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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

National Security Planning Group Meeting
March 10, 1988, 2:30 - 3:40 p.m., White House Situation Room

SUBJECT: Panama

PARTICIPANTS:

The President

The Vice President's Office:
Samuel J. Watson

White House
Senator Howard J. Baker
Kenneth M. Duberstein
Colin L. Powell

State:
Secretary George P. Shultz

Treasury:
Secretary James A. Baker, III

NSC:
Jose S. Sorzano (Notetaker)

Defense:
Secretary Frank C. Carlucci

CIA:
Deputy Director Robert M. Gates

JCS:
Chairman Admiral William J. Crowe, Jr.
General Frederick F. Woerner, Jr., CINC U.S. SOUTHCOM

OMB:
Director James C. Miller

Minutes

General Powell: Good afternoon, Mr. President. Secretary Carlucci is testifying on the Hill and he will be joining us later. I think we can start now.

The President: Thank you. You all know the situation in Panama. We have called publicly for Noriega's departure and we continue to recognize President Delvalle as the legitimate leader of Panama. Based on your earlier advice, I have already decided on three measures to help pressure Noriega to leave power:

(1) increase inspections of Panamanians by INS and Customs;
(2) ask other countries not to provide assistance to the Noriega regime; and (3) suspend GSP and CBI trade benefits for Panama. We have held up announcement of these steps pending today's discussion. While Noriega is under heavy economic pressure, we need to consider what further measures the U.S. might take to pressure him to leave. General Powell is ready to lead the discussion.

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General Powell: Thank you, Mr. President. Up to now I believe that there are three points upon which we are all in agreement. First, Noriega must leave. Your Administration is publicly on-the-record on this matter. To fall away from this position would have negative consequences. Secondly, we recognize President Delvalle as the lawful President of Panama and certain logical consequences fall from this recognition. And, third, that we will faithfully comply with the terms of the Panama Canal Treaties. It is our assessment that economic tools are best suited to bring about the objective of a democratic Panama. The U.S. Congress is unusually united and will support our goal. Our principal objective is to understand the alternatives before us and to consider whether to impose the International Emergency Economic Powers Act (IEEPA). I turn now to Bob Gates to tell us whether all of this will work.

Robert Gates: In Panama the banks remain closed, cash is in short supply, they only have reserves of \$10 million but they have just received an additional \$10 million which will enable them to pay the Panamanian Defense Forces (PDF) this afternoon. Noriega believes that he can get an extra \$5 million from other deposits and another \$10 million from drug money laundering. The regime believes it has the financial resources to last until March 17. Checks are being cashed at half face value. Some are importing cash from Miami. Cash hoarding is common. The regime has installed special stalls to cash the retirement checks and there are lines of up to 400 people in front of those stalls. Their options to overcome this liquidity crisis are to unfreeze Panamanian deposits in the United States through legal means; to receive loans from other countries; to obtain loans from drug traffickers; to launder money (there are reports that the regime is offering to launder money without the usual commission); to issue bonds, and we have reports that Noriega is seeking to obtain \$40 million from Libya.

The three opposition parties and the Civic Crusade have united in backing Delvalle. They are looking to the United States to force Noriega out.

[REDACTED]

What can Noriega do? Well, certainly we will see an escalation of anti-U.S. rhetoric and harassment of our diplomatic and U.S. personnel will increase. There will be anti-U.S. demonstrations, perhaps in front of the embassy. He may ask for the withdrawal

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of SOUTHCOM and declare some of our diplomatic personnel persona non grata. In the financial field he has few options. He can take measures against us but they will hurt him too. One possible exception would be to halt the oil flow through the pipeline. We do not believe he would like to interfere with Canal operations. He could, however, make life difficult by cutting utilities and services to the zone.

