He expressed confidence that if an equitable annuity settlement were presented to the Congress, it would not in terms of justice and equity. If, despite all, the reaction of Congress is negative, it will be a good thing for the Panamanian people to know that because the relations between the two countries will never be on a very high plane, he said, until the two peoples know exactly what the feeling is about each other's problems. He remarked that Panama sees the Congress of the United States reacting every day in a way that shows a true desire for justice when it comes to helping a friendly nation, and he referred in this connection to the aid program recently voted for Spain. Consequently, he said, Panama would welcome an opportunity to seek the approval of Congress for an increase in the annuity.

Mr. Cabot expressed the view that the program for Spain is not quite analogous. He pointed out that it consists largely of money that is being lent and important concessions from the Spanish Government are being obtained in return. As for Dr. Fabrega's confidence that the Congress will approve what the Executive recommends, Mr. Cabot said he could only say that there are a great many historical precedents in the United States and elsewhere where the Legislature has refused to support what the Executive recommends. He said he did not think that the Executive would be willing to enter into an agreement, particularly in a matter of this kind, if it felt that it would be repudiated by the Legislature. It is precisely because of this, he said, that we should find a solution acceptable both to Panama and the American Congress. He suggested that this matter be considered further by both sides and reiterated that the United States proposal had been presented as a basis for discussion.

Dr. Fabrega
Dr. Pávrega agreed that it would be necessary to come back to this matter. He expressed regret that it was necessary for him to say that the American proposal in lieu of an increase in the annuity would prove a disappointment to the Panamanian Government and people.

Mr. Cabot also expressed regret.

Mr. Heurtematte stated that Panama has quails as to the feasibility of resolving this matter and possibly others through direct Congressional appropriation. Panama has always felt, he said, that as a matter of equity its share of this enterprise should not in itself be a burden to the American people. It should be borne by the customars of the Canal, by the people who use it, he said. By sharing the tolls with Panama, its share would be borne by the people who benefit from the Canal, whereas the United States proposal would place a direct burden on the American taxpayer.

Mr. Cabot inquired whether this would not be in effect placing the Canal on a commercial basis, in other words, to charge what the traffic would bear, whereas one of its purposes was to aid world commerce.

Mr. Heurtematte replied that the Canal has been placed on a commercial basis by the American Government with orders to pay for itself. This should include, he said, a proper retribution to Panama for its share in the enterprise, and this should not necessarily be done by direct Congressional appropriation. He echoed Dr. Pávrega's statement that Panama believes that it is justified in viewing the present annuity as a rather small recompense.

Mr. Cabot
Mr. Cabot pointed out that when the United States acquired its rights, Panama agreed on the amount which was to be paid and since that date, to his knowledge, has made no material contribution to the construction or maintenance of the Canal. Citing the Louisiana Purchase, Mr. Cabot stated that to raise questions today regarding the amounts paid for rights acquired many years ago would be to open every treaty in the past.

Mr. Huitrematte contended that, unlike the Louisiana Purchase, no purchase was involved in the 1903 Treaty. Dr. Fábrega, he said, had made the point that Panama believes the annuity is not sufficient today, and he desired to make only the subsidiary point that perhaps direct Congressional appropriation is not the way to solve the problem and that perhaps an increase in the annuity should be borne by the clients of the Canal.

Mr. Cabot thought that each delegation understands the other's viewpoint more clearly as the result of this discussion and suggested that it be resumed when the Panamanian Delegation has studied the United States proposal.

With respect to the analogy of the Louisiana Purchase, Panama, said Dr. Fábrega, does not believe that holds true in the case of the Canal Zone. In the case of Louisiana, the land was sold and the title passed, but the Canal Treaty conferred certain rights on both parties, it is executory in nature, he said, calling for the exercise of certain rights in the future with cooperation from both sides. Since Panama is bound forever by this Treaty, which calls for cooperation on both sides in such a vital matter as the Canal, it is only proper, he said, that the relations between the two countries be revised so that there is justice and equity in their dealings and an exemplary spirit of cooperation.
With respect to the question of tolls, Mr. Fábrega stated that Panama realizes that if there is an increase in the security, the question of how that is going to be paid by the United States is an internal matter for the United States. If it is to be a charge upon the United States Treasury, he said that the Panamanian Delegation has advanced all the reasons from the standpoint of the security of the United States which would justify such a subsidy. But the facts, he said, show that the Canal pays for itself. He agreed that Mr. Curtiss' proposal regarding tolls might provide a solution whereby the funds could be raised without a charge upon the Treasury. In this connection, he pointed out that tolls today are lower than when the Canal was opened in 1914, although all other prices have gone up.

Mr. Canoe stated that the 1903 Treaty was a transaction made under terms which at that time were considered equitable. It has stood for fifty years with only minor revisions, he said, as an agreement between the two Governments. He illustrated this point by remarking that the holders of the perpetual bonds of the Canadian Pacific Railway do not claim to be entitled to a different payment today because the value of the Canadian dollar has changed or because the circumstances under which these bonds were issued have changed.

Mr. Fábrega said that Panama is not asserting that the United States should pay more because of changed conditions. He said that they are talking about the equity of the present situation. Unless inequities in the relations between the two countries are corrected, he said, these relations will not be what they should be. These relations, he said, should not be governed only by the letter of the contract. To
illustrate his point, Mr. Fábrega pointed out that the Treaty of 1903 gives to the United States no jurisdiction over the air over the Canal Zone. Panama, he said, if it wanted to be legalistic, could deny to the United States the use of the air over the Zone, with all that that would imply for the defense of the Canal. Nevertheless, Panama, without waiving any rights in the matter, has allowed the use of this air space to the United States, sometimes to the exclusion of its use by Panama.

Mr. Cabot said that the purpose of these conversations is to indicate our desire to reach an equitable and mutually satisfactory solution to these problems. Considering the fact that the United States has rights historically derived from treaties, its views as to what may be equitable may be rather sharply different. The two delegations can only see whether they can come nearer a meeting of the minds as their conversations progressed, he said.

Mr. Suarez said that he also wished to express disappointment regarding the reply by the United States to Panama's request for a higher annuity. He declared that England is more generous in its relations with Egypt. It does not compete with Egyptian commerce and the Egyptian Government receives about 12 million dollars a year from the Suez Canal. The treaties governing the two situations are different, of course, he said, but above the laws and treaties there must be the spirit of justice. When the United States delegation says that the Panama Canal is not profitable, he asserted, it is limiting itself to considering the profit over the direct cost of the Canal, forgetting that the Panama Canal is more than paid for from the viewpoint of savings to the United States in defense matters. He referred to the savings.
savings of the United States in the last two wars in lives, time, and money, and to the integration of the two coasts with all that that has meant to the United States in the development of its industry. It is equally difficult, he said, to calculate precisely what the Canal has meant to Panama in some great indirect advantages, but what is certain is that Panama today is sadly behind not only in comparison with the United States, which owes so much of its present world position militarily and economically to the Canal, but in comparison with other countries which, without close ties with the United States like Panama, have progressed far more. He attributed Panama's present situation in great part to the injustices of the text and application of the 1903 Treaty, which were calculated to confer the benefits on the United States and all the burdens on Panama. The Treaty was calculated to leave Panama with no compensation in the economic field, he said, and imposed upon Panama the transfer to the United States of the rights of the Railroad Company and the canal concession with all its privileges. Even more clever, he said, were the clauses which give the erroneous impression that the United States is paying Panama for these concessions. The annuity, he said, is only what was owing to Panama from the railway concession as successor of Colombia. The ten million dollars given to Panama when the Treaty was signed has been paid not by the United States but by Panama, according to Dr. Suarez, since the United States collected this ten million dollars in its 40 years of usufruct of the railroad lands in Panama City and Colon.

