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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

SYSTEM II
90284
ADD-ON ONE

National Security Planning Group Meeting
March 29, 1988, 2:15 - 3:22 p.m., Situation Room

SUBJECT: Panama

PARTICIPANTS:

The President

The Vice President's Office:
Don Gregg

JCS:
Admiral William Crowe
Admiral Jonathan Howe

State:
Secretary George Shultz
Michael Armacost

CIA:
Robert Gates
Richard Kerr

Treasury:
Secretary James Baker

OMB:
James Miller

DOD:
Secretary Frank Carlucci
Richard Armitage

White House:
Howard Baker
Ken Duberstein
Marlin Fitzwater

Justice:
Attorney General Edwin Meese

NSC:
Colin Powell
John Negroponte
Jose Sorzano

Minutes

The President: At the last NSPG meeting on Panama, we decided that Noriega must go and we are publicly committed to that policy. I issued a statement outlining a series of actions intended to produce that outcome. These actions are working and Noriega is under considerable pressure. But he is still there. I welcome your thoughts and assessments about what else we might do to pressure Noriega and further the prospects for a democratic transition in Panama.

Colin Powell: Mr. President, let me give you a brief rundown of the measures you decided last March 10. The GSP/CBI benefits will be suspended on April 10. Treasury and Justice are subjecting Panamanians and Panamanian goods entering the United

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States to increased scrutiny and this has already resulted in more drug seizures. Justice and the State Department have been supporting President Devalle's legal actions. Courts in Boston and New York have granted permanent injunctions preventing transfers of payments by the oil pipeline and other funds to Noriega. We are talking about \$60 million. Should the Boston and New York court actions collapse, we have standby IEEPA authorities to replace them but we don't foresee this for the moment. The State Department contacted other Western donor countries and asked not to give economic assistance to Noriega. Treasury has completed an inventory of all United States Government payments to the Government of Panama and is close to completing another one on all private payments to the Government of Panama. All Panama Canal Commission payments with the exception of services, social security and utilities have been escrowed.

The effect of all of this, Mr. President, has been to virtually shut down the Panamanian economy by drying up its cash. To ensure that this continues, Treasury will set up an escrow account into which USG payments to Panama, with the exception of services, social security and telephones will be placed in escrow. Treasury is working with State and Defense seeking ways in which we can prevent an estimated \$30 - \$100 million in vault cash from falling into the hands of the Noriega regime. We are also looking at ways in which AID and State can provide food for poor Panamanians effected by the general strike.

All these financial sanctions are creating mounting pressures on Noriega, yet he's still there. So we need to consider whether these pressures will work if given sufficient time or whether, instead, they will merely damage the Panamanian economy without forcing Noriega to leave. We, therefore, have to consider other policy options which require significant changes from our present course. For instance, should we use U.S. bases and facilities in Panama to allow Delvalle and Noriega's opposition to organize against the regime? The key policy question is, therefore, whether to move from our present course relying mainly on economic measures and shift to the use of U.S. bases and installations. A related question is whether that change will work. Additionally, we need to consider whether that would ultimately entail direct U.S. military intervention to get Noriega out. These, then, are the major policy decisions before us: (1) whether to use U.S. bases; (2) what are the conditions for U.S. direct military intervention.

Let me now ask the CIA to give us an intelligence readout.

Bob Gates: The economic pressures are mounting, the regime has approximately half of the \$25 million it needs to meet its payrolls. It used most of its cash to pay pensioners and the

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Army yesterday. The public sector workers are owed \$16 million this Thursday and there are no visible additional funds to pay for overdue payroll wages or another \$20 million in other government procurement and services that become due very soon. How long can the government continue like this? There are no certain answers to that question. The opposition remains strong but they are increasingly looking to the United States to force Noriega out. They fear he will outlast the pressures. Regime pressure and economic hardships can weaken and eventually break off the general strike. Intimidation and fear may inhibit opposition turnout at rallies. Their unity may unravel. Food is available but lack of cash makes its purchase problematic. Popular frustration is increasing but so far it is focused on Noriega and not on the United States. Past Noriega supporters have participated in the recent anti-Noriega rallies. Yet, the longer he stays in power the greater his ability to turn growing frustrations against the United States. There are indications of cracks within the PDF. Noriega's reshuffling of the PDF command is an indication that he is worried about his continued support within the armed forces. Only Cuba, Nicaragua, Peru and Paraguay have publicly supported Noriega. The other Latin American countries want a Panamanian solution in which Noriega steps down and are uncomfortable with the deepening United States involvement in the Panamanian situation.



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The CIA believes that in order to get Noriega out of Panama for sure - apart from U.S. military intervention or PDF coup - our options are to continue to use economic pressures to force the military and government workers to overthrow Noriega, or to keep up the pressure and work with other Latin American nations to negotiate Noriega's departure.