Noriega's immediate problem is to restore order to the banking system. If he succeeds in that, the economic situation will gradually improve and he will regain his political footing. If he fails, he runs the risk of being pushed aside. In conclusion, Mr. President, I would like to make five observations:

- (1) Noriega and his group are ruthless people. We should not underestimate what they are prepared to do in order to survive.
- (2) On the other hand, we should not overestimate the opposition. Delvalle is weak; the opposition is disorganized.
- (3) If the PDF were to push Noriega aside, they will not allow a civilian opposition government to come to power.
- (4) The next Panamanian Government will be either military or military-dominated and we should be aware that leftist tendencies are widespread in the low ranks of the PDF.
- (5) The COS reports that the situation has polarized to the extent that serious violence is probable.

General Powell: Secretary Shultz, would you like to give us your analysis of this situation?

Secretary Shultz: Mr. President, I would like to reinforce your opening statement. Noriega must go. This fellow has been indicted by the Justice Department for drug-running. Whatever legitimacy Delvalle may have or however weak he may be, he still represents civilian authority in Panama. Noriega pulled a military coup against him -- a total mockery. It was a bloodless coup, but still a coup. This has implications for civil/military relationships all over Latin America and it is being watched to see whether we are successful. At this moment we have tremendous credibility problems in Central America. Congress has pulled the rug from under us in Nicaragua and the situation is close to unravelling. Our latest information is that the Sandinistas are gathering for a knockout punch to the Contras. If we add to this

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a defeat in Panama, it means that we have serious problems in the area. Let's recognize that we are in a fight to the finish. Delvalle may not be much but he fired Noriega. He has successfully orchestrated the financial strategy that is putting a squeeze on Noriega. Let there be no doubt about it, Noriega has to go. I repeat this because there are all sorts of suggestions that because he can hurt us, we must deal with him. The moment we deal with him, we have lost. That's why I agree with you, Mr. President, he must go. We have to work with the Panamanian people but we must make sure that we do win. And we ought to look at everything that can contribute to that end. The most effective is the financial squeeze. It is having an effect now but this is a deteriorating asset. The more time that passes, the less impact the squeeze will have because he would have developed access to more funds. What a victory for drug traffickers to have Panama, to control its banking system, to move in an economy that operates on our own currency. They will certainly try to help him. They have money, plenty of money, as we all know.

The restrictions on finance flows which are currently in place are very fragile. They are holding because we recognize Delvalle as President of Panama, but lawyers will soon find ways to overturn one of these temporary restraining orders and then the house of cards will come tumbling down. Furthermore, our banks in Panama, for instance, the Chase Manhattan Bank, has \$400 million in Panama, \$11 million in cash reserves. It is a very profitable operation. They want to help. They want to freeze the funds but they need some legal cover. So we are in a win/lose situation and we have got to win. If we lose, it is a big loss. Our principal tool is a financial squeeze and we need to impose IEEPA and use it when we need it or when it becomes necessary.

I am aware of the various proposals that we should offer not to extradite Noriega if he were to leave for another country. I must say that that aspect does not appeal to me. This is a fast-moving process. We need to hit it every day. It can get away from us if we do not stay on top of it.

General Powell: The restraining orders are not applicable to the revenues from the Canal. These revenues are not being restrained now.

Secretary Baker: We can stop them if we want. All we need is a certification from the State Department that Delvalle is the legitimate President of Panama and then we can stop Canal revenues from going to Noriega.

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The President: What is the potential for this bum to impede the Canal operation?

General Woerner: Mr. President, he does not have the naval forces to stop the operation of the Canal.

The President: I am not worried about that. I am worried about land-based moves which may stop the Canal.

General Woerner: Mr. President, we are fully prepared to defend against that sort of move.

Secretary Carlucci: Mr. President, we also have to keep in mind, however, that there are 1600 families not on the base and they are very vulnerable.

Secretary Baker: Noriega could also prohibit repayment to commercial banks (about \$1 million) in retaliation but this should not be a controlling factor in our decision.

General Powell: Frank, would you like to analyze the situation for us?

Secretary Carlucci: Mr. President, I apologize for arriving late. I was testifying on the Hill. George said that Noriega is bad news and that Noriega has to go, but let's keep in mind that our goal is stability and the security of the Canal. What good is it to get Noriega out if it leaves a legacy of turmoil which would make difficult the long-term running of the Canal? I also would like to know whether when you use terms like "fight to the finish", does it mean that we are getting ready to use military force? We have to look at that option because on the basis of what Bob Gates said, we are not certain that we can win with what we have. We have to increase pressure but we also have to leave him a way out. We cannot corner Noriega. And, Mr. President, I will ask General Woerner, CINC US SOUTHCOM to say a few words.