The present proposal of the United States, he continued, is not even an indication of esteem for a friendly nation. It offers Panama as charity
as charity a minimum of what Panama claims as justice, he said. Panama believes that the American democracy could assert that this 1903 Treaty commitment is unjust since there is no comparison between the benefits obtained by the two countries. The United States gave its technical knowledge and capital, he said, but without Panama's contribution of its territory it would not have been possible to construct the Canal. This, he declared, makes Panama eligible for some of the profit of the operation of the Canal.

With reference to the possible difficulties with the United States Congress, Dr. Suarez pointed out that Panama also has a Congress and a public which are even more interested in the outcome of these conversations. The treaties with the United States and relations with the Canal Zone are more important for Panama than for the United States. Panama's Congress and public opinion will examine very carefully what we do here, he said, and there will be just as many difficulties down there as up here. We should make an effort, he said, to affirm and improve relations between the two people on a basis of justice and understanding. Panama, on its part, has presented one proposal after another, but those of the United States do not seem to be such as to give an example to America that Panama and the United States can agree on an equitable and cordial form of revision of their relations.

Mr. Cabot expressed regret that Dr. Suarez was not satisfied with the United States proposal. He alluded to the many indirect benefits previously described which Panama has received from the construction and operation of the Canal. He pointed out that the railroad lands, of which Dr. Suarez spoke, were given to Panama ten or twelve years ago, and that
and that many other benefits have been granted from time to time. The question of what is pure equity and justice might be discussed for months, he said, without arriving at any agreement regarding even the facts. The United States has endeavored in this proposal, he said, to offer to Panama something which will be of very special further benefit to Panama. The United States Delegation feels that it is equitable, and regrets that the Panamanian Delegation does not consider it adequate. The Panamanian Delegation, he said, should realize that the United States did build the Canal with its own engineering resources and talent, that it has operated it, and that Panama has received enormous benefits both direct and indirect from that operation, that today the economy of Panama is largely based on that Canal, and that the greatest benefits the United States has received are perhaps not proportionately greater than those received by Panama.

Dr. Suarez replied that Panama does not deny that it has received benefits, which, as he recalled, were estimated at between 40 and 50 million dollars in both direct and indirect benefits. He said that the United States document describing these benefits listed as income to Panama the total salaries and wages received by workers living in the Republic, whereas many of these employees spend a large part of their salary in the Zone for goods and services which are sold there without any tax benefit to Panama. Moreover, he said, while these sums are income to Panama, they represent a considerable saving to the United States, since local-rate employees are paid only a half or a third as much as United States citizens. Moreover, he said, these local-rate employees are substantially subsidized by Panama since by the terms of the 1903 Treaty they are exempt from taxes and those who live in Panama.
live in Panama use all the costly Government services without paying taxes. In addition, when the local-rate employees stop working in the Zone, they become a heavy burden in welfare assistance on the Panamanian Government and community when they have exhausted the small monthly payment allowed to non-United States citizens by the United States Government.

Dr. Sucre said also that while Panama derives income from purchases by the Zone of goods and services in Panama (although these amount to no more than ten percent of the total), Panama also buys goods and services from the Zone. Panama, he said, views that ten percent of purchases in the light of the loss of the ninety percent that should also be obtained from Panama's commerce, industry and agriculture.

The trade balance, he said, must take into consideration Panama's purchases from the United States wherein it loses its scant earnings from the Zone.

Mr. Cabot pointed out that Panama is free to use the dollars it receives from the Canal Zone to buy products wherever it chooses. If it buys them in the United States, he presumed that it found that is the most convenient place to buy what it needs. Panama has an unfavorable balance of trade, he conceded, which it can afford only because of the enormous amount of dollars spent in Canal operations in Panama.

Mr. Cabot suggested that further discussion of this matter would be fruitless and suggested that it be left until the Panamanian delegation has had a chance to further study the United States proposal.

Dr. Fábrega said that Panama is concerned not only with indirect benefits, but in direct benefits as well, among them the revision of the consideration Panama receives under the 1908 contract. He said that one
that one of the things the average Panamanian most resents is that in
relations between Panama and the United States, as far as the Canal is
cconcerned, Panama is told by treaties, notes, and speeches that the
Canal is a joint enterprise in which both countries have a joint and
vital interest. Yet, he said, when it comes to assigning the direct
benefits Panama is relegated to the position of a silent partner. It
is a present-day paradox that last year the Canal, in tolls and profits,
had perhaps the most prosperous year in its existence, while Panama was
in the midst of the worst economic depression it has ever known, he
said, where is our partnership, he asked. Panama wants this partnership,
this solidarity, to take the tangible form of direct benefits. The
President of Panama has publicly declared, he stated, that Panama wants
justice not alms. The reaction in Panama to the United States proposal,
he said, will be that we have been offered alms not justice. Dr. Fábrega
declared that Panama may be poor and is currently in the midst of a
depression, but he did not think that his government would accept an aid
program of one million dollars a year in lieu of what it considers an
equitable claim. Dr. Fábrega therefore urged that the American Delegation
reconsider its proposal or that the Panamanian Delegation be authorised
to tell its government that the proposal is a tentative suggestion.

Dr. Canet replied that, as he stated earlier, the proposal has been
advanced as a basis for discussion. A discussion as to what is equitable
will run into difficulties in determining what are direct and what are
indirect benefits from the Canal. It is a fact, he said, that the United
States proposal triples the direct benefit which Panama receives from
the Canal and he again expressed regret that so large an increase should
be so disappointing to the Panamanian Delegation. He thought it
important that the projects involved be carried out, to which end this
mutual program would be a means.

Dr. Fábrega
Dr. Mbrega said the Panamanian Delegation would transmit the proposal to its government.

Mr. Cabot inquired whether the Panamanian Delegation wished to have meetings while he is in Casasus.

Then Dr. Mbrega replied that the Panamanian Delegation would like to have the conversations continue despite its regret that Mr. Cabot would not be present. Mr. Cabot said that he would see if arrangements could be made.

The meeting adjourned at 6:30 p.m.
It has become increasingly evident that the Canal enterprise cannot by itself provide support for a growing population in Panama. I think you will agree that it is in the long range best interests of Panama that attention should be turned away from the Canal zone as its chief economic prop and that Panama should concentrate on the development of its internal economy with a view to achieving a progressively increased degree of viability.