Secretary Baker: I would support what General Powell said about the success of our economic sanctions. They are working. There is economic and financial chaos in Panama and ultimately the sanctions will work. But we should be aware that there is damage to the Panamanian economy. Panama is finished as a banking and financing center. Let me address the question of the vault cash. We have no assurance that Noriega won't walk in and capture the vault cash. The only assurance that we have is for the U.S. military to go in and take it out.

President Reagan: Am I right to think that Noriega is taking over stores?

Secretary Baker: Yes, Mr. President.

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James Miller: What is the prospect of Noriega printing new currency? I keep hearing reports that he may be contemplating such a move.

Secretary Baker: Yes, we also hear those reports frequently. But I doubt if it will work. We can take countermeasures. We could, for instance, print more of his new money to flood his economy and make the new currency worthless.

Colin Powell: Secretary Shultz would you like to give us your views of the situation?

Secretary Shultz: I also agree that our economic and financial sanctions are very successful, but I think we have to do more. Mr. President, at the last meeting you said that Noriega must go and I agree. But the way to do it is to take additional measures beyond the economic measures that we are currently implementing and involve the use of our military assets in Panama. Without the use of those assets Panamanians do not believe that we mean to remove Noriega.

There are a series of moves that would step up the pressure: first, to use our bases to help support the political process we favor. Noriega has total control of the media and the Panamanians we support do not have means to communicate their views. Second, we should be willing to consider military action as they may be necessary -- beyond those needed as a precaution. For example, if President Delvalle were able to obtain a decision reestablishing him as Panamanian president and would order the arrest of Noriega and ask for our help, we should be willing to help. Additionally, we need to see how we can supplement Panamanian security to deal with the possible threat of Cuban assistance to Noriega. It seems to me that if we say that Noriega must go, then we must also say that we need to follow through to obtain that goal. We need to be more active than we are now because time is on Noriega's side. He has met a payroll and this increases his chance of getting more funds from the drug dealers or the Libyans or the Cubans. The more time that passes ensures that the economic damage becomes irreversible and if that happens we may get blamed. In any event, if we succeed in getting rid of Noriega, we will have to pay for rebuilding the Panamanian economy. So the sooner we obtain the objective the better. The Civic Crusade leadership is intimidated by Noriega - they are in jail. Our key asset -- President Delvalle -- is a wasting asset. His legitimacy may be destroyed by other countries recognizing Noriega. He may be captured or killed and then we will not have anything to hang on. We now have seen Colonel Herrera. He can be an attractive alternative to Noriega. That is why he was sent to Israel, so that he will not be competition for Noriega. So,

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risks of just staying where we are are great, and the risks of our proposal are smaller. We have to be prepared to see this process through including the use of military assets. I understand the concerns of the military about undertaking a mission with unclear goals but I believe that those concerns can be met.

Colin Powell: Secretary Carlucci would you like to give us your views on the subject?

Secretary Carlucci: To say that Noriega must go is not to identify a policy. It is to state a short-term goal. We need to have a long-term policy for Panama that looks beyond Noriega's departure. It is a question of timing. Nobody here is defending Noriega, but we need to weigh the risks of waiting versus other risks. If we are to cross the threshold of using our military bases in Panama for political purposes, then we should commit ourselves to go the whole way. This should not be a Bay of Pigs. If we are to go this route then we have to be prepared to go all the way. Let me ask Admiral Crowe to explain what that means.

Admiral Crowe: Mr. President we have an armed truce down there. There are 50,000 Americans, some live on the bases, some not; they go to school, they go to work -- all that will be adversely affected if we are to use the bases for this purpose. We have a lot of vulnerabilities in Panama. We know that PDF has long-standing sabotage plans for the Canal. If we are going to move in the direction suggested here, then we have to beef up the security of the Canal, get our dependents out and prepare the American people. We are dealing here with a significant change in our policy and we should start to build up our Canal defenses.

Secretary Carlucci: If we decide to give the military this charter, then let them prepare for it step by step.

Secretary Shultz: Yes, I agree that you should prepare for it but this is not a military problem, it is also a political problem and we should not just have an exclusively military preparation.

Admiral Crowe: It would require probably four brigades, logistics, airlift capability, etc.

Secretary Carlucci: But, George, if we are going to put political constraints on the military then the President should be aware of this.

Bob Gates: It is our view that Noriega and his thugs will not allow a situation in which either Delvalle or the opposition will use U.S. facilities to organize political activities and transmit radio broadcasts to Panama. They will take action.

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Senator Baker: Mr. President, some random comments. I was in Panama during the Canal negotiations and I had one particular experience which is relevant to this discussion. I then met with Colonel Noriega who was head of the G-2. It was an unpleasant experience. He was mean and cantankerous and he has not become any better. I asked him what they were going to do if the Senate did not ratify the treaty and he simply responded, "we will destroy the Canal." I think he meant it. So my question is, do we have the military resources to protect the Canal? Before we do anything in Panama we need to have the resources in place to protect the Canal and our citizens. As a matter of fact, just moving new military resources into Panama will have a healthy effect on Noriega.