General Woerner: The PDF is solidly behind Noriega. He has succeeded in identifying himself with the institution. The institution feels both isolated and threatened and has closed ranks around Noriega. Yet, Noriega is not a free agent. He is under pressure from the opposition, the drug traffickers and our recognition of Delvalle. That does not leave him many options, especially to remain in power. He is a "survivalist"; he has already betrayed the Medellin Cartel and his own personal security remains in surviving and remaining where he is even if it ruins the country. We must, therefore, leave a way out for him.

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Secretary Carlucci: We cannot alienate the entire PDF.

The President: But let's keep in mind how many democracies in Latin America will fall from power if Noriega wins this one.

Admiral Crowe: Even the civilian opposition has acknowledged that they want the PDF to stay in the post-Noriega period so we are here talking merely about the exchange of one elite for another.

The President: Watching the newsreels yesterday, I was struck by the PDF soldiers taking on civilians in the streets of Panama. What makes them the enemies of their own families?

General Woerner: He has institutionalized corruption even to the lowest level of the PDF. They see their own security as related to Noriega remaining in power. That's why I don't believe that the opposition can succeed in separating Noriega from the PDF.

General Powell: I think it is fair to say that if Noriega leaves, someone similar will replace him.

Secretary Baker: I also agree that Noriega should go and that we must leave him a way out. We can impose IEEPA in just a matter of hours. IEEPA won't work on currency transfers because there are \$200 billion floating around the world, but if we conclude that the temporary restraining orders won't be extended, we can move quickly.

Secretary Carlucci: They will not cover Canal revenues, right?

General Powell: No, Frank, that's for today's decision.

Secretary Baker: It would be a rather dramatic step to invoke IEEPA in full strength like the one we have imposed on Libya, Iran and Nicaragua. In Panama there are over 250 banks involved. Some of them belong to Switzerland, the United Kingdom and Germany -- our close allies. In my opinion, this kind of IEEPA is too strong.

There are four different versions of IEEPA that we should consider. First, to block all payments, public and private, to the Noriega regime. Second, to ban any currency transfer to Panama. This one is not likely to be very effective because of the \$200 billion floating around the world. Third, to ban all financial transfers (checks, wire transfers, etc.) to Noriega. We would be more successful in this one than in the previous one but it can be easily evaded. Fourth, an absolute ban on all trade, financial transactions, etc., between all entities like we have with Libya, Iran and Nicaragua. There is a question of which one we want to use. The first one is working already.

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Senator Baker: If we do invoke the first one, what would it do to our Treaty obligations?

Attorney General Meese: That's hard to tell but I can tell you that the legal ramifications would be worse if we did not do them. We should be prepared to support the temporary restraining orders. I would suggest that you decide to invoke IEEPA if the temporary restraining orders are lifted.

Secretary Baker: That's in line with my first option.

General Powell: Yes, but let's remember that the Secretary of State is looking for a strong psychological and political punch and the stronger IEEPA fits that bill.

Admiral Crowe: The trends in Panama are going our way. The opposition is coalescing. There is a growing regional isolation of Panama. The amount of Canal money is not a knockout blow to Noriega. We should be prepared for the long pull. He will stay on even if he brings Panama to its knees. Once you start this by cornering Noriega, he can harass us. We have a dilemma with our dependents in Panama. If we pull out, we signal our intentions. If we leave them in, they become vulnerable. We should be worried about utilizing the Canal in our disputes with Panama. We have never in all our contingencies had a plan that foresaw the PDF aligned against us. If we are to use military force, we should start preparing right now. We need advance notice.

Secretary Carlucci: We also need to distinguish the kind of Canal payments we are talking about. There are roughly \$6 million in tonnage and annuity and service fees. We will not be able to receive the services that our people depend on.