We realize that Panama is faced with the fact that funds for the financing of steps essential to the development of its economy are not readily available in Panama and that Panama may not be in a position to finance all of the necessary measures even on a loan basis.

The historically special relationship between the United States and Panama leads to a desire on the part of the United States that the Panamanian economy should be progressively stronger; the United States has furnished evidence of this attitude in many ways and most recently through the Point IV (this year amounting to $1,105,800) program and its support of the recent Panamanian loan from the International Bank for Reconstruction and Development. We have, however, in connection with these discussions given consideration to additional measures which might appropriately be taken which would serve the purpose of accelerating the rate of economic development in Panama in mutually beneficial fields.

In considering such matters the Panamanian delegation will realize, I am sure, that many factors have to be taken into account. We have to keep in mind that any proposal involving the commitment of appropriated funds must be acceptable to the Congress of the United States.

I will say frankly that a proposal to increase the annuity figure would generate an unfavorable reaction in the responsible circles of
this government at this time. There is, however, a disposition in those circles to consider a project, in lieu of an outright increase in the annuity figure which would directly benefit the growth and development of the Panamanian economy and from which the United States would, itself, receive certain benefits.

We are, therefore, prepared to discuss with you—subject, of course, to ultimate Congressional approval—an economic development program in Panama under which the United States over a period of years would participate with Panama in financing. Our preliminary planning envisages four categories of projects under such a program. They would be:

1. Low- and medium-cost housing in the terminal areas, intended principally to provide accommodation for Panamanian employees of Canal zone agencies who would be relocated, as conditions permitted, from the Zone into the terminal areas. It is our understanding that such relocation is desired by the Panamanian government. The benefits seem clear; Panamanian employees and their families would live in, and become a more integrated part of, their native culture; they would make their regular day-to-day expenditures in the Panamanian economy; and a great deal of the friction which results from a large number of Panamanians living in the Zone would be dissipated.

2. Roads. Assistance would be provided in the construction of secondary roads, giving access to markets to potential agricultural areas where production is hampered by reason of the inaccessibility of markets to farmers.

3. Agriculture
3. Agriculture. Assistance in the further development of agricultural production toward the goal of greater self-sufficiency.

4. Sanitation. Assistance in this field where conditions so warranted. New areas opened to agricultural production through access roads might require special projects of this nature.

The United States is not disposed to relate the financing of such a program to Canal tolls; the disposition is, rather, to provide financing from direct Congressional appropriations made for that purpose. The American embassy in Panama would assume responsibility for the carrying out of United States participation in this program, which would include consideration of projects desired by Panama coming within the scope of the program and joint supervision of projects as work went forward.

With regard to the extent of United States financial participation in such a program, I believe there is a reasonable prospect of Congressional acceptance of a figure of $1 million in any one year over a period of, perhaps, 10 years.
Nº 19 Acta de la 19ª reunión. 25 de febrero de 1954.

ANEXOS: 1. Comentario de los Estados Unidos al Documento "R" de Panamá.
2. Comentario de los Estados Unidos al Documento "A". Parágrafos 1, 2, 3 y 4 -Participación panameña en el Mercado de la Zona del Canal.
February 25, 1954
2:30 p.m.

NINETEENTH MEETING OF THE REPRESENTATIVES OF PANAMA AND THE UNITED STATES FOR A REVIEW OF RELATIONS BETWEEN BOTH COUNTRIES

PRESENT:

Dr. Octavio Fábrega
Dr. Carlos Sucre C.
Mr. Roberto Heurtasette
Mr. Juan Manuel Méndez Mérida
Mr. Guillermo Jurado Selles

Mr. John J. Macchio
Lt. Col. Maurice C. Holden
Mr. Paul M. Pannestrand
Mr. Charles E. Burrows
Mr. William B. Sewash
Mr. Eldred D. Rappinger

Mr. Macchio informed the meeting that the Delegation of the United States was in a position to continue the talks even during the Caracas Conference, but that Mr. Cabot would not be present at this or future meetings for some time. He stated that he wished to submit the comments of the United States with regard to the first two points of Document R of Panama (see annex); he did so, after observing that the comments regarding the third point of the aforesaid document would be submitted after the Delegation of Panama answered the questions addressed to it by the Delegation of the United States with regard to nautical inspectors in the meeting held on January 28.

Dr. Fábrega stated that he had not received instructions from his government regarding the questions asked by the Delegation of the United States relative to the third point of Document R of Panama, but that the Delegation of Panama could refer to other aspects of the problem which are covered by the comments of the Delegation of the United States.

After examining the documents, Dr. Fábrega observed that the Delegation of the United States apparently felt that the Treaty of 1936 had satisfactorily resolved the problem of the inspection of passengers and cargo destined for Panama and the designation of sites for Panamanian customhouses.
customhouses in the Canal Zone. He said that the setback recently
did not cover Panama’s claim in that regard, although some progress
had been achieved in that sense. He explained that in the Treaty of
1936 it was stipulated that sites would be facilitated for Panamanian
customhouses in the Canal Zone, in which Panama would exercise jurisdic-
tion over passengers and cargo arriving in the Canal Zone en route to
Panama; however, the exercise of the aforesaid jurisdiction did not
extend to the waters of the Canal Zone nor to the places where passengers
and cargo were debarked, nor to the transportation of the passengers and
cargo to Panamanian customhouses.

He said that Panama had no intention whatsoever of detaining a ship
as soon as it enters the breakwater nor of impeding navigation. Panama’s
insistence upon its proposal was due to the fact that it involves a
question of principle. He observed that, according to Panama’s viewpoint,
the United States was granted rights for the construction, maintenance,
operation, sanitation and defense of the Canal, and for those purposes
only. Therefore, a shipment destined for territory under Panamanian
jurisdiction—which necessarily must arrive at a port of the Canal Zone
and is totally unrelated to the functions for which the Canal concession
was granted—should be subject to the jurisdiction of Panama. He added
that, naturally, Panama had no claim whatsoever regarding the transporta-
tion of cargo and passengers going through the Canal, inasmuch as jurisdic-
tion over them was granted to the United States.

He stated that this was not a purely academic question since, in
practice, Panama encountered difficulties in applying its laws and
regulations to cargo and passengers arriving in the Zone on route to
Panama, despite the fact that the Treaty of 1936 refers in general terms
to the cooperation that will be tendered to Panama in the enforcement of
its customs laws. He said that Panama encountered most of these
difficulties to the lack of a more precise contractual understanding
between the two governments.

In order to illustrate the difficulties encountered by Panama in
the enforcement of its laws, he referred to the case of a shipment
which could not be confiscated despite the fact that the Government of
Panama had requested of the Governor of the Canal Zone that it be
surrendered; he also referred to ships which bring to the Canal Zone
cargo and passengers destined for Panama, without bringing the documents
required by Panamanian laws. With regard to the first instance, he said
that the Governor of the Canal Zone had informed the Panamanian Govern-
ment that he was unable to grant its request because the Panama Canal
Company, as a common carrier, could not surrender the cargo without
instructions from the shipper. With regard to the matter of consular
documents required of ships by Panamanian laws, he said that the
Government of the United States has not recognized the right of the
Panamanian authorities to require the aforesaid documents, alleging
that these ships arrive at Canal Zone ports.

