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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

National Security Planning Group Meeting
April 12, 1988, 2:00 - 3:00 p.m., Situation Room

SUBJECT: Panama ~~N~~

PARTICIPANTS:

The President

The Vice President's Office
Don Gregg
Craig Fuller

State
Secretary Shultz
Elliott Abrams
Michael Armacost

Treasury
James A. Baker

DoD
Frank Carlucci
Richard Armitage

Justice
Arnold Burns

JCS
Admiral Crowe
Admiral Howe

CIA
William Webster

OMB
Joe Wright

White House
Howard Baker
Ken Duberstein
Colin Powell
Marlin Fitzwater
John Negroponte

NSC
Jose Sorzano
Kim Flower
Steve Farrar

E. O. 12958
As Amended
Sec. 1.4(c)

Minutes

The President opened the NSPG by stating that our policy in Panama was clear: Noriega must go and he must be succeeded by a democratic government friendly to the U.S. We are committed to this cause, he said. We have implemented strong economic sanctions and the price Panama was paying was high. It is not clear, however, whether our policy is working, the President said. We have declared that Noriega must go and yet he is still

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there. We cannot lose this one. We cannot appear to the world to be unable to decisively influence events in our own neighborhood. We must win. The President asked for the thoughts and assessments of the assembled group with respect to what further measures we could take to improve the prospects for the democratic opposition in Panama. ~~(S)~~

General Powell set the agenda for the meeting by saying that it's purpose was basically to review the current situation in Panama and developments that have occurred since the last NSPG. We would also want to review the results of our having invoked IEEPA. There were new channels of communication with Noriega. Several Presidential findings were in the works. There was evidence of increased Cuban involvement. The opposition seemed to be weakening, with a tendency to blame the U.S. and expects that we will solve their problems for them. The economy was on the verge of collapsing. A basic question for the NSPG to address, General Powell said, was to evaluate the effect of our economic sanctions and to discuss what further we could do to achieve our policy goals. ~~(S)~~

Judge Webster offered an intelligence overview, remarking that in his view, time was on the side of Noriega in the long run, but that in the short run Noriega was still in trouble, although he seemed firmly in power in spite of our sanctions. The democratic opposition was pessimistic and believed that economic sanctions were not sufficient. Solis Palma's Cabinet was looking at options to counter the sanctions, such as buying out U.S. corporations and posting tax collectors in the firms. The regime has not, however, been successful in getting additional cash. Noriega simply has not found any way to infuse money back into the economy. Moreover, he has payrolls to meet shortly: \$23 million in government wages; \$16 million in past-due bonuses; and \$2 million for military salaries. The CIA was not certain, but it seemed probable that he would not be able to meet these payrolls. The government had less than \$900,000 in cash, and it needed money to pay for vital imports such as fuel. The CIA believed that Noriega could be ousted by the onset of urban violence provoked in consequence of economic hardship, but that was a possibility that they did not see at present. In sum, Webster said, the economy is under tremendous pressure, but that the longer Noriega persists in power, the better able he will be to successfully adjust to our economic measures. Webster said "that in his personal view, in the near term, time was working in favor of our policy but in the long term, it favored Noriega."

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President Reagan remarked that he had read that at least the teachers were against Noriega and were calling for "pineapple face" to go. ~~(S)~~

General Powell asked Secretary Baker to offer Treasury's analysis of the economic situation. Secretary Baker said that he agreed with the CIA that the situation was desperate. All the banks are closed. Treasury has been in touch with the American banks and has been given assurances that they will neither open or send cash to Panama. Two banks were closing down altogether which would result in 150 Panamanians being out of work. There was \$16 million in vault cash, considerably less than the amount we had earlier thought was present. The banks intend to keep it to meet their payrolls and expenses rather than to destroy it or smuggle it out. Banking officials have expressed concern to Treasury that they will lose their armed protection from the PDF because IEEPA prohibits them from paying for it. There could be no doubt but that the Panamanian economy was in deep trouble and getting worse, Secretary Baker said. Treasury had information that confirmed that small businesses and individual entrepreneurs were leaving Panama. This development would impact on the banking system, too, in the form of defaults. The invocation of IEEPA has caused numerous practical problems. Americans are prohibited from paying their utility bills, for instance, because the power company is State owned. Americans living and working in Panama are prohibited from paying sales tax on purchases; airlines from paying fuel taxes. DoD has asked Treasury for an exception in order to pay the social security tax and this poses a problem. How can the U.S. prohibit private firms from doing what the government does? Treasury has the authority to license exceptions and will institute a procedure to handle such practical problems. ~~(S)~~