General Powell: We are trying to catch the \$6 million. If Delvalle asks you to escrow, we should do it to prevent the money from going to Noriega.

Secretary Carlucci: We are setting a bad precedent here. We are introducing the Canal into a political dispute between us and Panama and this will be bad for us around the world.

Senator Baker: I am not sure our means will succeed. They may, in fact, strengthen Noriega but I agree that he has to go. Our options are meager and, therefore, we quickly need to get to the military option. Let me make three points. We have to be fastidious about our obligations under the Treaty. I shudder to think that we have 1600 military dependent families that we cannot protect. It is easier for Noriega to get to them than it is for him to get to the Canal and sabotage a Canal lock. We should protect them right now. If something should happen to

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them, it will make our problems in Teheran seem small. Our ultimate objective is to protect our vital interests and we should be ready. We need to make sure we have military sufficiency up to our eye balls.

The President: What facilities do we have to protect the 1600 dependent families?

General Woerner: We do not have a hotel or barracks on the base. We can only move them in with other families.

Senator Baker: We need to ascertain if we have any maneuvering room with Noriega. We did it in the Philippines by sending Senator Laxalt. We need to have some sort of contact with him to see what his intentions are and whether he will get out.

The President: The only thing I can see to talk to Noriega about is to guarantee him that we will not seek his extradition if he were to leave Panama. But this is one we can't lose.

Admiral Crowe: Is the \$6 million in Panama Canal payments going to force him out?

Secretary Baker: Not in my view. One thing he could do, however, is to close the oil pipeline which provides 4% of our oil imports.

General Powell: There are two outstanding issues. First, is it sensible to go for the \$6 million and give instructions to Secretary Baker to do it? Frank is saying let's think this thing through; it is not enough to make a difference and will set a precedent.

The President: There is nothing worse than being defeated by this man.

Admiral Crowe: Don't worry, Mr. President, we will get him -- perhaps not by Monday but sooner or later we will get him.

Secretary Shultz: I would like to respond to Frank's concern that we are putting the Canal in play by withholding those funds. I believe that no matter what we do we will have to put the Canal into play. So far we have not done much. Delvalle has done it; his lawyers have done it on the basis of our certification but I don't agree that we should remain aloof. We should state clearly that we are on the side of the civilian opposition. We have very fragile controls in place now and I think we should put IEEPA in place and obtain the strong psychological signal that will give us. And, finally, if you decide to move militarily against

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Noriega, you better have done other things first. Otherwise, our domestic adversaries will accuse us again of always going first for the military option.

Secretary Baker: I say that if the market is working, let it work.

Attorney General Meese: We ought to decide whether if we escrow the \$6 million it is the proper thing to do legally.

General Powell: Well, I have here a report relating the events at one of Noriega's cabinet meetings in which a Panamanian member of the Panama Canal Commission states that the United States is scrupulously complying with the Treaty. Placing the funds in escrow is not that much of a problem.

Attorney General Meese: Mr. President, you should authorize us to prepare standby IEEPA authorities to be used in any eventuality.

General Powell: Mr. President, we are running over time. I think we will prepare a decision memorandum to you which will discuss whether to issue instructions to the Treasury to hold the \$6 million in escrow in response to Delvalle.

(Secretary Shultz interrupted and disagreed.) Secretary Shultz said he wanted not just the \$6 million but all the payments withheld.

General Powell: The other issue for your decision would be whether to invoke IEEPA now or have standby authorities ready on the shelf to protect financial flows in case the temporary restraining orders are lifted. Finally, we need to consider what we need to protect our interests in Panama and the American citizens, including the 1600 dependent families currently in Panama.

Secretary Carlucci: We need prompt guidance on this last item.

Secretary Baker: You need to do it right now.

Admiral Crowe: Well, we could bring them home but that would send a powerful signal.

Senator Baker: I don't have any problem with sending a powerful signal but I would like to ask two other questions. What is the scope of our risk, and what can we do about it? And what are our legal obligations? For this, I would like to see an analysis of the relevant treaties implementing legislation and general obligations under international law. I think we could be very vulnerable to litigation.

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