He stated that the matter had to be regulated in a satisfactory
way in order to avoid jurisdictional conflicts, since the Treaty of 1926
does not cover it in its entirety.

With regard to the statement of the United States that Panamanian
inspectors are permitted to board ships arriving in Cristóbal and Balboa,
he said that he understood that, in practice, the aforesaid inspectors
encountered difficulties.

He then referred to the sites for Panamanian customhouses in the
Canal Zone. He explained that, although they had been tentatively

selected,
selected, Panama preferred that sites near the pier be provided, but that it had not been possible to arrive at a definitive agreement with regard to the matter. He said that as Panama hoped that the most important difficulties that had arisen between both countries would be solved, he felt that in these talks it was possible to arrive at an agreement on the selection of sites for Panamanian customhouses in the Canal Zone. He observed that, if the Panamanian proposal regarding port facilities in the city of Colón were accepted, the problem of custom inspections would be considerably reduced.

Mr. Macicio said that Dr. Pábreza’s explanations were very helpful and would be duly considered. He observed that the matter had been amply discussed during the negotiation of the Treaty of 1936, and that practical solutions had been reached, but that very little had been done to render them effective. He then asked Mr. Runnestrand whether the immigration and custom inspectors of Panama have access to ships and to their documents.

Mr. Runnestrand informed him that they did not have the aforesaid access at present, but that they would have it for the purposes stated in the 1936 Treaty when Panamanian customhouses were established in the Canal Zone.

Mr. Macicio observed that the agreement regarding sites for customhouses was not implemented owing to the inactivity of the Panamanian authorities.

Dr. Pábreza answered that it was not due to the inactivity of the Panamanian government.

Mr. Macicio said that he was certain that if the Panamanian authorities did not find that the sites for customhouses already selected were satisfactory,
satisfactory, the authorities of the Panama Canal Company would have been happy to re-examine the problem.

Dr. Fabrega said that the fact that sites for customs houses had not been selected was not due to Panama's failure to attempt to implement the appropriate agreement, but was due to the fact that both governments had been unable to select sites which were acceptable to both of them.

He said that as its commerce grew, Panama encountered the difficulty of not being able to apply its laws to cargo and passengers destined for Panama which arrive in the Zone because this aspect of the problem had not been contemplated in the Treaty of 1926. He said that he felt that among neighbors and friends it was possible to arrive at an agreement under which Panama could render its laws effective without interfering with or impeding the navigation, operation or defense of the Canal.

Dr. Scure stated that the two principal functions of the Canal Zone ports were to serve international traffic and to serve as centers for the imports and exports of the Republic of Panama, and that it was not only just but also desirable for both countries that the latter function be subject to the Panamanian authorities. He explained that there have been instances of agreements among several countries with regard to the jurisdiction which each should exercise over navigation on a river that serves as a means of communication for all of them, and that he understood that similar agreements exist between the United States and Canada for the regulation of traffic on rivers used by both for navigation. He said that if the operation of the Canal were to always be inspired by a good neighbor policy and if the bonds which unite the United States and Panama are taken into account, these problems should be settled.
settled in a just manner. He said that the United States should agree to merchandise and passengers entering or leaving Panama through the Zone ports being subject to the laws and regulations of Panama, because in such cases the Zone ports are not rendering service to the Canal, but to the Republic of Panama. He observed that possibly the United States feared that such measures may interfere with the operation of the Canal, but that such a conclusion was not logical.

Mr. Buccio said that apparently there was some confusion as to the type of documents required by the Panamanian authorities. He explained that the Government of the United States has never maintained that Panamanian documents were not required for merchandise or persons arriving in Panama, but that what actually happened was that the Panamanian consular authorities required health certificates and other documents of ships going in transit. He said that it was necessary to distinguish between documents required of merchandise and persons and those which are required of ships. He stated that the whole dispute revolved around the moment from which the Panamanian authorities could exercise control over the cargo and passengers. He wondered whether it was from the port of embarkation, or upon arrival at Balboa or Cristobal, or in the customhouses which the United States agreed to permit Panama to establish in the Zone, under the Treaty of 1936.

Dr. Suarez stated that it was not sufficient to permit the Panamanian authorities to inspect the merchandise from the moment it leaves the ship and upon its arrival in Panama. He observed that the case cited by Dr. Fabrega demonstrated that customhouses are useless if the authorities of the Canal Zone permit merchandise to be returned to the consumer without permitting its passage through custom. He said that the
Panamanian authorities should have exclusive jurisdiction over cargo and passengers arriving at or leaving Panama through Zone ports. He said that this was not related to the question of international traffic on the Canal; concessions were granted to the United States which are exclusively related to the operation and maintenance of the Canal, and not to cargo and passengers arriving in Panama or leaving it. In conclusion, he said that this was a question of good will, which he felt should in no wise harm the United States.

Mr. Maccio observed that in the particular case mentioned by Dr. Sucre, the Delegation of the United States had requested complete information which would be supplied to the Delegation of Panama at the appropriate time. He added that the difference between documents for merchandise and passengers and ships' documents should be borne in mind. He said that the matter of documents for merchandise and passengers had been fully discussed in 1936 and that a practical solution had been reached which has not been put into effect, but that it must be admitted that it was not a simple matter.

Dr. Fábrega said that he remembered the talks held in 1936 and the conclusions reached, and that for that reason the matter was brought up now; to judge by present-day realities, those conclusions constituted a proper step toward the solution of the problem and were helpful, but the problem is not yet solved. He added that, as he had said before, the Delegation of Panama feels that a shipping firm can refuse to accept cargo and passengers destined for Panama, but that if it does accept the aforesaid cargo and passengers it should conform to the laws and regulation of Panama throughout the whole trip.

Mr. Maccio
Mr. Muccio said that there was no question regarding documents for cargo and passengers destined for Panama.

Dr. Pábreja wondered as to the reason for that limitation. He stated that every country that desires to enforce its customs and immigration laws adopts measures from the moment that the ship leaves port, through its consular authorities.

Mr. Muccio said that in this matter the question of at what point the passengers and merchandise were subject to full Panamanian jurisdiction had arisen. He wondered whether it was in the port of embarkation, in the port of disembarkation in the Zone, in the customs area, or in the point of destination in Panamanian territory.

Dr. Pábreja said that Panama considers that this matter is not related to the functioning and operation of the Canal and that, therefore, the aforesaid cargo and passengers should be subject to Panamanian jurisdiction from the port of embarkation, as in the case of imports destined for other countries and that the fact that they pass through Zone ports does not affect the jurisdictional aspect of the matter.

