) transiting the Canal had aggregated 10,417 vessels of 824,968,689 gross registered tons, 489,241,390 Panama Canal net tons; tolls paid amounted to $453,046,857.91; total transit revenue to $453,046,857.91; net canal transit expenses to $206,966,586.41; and net revenues (surplus) to $251,080,271.40."

Thus,
Thus, said Dr. Fábrega, we find that by June 1939 the net revenues of the Canal from tolls was $261,000,000, and when this is compared with the three hundred twenty and some million dollar investment, it does not appear to be a risky statement to say that the Canal has paid for itself. We pointed out further that last year all records were broken with a gross income of over a hundred million dollars and toll revenues of over thirty-seven million dollars, which includes over five million dollars for government-owned vessels. It turns out that the Canal is a wonderful business, he said. Panama, therefore, in view of its contributions to the building of the Canal and the statement in the Treaty of 1928 that the Canal is a work in which both Panama and the United States have a joint and vital interest, does not think it equitable to be asked to take the position of a silent partner while the business prospers and it receives absolutely nothing from it.

Dr. Fábrega stated that he had thus far confined himself to the United States investment in dollars and cents and has not mentioned the other tremendous benefits derived by the United States from the Canal, some of which cannot be measured in dollars and cents.

Dr. Fábrega quoted the statement of ex-governor Burgess to the effect that the defensive power of naval vessels is increased from forty to sixty percent as a result of the Canal and that the naval vessels would have to be increased in that amount if the Canal did not exist.

Dr. Fábrega also referred to the great development of the industrial power of the United States, with resultant strategic advantage, to which the Canal has contributed. Therefore, he concluded, the advantages that the United States receives from the Canal are so momentous that to deny Panama any samality at all will be a terrible shock to the

Panamanians
Panamanian people. Dr. Fábrega expressed appreciation for the desire of the United States to contribute to the development of Panama's economy, but to have such a program offered in lieu of a Canal annuity is basically inequitable, he said, and is no solution to the annuity problem.

Dr. Cabot thanked Dr. Fábrega for his exposition of the Panamanian viewpoint. He agreed that the Canal was not built primarily for commercial purposes but for military and commercial development, and so forth. He opined that an analysis of the figures quoted by Dr. Fábrega would show that the Canal has not been, by any standards, the great commercial success that Dr. Fábrega suggests. With respect to the fifty-million dollar interest charge, Dr. Cabot said obviously, a commercial undertaking would have to pay that interest or that interest. Dr. Cabot also said that, if he remembers correctly, a number of figures are not included in the Canal figures, including amortization charges, and Mr. Nusco confirmed that this was correct. Dr. Cabot added that the Government of course does not pay a great many things that a commercial undertaking would have to pay and that, therefore, an analysis of the figures presented by Dr. Fábrega would show a rather different picture than Dr. Fábrega had brought out. With reference to Dr. Fábrega's remark that the amount of the annuity today is not equitable by today's standards, Dr. Cabot pointed out that by the same token the original investment figure cited by Dr. Fábrega would not be equitable either, by today's standards, and that the replacement costs would be several times the figure mentioned and the carrying charges higher. These factors were both ways, he said, and it isn't equitable to use one set of standards for one side and another set for the other.
Dr. Cabot thought it important for the Panamanian Delegation to appreciate that the United States proposal is in effect a tripling for at least ten years of the amount now being paid to Panama. Dr. Cabot also suggested that the Panamanian Delegation should bear in mind that any agreement which is reached will have to be ratified in one form or another by the Congress of the United States. Any change in the annuity, he said, would have to be approved by two-thirds vote of the Senate, which might not be easy to obtain. It should be kept in mind, he said, that the solutions adopted for these mutual problems must be acceptable to the two delegations' respective publics and governments. The United States Delegation regards its proposal as a possible solution, he said, because it offers points of argument which might be helpful in obtaining the acceptance of the American Congress and people.

Dr. Fábrega expressed the view that the salient figures quoted by him speak for themselves. With respect to the payment of the fifty-million dollar interest charge, he said, the company which operates the Canal is an agency of the United States so that, when the United States charges the company interest on its profit, the interest charge really should be added to the profit.

Dr. Cabot disagreed and cited for example the case of a railway company which has to pay first interest on its bonds and thereafter receives any profits.

Dr. Fábrega realized that this is so because the bondholders are different persons than the railroad. They are the lenders and the railroads are the borrowers. But in the case of the Canal, he said, the United States is both the investor and the operator.
Mr. Sudee said he could agree after the investment is amortized.

Mr. Miraga asserted that interest is being charged because the fiction of the Panama Canal Company has to be maintained and that fiction is supposed to make money on its own.

Mr. Cabot stated that in the construction period the United States had to borrow large sums of money for this purpose and received no return although it had to pay interest on these loans to the individual bondholders. This, presumably, was the fifty-million dollar item referred to by Mr. Miraga, he said. The commercial company had built the canal; he said, it would have had to borrow the money and to pay the interest as part of its commercial cost when the Canal was opened for traffic.

Similarly, the United States had to suffer the interest losses in the construction years. He expressed great doubt that there has been a net profit to the United States from the Canal on a commercial basis since the work was begun. He also doubted that the Canal is making a profit today if the figures were properly set up on a commercial basis.

Mr. Miraga reiterated that his figures seemed to show that the Canal is paying for itself and is making a very good profit. Mr. Miraga then adverted to Mr. Cabot's statement that whatever agreements are reached must meet with the approval of two-thirds of Congress.

To clarify this point, Mr. Cabot interpolated that if the annuity were changed, it, being a treaty matter, would require a two-thirds vote of the Senate. If, on the other hand, a development program were agreed upon, it would require a majority vote of both Houses.

Mr. Miraga stated that the Panamanian delegation thinks of the United States as a unity; it does not want to believe that a reason which is considered to have merit, equity, and justice by the Executive Branch will not be found to be equally so by the Legislative Branch.