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 THE WHITE HOUSE
 WASHINGTON

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ACTION

MEMORANDUM FOR: THE PRESIDENT
 FROM: ZBIGNIEW BRZEZINSKI
 SUBJECT: Panama Canal Treaty -- Last Decisions

You will be meeting with Ambassadors Bunker and Linowitz and Panama's negotiators Friday morning at 9:30 a.m. Our Negotiators recommended that you do that to convey directly to them and indirectly to Torrijes your strong commitment to a new treaty and your equally strong feelings about what the United States can do economically to help Panama and more importantly what the U.S. cannot do. To do that, you will probably first want to examine and make decisions suggested in Secretary Vance's memorandum attached at Tab A.

As a result of the discussions with the Panamanians on the various elements of the economic package, our Negotiators believe that the Panamanians expect an economic package and that negotiations would break off if we did not present one. So the issues for decision have narrowed to:

- How big should the package be?
- What items should be in it?

As a way of underscoring the importance of these decisions, let me just sketch very briefly two alternative scenarios which might follow from these decisions.

Scenario 1.

If you decide on a small package or, for that matter any package which is not satisfactory to the Panamanians, then it is quite probable that negotiations will indeed breakdown. With equally high probability, there will be rioting in Panama, which will spill over into the Zone. The Canal would be jeopardized and relations with Panama and all of Latin America and the developing world would be seriously, perhaps irreparably, harmed.

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Our negotiators believe that if you accept the package recommended by Secretary Vance that we could justify that position internationally. They believe that the Latin Americans will readily acknowledge it as a positive and reasonable offer, and as a result, that Torrijos will be forced to accept it.

Scenario II

If you decide on the full package, and the Panamanians accept it, then it is quite possible that the Senate would not ratify the treaty. All agencies agree that the fight in Congress will be much tougher if such a package exists. A defeat in the Congress on this issue will not only jeopardize the Canal and our relations with Panama and Latin America; because you will have to invest so much of your political capital in this effort, a defeat might strike a significant blow at your overall effectiveness.

Thus, the decision is a momentous one, and you might first want to consult with the Vice President, who has been meeting periodically with Senators to discuss this issue, and with Hamilton Jordan, and also perhaps to speak with several Congressional leaders (Byrd, Cranston, and Humphrey will probably take the lead on this issue).

The decisions become even more difficult when one examines the individual elements in the package. Raising tolls by 30-35 percent will cause serious economic and more serious political problems with U.S. (and foreign) shippers, who still complain over the two toll increases (totalling about 50 percent) in the past two years. On the other hand, the economists say that the Canal would increase its revenue as a result of the toll hike, though it is hardly certain that it will earn as much as \$40-50 million.

On the other elements of the package -- Eximbank, AID Housing Guarantees, OPIC, military assistance -- we will clearly need more detailed consultations, but the important point is that they will be viewed as parts of an overall package with a bottom-line dollar figure of \$345 million (plus \$50 million from tolls = \$395 million). On the question of the use of interest payments, both State and Treasury are indifferent on whether we should use the \$20 million to establish a \$200 million co-financing scheme or as a fixed payment. The co-financing scheme may not be acceptable to Congress, but the alternative of a fixed payment provides the Negotiators with a fall-back position. Where State and Treasury disagree is whether we should guarantee a fixed payment (State prefers) or guarantee such a payment only if revenues permit (Treasury and I prefer).

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3

I should stress that Bert Lance has not cleared this yet.

State has also prepared Talking Points for you at Tab B. We will meet with you for a few minutes before the Panamanians join the meeting. I understand that the Panamanians are expecting a letter from you to Torrijos, but if you prefer, I am sure they would be satisfied to convey just an oral message.

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