Mr. Muccio stated that he felt that this very complex matter had been fully discussed prior to 1936, and in that year a practical solution had been reached which has never been put into effect.

Dr. Pábreja observed that that was a partial solution to the problem.

Mr. Muccio said that unless the Delegation of Panama desired to continue the discussion of the matter, it could be dealt with anew after Panama's comments relative to point 3 had been submitted.

In view of the fact that the Delegation of Panama agreed to postpone the discussion, Mr. Muccio submitted a document containing the comments of the United States regarding paragraphs 1, 2, 3 and 4 of Document A of Panama.
Panama, and another containing comments on paragraph 10 of the same document (see annex).

Mr. Naccio said that by the next meeting he hoped to have additional comments regarding paragraphs 1 and 4 of Document A ready, and that he would submit them separately.

After examining the comments submitted by the United States, Dr. Fabrega observed that, in the opinion of the Panamanian delegation, the question of commercial activities in the Canal Zone is one of the most important ones of the negotiations, because the aforementioned activities affect the economic life of Panama in a very vital manner and because they arouse strong feelings in the people and government of Panama. He said that from the comments on paragraphs 1, 2, 3 and 4 he gathered that the Delegation of the United States feels that the commercial and industrial benefits of the Canal Zone market should not be granted to Panama by means of a bilateral agreement; that a statement by the United States that it intends to give Panama greater opportunities for supplying this market as time goes on and under certain conditions is sufficient; and that the United States will not commit itself to purchasing in Panama because this would constitute a subsidy which the United States is not willing to grant. He added that the comments regarding paragraph 10 seem to contain a clear statement of the intention of the United States to withdraw from manufacturing activities in the Canal Zone and to give Panama an opportunity to supply the needs of the aforesaid Zone under certain conditions. He said that, in effect, the comments of the United States amounted to a rejection of the most important proposals contained in Document A. He explained that Panama felt that, in justice and equity, it should receive the benefit of the Zone market, in view of the cooperation that it tendered in order to
make the canal enterprise possible, and that that was one of the benefits contemplated by President Ramón when he stated that he did not request millions but only justice. He said that the Canal Zone had not been established for commercial purposes but for the construction and operation of a canal; that the United States was granted political rights over it which are unparalleled in the history of concessions; and that it had contributed enormously to the security, greatness, power and prestige of the United States. Therefore, any one who would judge this matter on the basis of justice and equity would perforce agree that the least that could be done to the benefit of the country that permitted the construction of the Canal on its territory was to guarantee to it the Canal Zone market under conditions which would guarantee the good quality and reasonable prices of the products. He said that a negative answer was practically tantamount to the failure of the negotiations; he felt that if an agreement was not reached on this matter it would not be possible to tell the people and government of Panama that progress was being made in the negotiations. He said that in commercial matters there should be certain guarantees of stability and that, therefore, the desire to conclude an agreement was not capricious. He stated that industry and commerce cannot plan their development on the basis of mere declarations of intention which may vary at any given moment, and much less so in view of the fact that in Panama's relations with the United States there are instances of changes of policy with regard to these matters. He said that all the members of the Delegation of the United States were familiar with the historical fact that Panama expressed its concern over the commercial activities carried
carried out in the Zone during the construction of the Canal and that the President of the United States instructed Secretary Taft to inform the Panamanians that the United States desired only to operate the Canal and did not intend to establish an independent colony in the heart of the Republic of Panama and that it desired that Panama should prosper and progress. The aforesaid instructions were communicated to the Government of Panama. President Roosevelt made statements along the same lines in Panama, and subsequently, Secretary of State Elihu Root made similar statements. Secretary Taft later negotiated an agreement designed to protect Panamanian commercial interests, and it accomplished that purpose to a high degree. He explained that in one of the Executive Decrees which were embodied in the aforesaid agreement it was stipulated that native workers could not make purchases in the commissaries and that the latter would only sell articles of prime necessity. He observed that an agreement had been reached which had been put into effect and that Panama had placed its trust in it, but that in 1924 the aforesaid agreement was abrogated unilaterally by the United States without the consent of the Republic of Panama.

Then the commissaries and post exchanges began to import luxury articles, the Zone's sales were extended to other fields and commercial activities increased considerably. He said that, notwithstanding the statement of the United States to the effect that it had no intention of converting the Canal Zone into an independent colony, an ice cream factory is being built, at a cost of nearly one million dollars, and that commercial activities are being intensified in the Canal Zone; Congress approved a law establishing the Panama Canal Company, in whose charter it is

stipulated
stipulated that it will be of a commercial and self-sufficient type, which is tantamount to saying that it should obtain all possible profit in the Canal Zone at the expense of the commercial and economic interests of Panama. He said that in view of all these experiences it is logical that Panama should request a bilateral agreement which would cover the matter, and especially if it is borne in mind that Panama has always maintained that the Canal Zone is not an independent colony. He said that the failure to purchase from Panama, the duty-free importation of articles originating in practically every part of the world into the Zone, and the failure to limit the sale of the aforesaid articles to those which are of prime necessity, was, in effect, converting the Canal Zone into an independent commercial colony in the heart of the Republic of Panama. He observed that the soldiers and workers who reside in military reservations in the United States can purchase a few articles at prices lower than those paid by the rest of the residents of the United States, but that generally they make purchases under the same conditions as those met by the other residents of the United States; that is, most of the articles which they purchase have paid regular duties. He then wondered why they should be permitted to purchase duty-free articles in the Zone, totally ignoring Panamanian commerce. He said that, in a commercial sense, the Zone has, in effect, become an independent colony in the Republic of Panama. He explained that the Delegation of Panama did not request a monopoly, but that the Zone be integrated, commercially and economically, with the Republic of Panama. He said that the residents of the Zone should make purchases in Panamanian territory on an equal footing with Panamanians, and that in order to cope with the possibility of exorbitant prices being charged or of the products being of poor quality, the Delegation of Panama proposes
proposes that in such an eventuality the products be obtained in
the United States. In this manner, if the integration with the
Panamanian economy were to fail, the Zone would be on an equal foot-
ing with the continental United States with regard to commercial
activities; but if the resident of the Zone is not placed on an
equal footing with Panamanians nor with residents of the continental
United States, they would be placed in an independent and privileged
position—in that of an independent colony—which is precisely what
President Roosevelt said ought not to happen. This, said Dr. Fábrega,
is harming Panama considerably. He stated that he felt that the
commercial integration of Panama and the Canal Zone would not harm the
latter because, generally speaking, products are not sold in Panama
at prices higher than those in the United States; naturally, sometimes
products are sold in Panama at higher prices than those of the Zone,
only to the privileges enjoyed by the latter. He said that Panama
did not object to the purchase of products in the United States if
those supplied by Panama are more expensive, but that what Panama does
not desire is the continuation of the importation into the Zone of
articles from all over the world, such as Peruvian silver, Japanese
articles, or surplus products of other countries. He said that per-
haps the most important act of good neighborliness which could occur
in the relations between both countries would be the integration of
the Canal Zone into Panama's economy in this manner. He observed that
one might say that the Canal Zone is a static community while the
population of the Republic of Panama is growing—the city of Panama
has approximately 200,000 inhabitants, while the population of the
Canal Zone is about 50,000—so that any fear that the residents of the
Zone
Zone may have that high prices will be charged to them or that they will not be recorded just treatment should be allayed by the fact that the Government of Panama is willing to stipulate that they will purchase on an equal basis with the Panamanian residents. If there were any abuse with regard to prices or quality, a community several times larger than that of the Canal Zone would immediately complain and protest. He requested that the Delegation of the United States reconsider the matter because he felt that the negative reply received today affected the basis of the negotiations in such a manner that he was certain that it would create great discouragement in Panama.