Secretary Shultz said that he agreed with the President that the stakes in Panama are very high. Our anti-narcotics program was involved and our commitment to democracy would be judged as people in the region watched and waited to see if Noriega could stage a successful military coup. Clearly, democratic gains in Honduras, El Salvador and Guatemala were at risk. We have to be sure we can succeed. Time may not be on our side, Shultz said. While it is true we are destroying the Panamanian economy, that is not our purpose. It is remarkable how the Panamanian people are able to suffer and watch as their economic lives are destroyed. We must find additional means to achieve our political objectives before the economy is ruined beyond repair. ~~(S)~~

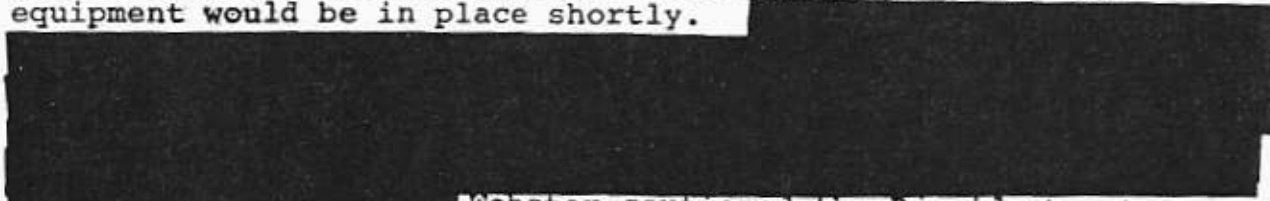
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Delvalle is an asset in this regard. He represents constitutional consistency and whatever we must have thought of him before, he has given a good account of himself since he fired Noriega. Moreover, there may be an emerging majority in the National Assembly that would be willing to support him. Also, there is a well-known and respected PDF officer willing to join Delvalle in the anti-Noriega cause. And finally, there is widespread public support for a policy of deposing Noriega. "Frankly, I don't know what to do," said Shultz. "In previous meetings, my suggestions have been labeled hairbrained, but something must be done." Secretary Shultz suggested a cease-fire between the agencies with differences of opinion on policy. He said that it was not necessary to bring down the entire U.S. military capabilities on Panama. Some intermediate, balanced solution must be devised. Two kinds of programs seemed possible and desirable. First, political action to provide a visible alternative government to Noriega. Secretary Shultz said he understood the very real concerns of DoD but that given our pervasive presence in Panama, it was difficult to see how such political action could take place without at least some involvement of our assets. Secretary Shultz said that he thought the best option would be to provide a secure base of operation for Delvalle. Such a location need not be on a U.S. military base. It could be anywhere, provided Delvalle could operate freely. But we would probably have to use some of our assets to protect him. We have, Shultz said, a clandestine radio broadcasting facility underway. Secondly, we should continue to plan for the contingency of military action against Noriega. Negotiations, Shultz said, are not working either. Noriega uses them to buy time while he entrenches himself deeper. A military action against Noriega could be a joint venture with the Panamanians. Delvalle could issue an arrest order. "Hairbrained schemes," the Secretary observed, "are not what we need, but we need to come up with a plan which starts from the principle that Noriega must be removed." He called for an interagency group to be charged with devising a plan to make this imperative happen. Judge Webster said that the communication system, both the radio to provide Delvalle with a secure means of communicating with his collaborators and a broadcast system were underway. The project had gotten hung up, but the problems were now resolved and the equipment would be in place shortly.