A couple of other points. We have an unprecedented consensus in the Congress for our policy. The Senate just voted 92 - 0 urging us to take stronger measures. It would be dangerous if we do not take the lead. Therefore, at the very first sign that our present policy is not working, then we should move quickly to other alternatives.

Edwin Meese: What do we do after Noriega leaves? How do we separate him from the PDF? How do we get popular support for alternative government structures in Panama?

Secretary Shultz: Well, we try to help Delvalle more visibly and more effectively enhance the process towards a government of national unity.

Admiral Crowe: Yes, but there is not much popular support for Delvalle.

Secretary Shultz: But he is all that we have. We also have Colonel Herrera as an alternative rallying point.

Bob Gates: My analysts tell me that Herrera's close association with the United States has burnt him.

President Reagan: Let's talk about the rank and file of the PDF. I am not speaking about the officers but the common soldiers. They must see their families suffering. How can we promote a mutiny on their part so that they refuse to use their guns on their own people? Let me ask another question. I am unfamiliar with the on-the-ground situation in Panama. If we send additional forces, will they have to land shooting or can they come into one of our bases? Would it be possible to establish a government in exile behind our troops? That government then can serve as a rallying point for the Panamanian people. Then if Noriega tells the PDF to charge the ramparts they will mutiny.

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Secretary Carlucci: The PDF will not storm the ramparts. They have a better target. They will attack our vulnerable points such as our dependents. So, if we cross that threshold, we have to be prepared to go all the way.

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Secretary Shultz: Well, the argument that I hear is that we can't do anything because any action threatens our canal or our dependents [redacted] in Panama. But this paralysis means that the drug dealers, Nicaraguans and Cubans will move in.

Secretary Baker: Well, my argument is that what we are doing is working and that it will work. Yet there is a risk that it takes so long and the situation becomes so chaotic that Castro then moves in. In that case we should go in and take him out.

Admiral Crowe: If we allow the use of our bases for political purposes the first thing that Noriega will do is convert this from a Panamanian problem to a U.S.-Panama problem and enlist the forces of nationalism and Latin American solidarity in his favor.

Bob Gates: I want to point out that, ironically, Noriega has been holding back the more radical anti-U.S. elements within the PDF. The younger officer ranks are more leftist and more anti-American than the higher ranks. I think that there is an issue that has been overlooked so far and that is the question of negotiating with Noriega for his departure. We could use the traditional carrot and stick method. Keep the pressures but offer him something that might motivate him to get out.

President Reagan: I also wonder how long we can hold our policy if the effect is to hurt the people of Panama. Where is the Caribbean fleet now?

Admiral Crowe: We have a lot of naval support in the vicinity of Panama right now Mr. President.

President Reagan: Well, maybe sending them in may be a sign to Noriega, but we need not get any further until you give us a military plan.

Secretary Carlucci: I would like to revisit the question of a channel to Noriega. General Woerner is down there, onsite, he is able, he is fluent in Spanish and he knows Noriega. Let him develop a dialogue with Noriega rather than the ad-hoc communication we now have with him.

Secretary Shultz: We can only have one channel to Noriega. If we have more than one he plays one against the other. So we

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should either have the military or the diplomatic channel, but not both.

Senator Baker: Mr. President, I think our interests in Panama are as follows: to protect Americans, to protect the Canal and to get Noriega out. Measures designed to obtain those objectives, like reinforcing the Canal defense and removing Americans from Panama will help to obtain Noriega's departure.

Secretary Shultz: Howard, you should also add the drug problem as one of our important objectives. Think about what it would be to have a canal in the midst of another Colombia, a country increasingly ruled by drug dealers.

Secretary Carlucci: Well, I believe we should be tasked with preparing a plan.

Colin Powell: Let me summarize the sense of the meeting. First, we should keep the economic pressures on. Everybody agrees that they are working, but some worry that they may not be enough. Secondly, we have had a discussion about allowing the use of our bases in Panama for the political purposes of the opposition. DoD is tasked to provide an assessment of the additional forces necessary to protect the Canal, our dependents and our interests in Panama in light of the increased threat to them if we decide to open the bases for political purposes. The interagency PRG should prepare a report on what sorts of political activities we are contemplating allowing from our bases in Panama. Third, if that doesn't work, we need to consider what other things we need to do to take Noriega out. There have been some suggestions that we need to explore new channels of communication with Noriega. We also need better intelligence from DIA, CIA and SOUTHCOM on Noriega's activities to prepare a contingency plan to take him out. We need to do all this within the next two days.

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