He said that he had taken note of the declaration of intention of the United States with regard to manufacturing activities but that, because of the reasons already set forth, Panama felt that that declaration should take the form of a contractual obligation. He said that if one keeps in mind the purpose for which the Canal Zone was created and the commitments undertaken, it is absolutely incredible that in the Zone manufacturing activities should be carried out to the degree to which they presently are; approximately a million dollars are being expended for the construction of an ice cream factory in the Canal Zone, despite the fact that Panama produces ice cream and milk which are considered to be of the best quality by the inspectors of the Canal Zone and of the Army; bottling factories for all kinds of soda, which already exist in Panama, are being built, and carbonated beverages are being produced.

He added that he had seen a photostatic copy of a construction contract of the Zone in which one of the clauses stipulated that the contractor had to purchase plumbing materials in the Zone; that was the reason
reason why he maintained that the Panama Canal Company was trying to obtain as much business as possible; the Delegation of Panama felt that this and other business properly should belong to Panama.

He said that he did not wish to refer now to all the reasons which justify the Panamanian request, including those of a security nature which are of great interest both to the Government of the United States and to that of Panama; however, he did wish to observe that if Panama's economy were aided, Panama can become a source of supplies for the Zone, which would redound to the benefit of the Canal's security. He referred to the transportation difficulties encountered during the last war and to how important it would have been for the Zone to have had a supply center in Panama at that time. He concluded by requesting that the Delegation of the United States should seriously reconsider the matter in view of the repercussions which it will have upon the negotiations.

Mr. Muscio stated that it was not necessary to repeat that one of the real objectives pursued by the United States was that of expressing in the talks its desire to encourage a viable economy in Panama; differences of opinion may arise regarding the most practical and effective way to achieve the aforesaid viability; it should be borne in mind that when the United States initiated the construction of the Canal few products and services were available on the Isthmus; since that time certain practices had evolved in the Zone regarding purchases, sales, manufacture and processing, while commendable progress was simultaneously being achieved in Panama. He explained that in recent years Panama has become capable, in increasing measure, of supplying itself and the Zone;
it was somewhat more than self-sufficient to supply itself with sugar and to satisfy the Zone's demand for sugar; he understood that this year Panama had obtained a rice surplus for the first time in its history; that enormous progress has been achieved with regard to coffee; and that the Government of the United States intended to help in stimulating this commendable type of progress which is being achieved in Panama. He added that this matter had been given considerable attention by the Delegation of the United States, and that the latter was aware of the impact which past decisions in this field had had upon Panama; it was because of this awareness that the Delegation of the United States was seeking the best means of improving conditions in that particular field.

Dr. Pábraga said that the Delegation of Panama respected Mr. Maccio's opinion in this matter. He added, however, that he again had to observe that the first surprising characteristic of the reply of the United States was that it did not wish to conclude an agreement regarding this matter. He said that, without meaning to offend, he felt that this would set relations back to 1904; despite the fact that in the days of President Roosevelt one heard talk of the "big stick" policy of the United States, the United States was willing to conclude an agreement regarding the matter; Secretary Taft concluded the Taft Agreement. He said that for that reason he felt that when the United States said that it did not wish to conclude an agreement with regard to a matter of such vital importance to Panama, present day relations turned out to be more retrogressive than those of Taft's time, in 1904. He stated that he was at a loss for words with which to express his surprise at that attitude. He explained that if the Delegation of the
United States expressed its desire to conclude an agreement, but subject to certain guarantees, the Delegation of Panama would discuss those guarantees; but it was not a friendly gesture to state that it does not wish to conclude an agreement with Panama regarding the matter; such a procedure amounts to a rejection of all of Panama's aspirations. He said that he wondered what the reaction of the United States would be if, in the future, it requested a concession—for example, for operating a base in the interior of Panama for defense purposes—and Panama were to answer that it would make a statement of intentions but would not conclude an agreement with regard to the matter. He explained that Panama wished to receive certain guarantees in the Canal Zone market for its commercial operations, and that it was concerned because the United States was not willing to conclude an agreement with regard to the matter, especially in view of the experiences which it has had regarding matters not covered by agreements.

Mr. Maccio said that he was not ashamed of the past but that he hoped that the outlook would be toward the future—toward progress.

Dr. Fabrega agreed that the outlook should be toward the future and that for that reason he did not wish to refer to pre-Taft days. He observed that he had a photostat or mimeographed copy of an advertisement announcing the sale in post exchanges of all kinds of oriental luxury merchandise, which have been sold in the commissaries and post exchanges of the Canal Zone despite the fact that Panama has always been told that the Canal Zone will not become an independent colony and notwithstanding the fact that, in the Taft Agreement, it is stipulated that only the importation of articles of prime necessity into the Zone will be authorized. He said that Panama had had

unfortunate
unfortunate experiences with such statements of intention; one had been much more than a statement of intention—it was an agreement and had been unilaterally abrogated. He considered it surprising that the United States should now be unwilling to conclude an agreement with regard to the matter; he would not venture to predict the importance of the repercussion which this would have upon the Government of Panama.