Webster cautioned the President not to expect quick results. (S)

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General Powell asked Secretary Carlucci for an update on military contingency planning. Secretary Carlucci deferred to JCS Chairman Crowe. Admiral Crowe said that if we were determined to go further, especially in the use of our bases for political action, DoD's contingency planning suggested that we should move two brigades or 16,000 men to Panama. This movement could be accomplished within a week. With this level of reinforcement, the U.S. would be in a position to do anything we wanted to do by way of political action. (S)

Secretary Carlucci observed that one element of the problem had not been fully explored as far as he was concerned. The other Latin American countries needed to become involved. The Panama issue had been framed as a U.S. versus Noriega struggle, while Latin America drifted away. "Let us mobilize the countries of Latin America to join us against Noriega," Carlucci said. "The more the pressure the U.S. applies to Panama, the further Latin American countries seem to retreat," he observed. Secretary Shultz replied that Carlucci's point was a good one and that he believed Latin America leaders might be receptive because they were also concerned about illegal narcotics. (S)

Admiral Crowe said that he had been informed by staff that Panamanians were not willing to take up the struggle on their own behalf, but rather wanted Americans to do it for them. Panamanians were sending their family members and personal wealth to the U.S., including their Mercedes automobiles. What they should be doing is going into the streets to oppose Noriega and solve their own problem. Boys from Iowa should not be asked to do what Panamanians won't do for themselves. Secretary Shultz remarked that he did not agree. As for capital flight, that was a rule of nature. Wealth always flees unstable conditions. As for the Panamanian people, they have demonstrated their spunk time and again for more than a year, but they simply could not do the job by themselves. (S)

Secretary Baker asked if it were not desirable to get the Administration disassociated from the Panama issue for a while. What is the rush to depose Noriega? What is the difference whether it happens now or two weeks from now? Why has the U.S. become so visibly identified with the issue? Our chances of success, he said, would be better to the extent that we could dampen public and media attention to the issue. Secretary Shultz disagreed, saying that if the Administration were to downplay its policy, people would assume that Noriega had won and he would be strengthened. Secretary Baker commented that the economic

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deterioration may be decisive. What do we have to lose by waiting for a few weeks to see whether economic deprivation will have the effect of driving Noriega from power. Secretary Shultz replied that we could lose our ability to act. Admiral Crowe said there is reason to believe there is dissention in the PDF. Carlucci remarked that Delvalle may not, in fact, be an asset but a liability. Arnold Burns commented that Delvalle is indeed an asset because, as the legitimate head of government, he is the legal basis for the actions we have taken and why aren't there other things Delvalle could do to enhance his authority? For instance, he could open a pay station and meet the PDF payrolls that Noriega cannot. There may be other ways to enhance his effectiveness. Judge Webster commented that he did not share Secretary Shultz' notion that Latin American leaders would support an anti-Noriega initiative out of concern for illegal narcotics. Judge Webster said Latins blame drugs on U.S. demand, not on Noriega. (S)

Secretary Shultz returned to the subject of timing and commented that it was important to act soon because time was not on our side. The assets now working in our favor could disappear. General Powell remarked that we always had the option of playing our military trump card up until the end of the game. A surgical action against Noriega, however, now seemed more difficult. Our intelligence suggests that surgical response was now not feasible. To the contrary, such an action would be very messy. (S)

Senator Baker commented that the case of Panama was unique. There is broad bipartisan support on the Hill, both in the Senate and in the House. Moreover, there were individuals of public prominence who have privately expressed an interest in being helpful. Some of them former officials of Democratic administrations. We should reach out to them and to Congress in order to build an even stronger national consensus. The Interagency Group on Panama should identify these persons, elicit their help, and suggest ways for them to be effective. (S)

General Powell summarized the meeting by saying a new Presidential finding would authorize secure communications and broadcasting equipment and training for the opposition. The appropriate paperwork would be issued today. The second finding to propose political action was under consideration. We needed to know more about the effects of our economic sanctions and the working group would examine this issue. A political action and policy coordinating group, as suggested by Secretary Shultz, would be convened

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to examine ways to be helpful to Delvalle in the creation of an alternative government. We would develop an approach aimed at engaging Latin American countries in the struggle. Senator Baker's suggestion of broadening the constituency base for our Panama policy would be given careful consideration. DoD would continue to elaborate military options, including more work on a surgical action against Noriega. (S)

The President closed the meeting by commenting that he had no magic ideas. We would just have to work hard to resolve the problem. He suggested that more effort to achieve an international approach might be worthwhile. (S)

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