Dr. Sucre stated that he felt that the problem of the functioning of the Canal Zone with regard to the consumption of its employees is a matter which should be studied with the utmost frankness. He believed that the system in effect in the aforesaid Zone for supplying those employees did not even redound to the benefit of the United States, and was ruining and harming Panama. He said that the basis of the system is to increase the privileges of United States citizens who work in the Zone. He explained that those employees have a right to purchase duty-free merchandise originating throughout the world, in more advantageous conditions than those enjoyed by citizens residing in the United States. He stated that an American residing in the United States who wishes to obtain merchandise originating in other countries has to pay the customs duties charged by the United States, but if he goes to the Canal Zone he can do so without paying the tariffs which protect the United States manufacturers. He felt that the system was inadequate with regard to the United States as well as to Panama. He observed that, as the majority of the employees are not American citizens and live under Panamanian jurisdiction, the exemption from payment of duties harms Panama much more than it does the United States; residents of Panama who work in the Zone also have
have the right to consume merchandise originating in Japan, Germany, France and Italy without paying any customs duties; Panama, a poor and backward country, has to compete with duty-free merchandise imported from all over the world; as the majority of the workers do not reside in the Zone but under Panamanian jurisdiction, the Zone not only deprives Panama of its market but also harms the producer as those employees buy where the lowest prices prevail. He said that to reach such a degree of competition with a small and friendly nation as to maintain, for the benefit of a small group which works in the Zone, privileges that exceed those enjoyed by an American citizen residing in the United States was not only a question of policy contrary to the good neighbor policy but was contrary to the basic laws of the United States. He stated that, for example, in the case of Coca Cola, there was a bottling plant in Panama, of which the majority of the stockholders are Americans; the plant is inspected by Zone health inspectors and as the home office requires certain sanitary measures that are required by the aforementioned inspectors, a product equal to that obtained in the United States is produced; but the United States establishes another plant in the Canal Zone which limits the sales of the Panamanian plant and harms the American stockholders of the Panamanian enterprise. He said that that was an illogical situation and that the Delegation of Panama did not understand why the United States maintains it. He observed that Panama could not rely on a simple statement of policy to be followed, as had been proposed; Panama needs assurances that it can count on the Zone market, the greater part of which is not of the Zone because the majority of the employees reside in Panama and because the system established in the Zone is extended and affects the Panamanian economy. He said that he felt
felt that no matter how great the desire may be to convince Panama that it has no interest in the existence of the Canal because its operation would impede instead of ensure Panama's development, Panamanians will still trust that someday the principles of justice will prevail and that the belief that is becoming general in Latin America to the effect that the Latin Americans are the "good" and the United States are the "neighbors" is incorrect and totally in error.

Mr. Herrsmatte observed that of the questions raised, this was one of the most fundamental ones and leaves room for comments that could be prolonged for a long time. He said that neither now, nor in the General comments of its delegation, did Panama seek to cover all aspects of a matter as important and complex as that of commercial relations between both countries; he felt that, generally speaking, the Delegation of Panama had very correctly expressed its concern over the reply which, at first sight, was considered to be totally negative; to a certain degree this destroyed the basis for negotiation of the question and possibly that of other matters; he merely wished to make one or two brief comments because he felt that, in some measure, it had always been agreed in principle—although possibly the viewpoint of the other side was not understood—that Panama's economy and that of the Canal Zone should be integrated in order to permit Panama to receive an adequate share in the benefits which should be derived from its geographic position; Panamanians felt that the only possible way to integrate the economies of the two communities for that purpose was to agree—not to an unlimited monopoly as alleged by the American Delegation—but to allow Panama, in some measure, certain privileges.
privileges in the Canal Zone market; a cursory reading of this
document led him to believe that it is suggested that the economy
of Panama and that of the Canal Zone should be interpreted, permitting
to Panama the privilege of continuing to compete freely for the
business which might exist in the Canal Zone; he understood that this
did not cover the whole field of the Canal Zone's consumption, but
only the opportunities offered for competition; he felt—and he
believed that this was the position of the delegation of Panama—
that the opportunity to compete is and always has been offered to
all countries wishing to compete for this business, with regard to
this constituting a means for integrating the economies of both
countries, that opportunity was offered to all other countries and
would serve to integrate the economy of any other country competing
for this business; with regard to this, Panama has always felt that,
because of the reasons mentioned several times during the course of
the negotiations, it deserves certain preferential treatment regarding
opportunities for doing business in the territory on which the Canal
was built; in reality Panama has subsisted—not since the construction
of the Canal but from the beginning of its history 400 years ago—
from trade, the type of business which is a result of its geographic
position; Panama hoped to continue with the kind of economy which it
had always had and which—in its applications—would today signify
preferential treatment in the Canal Zone market which would not be
extended to other countries.

He stated that Panama viewed with certain alarm the tendency in
the Canal Zone to increase its business, especially since the estab-
lishment of the Panama Canal Company, and the spirit of promotion and
advertisement, and of increasing the volume of sales that prevails among the commercial organisations of the Canal Zone. He said that this worried Panama because the merchant who does business in Panama and who has to pay the same amount of taxes as a merchant who does business in the United States cannot compete with the governmental institution that exists as a service; in such circumstances, the merchant cannot compete with the commercial activity of the Canal Zone that tend toward promotion.

He said that Panama was concerned that, notwithstanding the fact that the Delegation of the United States expressed a desire to integrate the economy of the two communities, and that Panama is now in a position to supply many of the basic needs for the Canal Zone and is supplying milk of satisfactory quality to the Army at satisfactory prices, and has a supersubundance of milk, facilities for milk production are being increased in the Canal Zone. He said that he understood that one of the purposes of this expansion program is to permit that industry—which has hitherto been receiving a subsidy and has been operating at a great loss—to achieve self-sufficiency; but Panama cannot hope that it will be restricted in the future, once it is established on that basis of self-sufficiency. He added that nowadays criticism of the existence of that industry in the Canal Zone was justified if its annual maintenance costs amount—as he understood that they did—to $200,000.

He observed that Dr. Suarez had likewise referred to one of the industries which are a source of concern to Panama, namely that of carbonated beverages. He said that he wished to point out that the duplication of those facilities was not done by Panama; they first existed in the Republic of Panama and were subsequently duplicated in
the Canal Zone. He added that he did not wish to go into many
details regarding the matter but that he referred to them in order
to illustrate Panama's basic contention, in the hope that further
thought will be given to the matter, and that greater attention
will be devoted to it in order that a system may be worked out by
which the integration of the economy of the two communities may be
achieved to the end that the community of Panama may fully enjoy the
benefits of its geographic position.

Mr. Muccio said that he was pleased to have the comments that
had been made. With reference to those of Dr. Sucre, regarding the
privileged community which lives in Panama, he said that the decision
of the Delegation of the United States relative to the question of
taxes constituted a step toward the solution of that problem. He said
that he hoped that it would be put into effect in such a manner that
it would at least eliminate that phase of the problem, and that he
hoped to be able to submit another document relative to other aspects
of the aforesaid community in the course of the next few meetings.
He added that the question of manufacturing and processing activities
was being reviewed in its entirety, and that the authorities were aware
of their effect on Panama. He stated that the United States would
present its position on the latter part of this overall problem in the
course of the next two meetings and that after studying all the comments
the Delegation of Panama would be in a better position to appreciate
the position of the United States.

Dr. Fábrega said that he wished to make some brief comments and
begged the indulgence of the Delegation of the United States in referring
again to matters that had already been dealt with. He said that the
Delegation of Panama would be remiss in fulfilling its duty if it did
not
not act frankly in this matter; M. Massic knew his sufficiently well to know that he is not given to exaggeration, and least of all in matters as delicate as these; however, he had to say with all frankness that the series of negative answers which the Delegation of Panama had been receiving, in addition to the statement made today by the United States to the effect that it is not willing to conclude an agreement relative to the commercial benefits of the Canal Zone, left a clear impression that the negotiations were on the road to failure, and that he earnestly hoped that this impression would be corrected; he therefore said again that he felt that it was of the utmost importance that this matter—as well as the other negative answers—be reconsidered; the failure of the negotiation would be a very critical development. He said that in United States–Panama relations, Panama is undoubtedly the weak country and the United States the strong one, but if the whole continent is considered, and the whole family of Latin American nations and the solidarity of those Republics are taken into account, and we are aware, as is frequently said, that a chain is no stronger than its weakest link, Panama, albeit weak, is in no wise the weakest part; in the troubled world in which we live today, the friendship of the Latin American countries toward the United States, and their faith in it, are a very important matter; neither Panama nor the United States can afford the luxury of destroying harmonious relations between Panama and the United States, particularly in these times. He said that he was really concerned over the course that the negotiations were taking, and that he felt that a reconsideration of these matters would be very valuable for Panama–United States relations and their possible repercussions on the
the rest of Latin America.

Mr. Nuccio said that the question of commercial competition—so-called by the Delegation of Panama—has been the object of considerable study; he was confident that when the Delegation of Panama had the complete picture of the position of the United States it would find that appreciable progress had been made toward the achievement of a more viable economy on the Isthmus; the question of the eventual form that the agreements would take was a quite different matter that had been discussed on different occasions; but there was no doubt as to the willingness, intention and desire of the United States to proceed. Possibly many exchanges of ideas would take place regarding the means to express that desire.

Dr. Fabrega said that the form was very important because it constituted the difference between that which is obligatory and that which is not.

Mr. Nuccio said that as he was not a lawyer he did not have the awe for written agreements which some of his friends felt.

Dr. Fabrega observed that he was sure that the United States takes care to see to it that the agreements which it concludes with other countries are formal and obligatory agreements.

As no other matters were pending, it was decided to hold the next meeting on Tuesday, March 2.

The meeting adjourned at 4:30 p.m.
The manufacturing and processing of goods for sale to or consumption by individuals now carried on by the Panama Canal Company in the Canal Zone had their origin in the fact that at the time of their inception the Republic could not fill the needs which these operations were designed to meet. In recent years, duplicative facilities in the Republic have become established which in some cases are in a position to meet the needs of the market both in the Republic and the Canal Zone.

As declared in an accessory note to the Treaty of 1936, the United States has no intention or desire to compete with Panamanian industry.

Therefore, with respect to the manufacture and processing of goods for sale to or consumption by individuals, now carried on by the Panama Canal Company, it will be the intent of the United States to terminate such activities whenever and for so long as such goods, or particular classes thereof, are determined by the United States to be available in the Republic on a continuing basis, in satisfactory qualities and quantities, and at reasonable prices.

It is the hope of the United States that Panamanian industry will find it possible to supply to a gradually increasing degree the demand in the Canal Zone for goods of the nature covered by the above declaration. I should mention, however, that the United States will feel entirely free to resume any operations of this character which may be terminated in the event the standards of related Panamanian produce should fall short on the bases of price, quality or availability.

Paragraph 10 of Document A refers also to "stockraising" in the Canal Zone. The only stockraising now being carried on in the Zone is
in connection with the Hindi Dairy, an operation which comes within the general scope of the statement I have just made.

Paragraph 10 refers also to "agricultural" activities in the Zone. Such activity in the Zone is confined to the few small truck gardens (usually referred to as Chinese gardens) and the cultivation of small tracts by settlers under agricultural licenses. Both the Chinese gardens and the settlers are fully covered by the third note accessory to the 1936 Treaty. No reason is perceived at this time for changing the policy agreed upon then by the two Governments. The Chinese gardens are still regarded as necessary, or at least highly desirable, and the United States has faithfully met its commitments under the accessory note which in due course will result in the termination of the agricultural licenses by natural processes. It is to be noted that these small agricultural settlers operate on practically a subsistence basis. At the time of the 1936 accessory note there were 1563 such agricultural licenses. At the present time there are only 460, as the result of the application of the policies stated in the accessory note. Of the 460 licenses, 388 are so-called indemnity licenses (covering 864.5 hectares of land), which means that if the United States terminated the licenses, payments to the licensees for improvements would be required. However, the basic reason against arbitrary ejection of these licensees is the hardship that would result to the persons involved. There are currently only 14 Chinese gardens covering a total of 16.25 hectares.
It is proposed in Document A that the United States formally agree to the proposition that all items needed or desired either by individuals or for the maintenance, functioning, and defense of the Panama Canal (except war material) shall be purchased by the Government of the United States from Panamanian production, commerce and industries subject to certain provisions with respect to price, quality and availability.

It is the desire of the United States that Panamanian commerce and industry should benefit to the greatest practicable extent from the existence of the Canal Zone market for finished products and raw materials. The United States believes, also, that it is in the joint interest of the United States and Panama that the economies of the Zone and the Republic should be integrated to the fullest extent possible.

The United States, however, must disagree with the conclusion expressed in the preamble to Document A and, in any case, would not be disposed to enter into a bilateral agreement on this subject. Such an agreement, of the nature proposed by Document A, would fail to protect the legitimate interests of individuals resident in the Zone and of the Government of the United States and confer upon Panama an unrestricted monopoly for which no basis exists either under existing treaties or in equity. While the United States retains a continuing interest in the development of the Panamanian economy and the prosperity of the Panamanian people, the United States cannot agree to a subsidization of the Panamanian economy at the expense of individuals residing in the Zone or in connection with the importation of materials required for the
maintenance, operation and defense of the Canal.

It is, however, and will continue to be the intent of the Panama Canal agencies and the Armed Forces in the Canal Zone in making purchases of supplies, materials and equipment, as far as permitted under United States legislation, to afford to the economy of the Republic full opportunity to compete for such business.

(A discussion of the United States legislation which, in certain circumstances, has a restrictive effect on purchases within the economy of the Republic will be found in the United States comments on paragraph 4 of Document A.)

Recorded statistics for recent years show that purchases by Zone agencies have been substantial and that the Panamanian economy has derived important benefits from this market. The figures given below refer to purchases by the various Zone agencies for official use and for resale to authorized purchasers in commissaries and Post Exchanges; they do not reflect the volume of expenditures in the Panamanian economy by individuals resident in the Zone.

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Panama Canal Co. (Official Purposes)</th>
<th>Armed Forces (Official Purposes)</th>
<th>Post Exchanges (Goods for Resale)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>$2,402,657</td>
<td>$904,725</td>
<td>$2,145,000</td>
</tr>
<tr>
<td>1953</td>
<td>2,524,707</td>
<td>837,214</td>
<td>1,042,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(six months)</td>
</tr>
</tbody>
</table>

There is every reason to expect that Panamanian participation in the supplying of the needs of the Canal Zone market will increase as an expanding Panamanian economy becomes progressively better able to compete for this business. Reference may be made in this connection particularly to the declaration of intent on the part of the United States with reference to certain manufacturing and processing operations.
operations in the Canal Zone which is set forth in the United States comments on paragraph 10 of Document A. The intent set forth in this regard affords to Panama the opportunity greatly to expand the volume of its sales of goods in the Canal Zone and constitutes an additional concrete expression of the stated desire of the United States to afford Panama the fullest practicable opportunity to benefit from the existence of the Canal Zone market.