

THE FINANCIAL AND COMMERCIAL IMPACT OF THE PANAMA CANAL TREATY

HEARINGS BEFORE THE SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY OF THE COMMITTEE ON BANKING AND FINANCIAL SERVICES U.S. HOUSE OF REPRESENTATIVES ONE HUNDRED SIXTH CONGRESS FIRST SESSION

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THE FINANCIAL AND COMMERCIAL IMPACT OF THE PANAMA CANAL TREATY

TUESDAY, DECEMBER 7, 1999

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC AND
INTERNATIONAL MONETARY POLICY,
COMMITTEE ON BANKING AND FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to call, at 10:10 a.m., in room 2128, Rayburn House Office Building, Hon. Spencer Bachus, [chairman of the subcommittee], presiding.

Present: Chairman Bachus; Representative Biggert.

Also present: Representative Baker.

Chairman BACHUS. Good morning. We convene the Subcommittee on Domestic and International Monetary Policy of the U.S. House of Representatives. Today we are going to be focusing on Panama and the return of control of the Panama Canal to Panama.

Panama has long been the key financial center for Latin America; banking, commercial activity, and all things similarly related.

We are here today to listen to testimony from experts on the region and on factors involved in today's reality in that region. December 31, the Panama Canal will revert to Panamanian control. Panama has no standing army with which to protect the Canal and its assets. At the same time, this turnover comes at a time in which political instability is impacting the region. Colombia is in turmoil as leftist guerrillas struggle against the drug cartels for control. Venezuela is in the midst of economic crisis, as is the case with Ecuador. Into this mix come the Chinese with a Hong Kong based company that will assume management of the Canal at both the Atlantic and Pacific ports. What economic impact will this have on the national interests of the United States? It seems clear the military implications are potentially great.

We are here today to look beyond those concerns and to examine the economic, banking, and commercial considerations. Just last week, President Clinton conceded Chinese control of the Canal will accompany the December surrender of American dominance and control. In this admission, he also revealed that our confidence that this Chinese control will pose no direct threat lies in his anticipation of a demonstration of good intentions on the part of the Chinese and their government. Such confidence seems shaky at best. This morning, newspapers report China is building a submarine capable of carrying missiles that can hit any American city. The Chinese intentions and the "see-no-evil, hear-no-evil" approach of the Administration can be demonstrated by viewing what they have

contended about these submarines in the past, and that is that the Chinese navy poses a threat only to West Coast cities. Do these experts not understand that even the old naval missiles can be fired at East Coast targets from ships that can enter the Atlantic? Perhaps this transit might even be available with the Panama Canal under Chinese control.

The economic questions that we raise here today and tomorrow are intertwined with military considerations. We need to hear honest testimony from people who know the truth. It is no accident that this subcommittee chose today, December 7, on which to hold these hearings and to examine these facts.

I have a longer prepared statement, and I will introduce that for the record.

Let me simply say this about the Canal. Two-thirds of the ships moving through the Canal are either destined for the United States or have originated in the United States. One out of every seven products shipped to the United States or shipped from the United States must go through the Panama Canal. This has tremendous commercial and financial consequences. Control of the Canal and our being able to rely on that Canal for uninterrupted commerce is absolutely essential to our commercial and financial well being. The President, as I said, last week conceded Chinese control of the operation of the Panama Canal. That recent development, I think, has staggering consequences for us as a country. It is something that Congressman Rohrabacher, who is here today, and I and twenty-four others have written to the President about on more than one occasion.

Appearing at these hearings today and tomorrow will be many experts. Who will not be appearing is also telling. We have invited both the State Department and the Treasury Department and the administrative representatives of the Administration to appear before Congress today to talk about the commercial and financial implications of the transfer of the Canal, but they have declined to appear. They have not accepted our invitation to be here. I am sorry for that. I would have loved to have heard from the Administration. The President and the Vice President will not be at the ceremonies transferring control of the Canal. They will not be testifying before Congress today on the implications.

With that, we will hear from the panel. And Mrs. Biggert, we have a statement from the gentlelady from Illinois.

[The prepared statement of Hon. Spencer Bachus can be found on page 80 in the appendix.]

Mrs. BIGGERT. Thank you, Mr. Chairman. I would like to thank you for holding these hearings on the financial and commercial impact of the Panama Canal Treaty. It is estimated that one-third of the world's shipping passes through the Canal's waters. In a single year the waterway handles about 140 million tons of cargo, including automobiles, grain, and oil. But the Canal is also important militarily. It allows naval vessels to pass easily from one ocean to another. It vastly increases the flexibility of U.S. naval operations in extending their reach far beyond American shores.

While much has been made of economic and military implications of the transfer, and rightly so, little has been said about the negative impact the Treaty might have on our ability to combat the pro-

duction and distribution of illegal drugs. Panama has served as a base for the U.S. military forces assisting such countries as Colombia, Bolivia, Peru, in combatting the drug cartels that supply much of the world's illicit drugs. On a drug interdiction fact-finding mission to these nations earlier this year, I learned firsthand the importance of our assets in Panama. Sharing its border with Panama is Colombia, which alone produces 80 percent of the world's cocaine and 70 percent of the heroin that eventually reaches the United States. As a direct outgrowth of this illicit drug production, guerrillas in Colombia have already taken control of about 40 percent of their territory and appear to be growing even stronger.

To reverse this situation, the United States is preparing a sharp increase in aid to Colombia with much of the money going to train and equip the Colombian Army's new 950-man counternarcotic battalion. But until recently, much of the plan and training for Colombia operations was conducted in Panama. But with all U.S. military bases shut down because of the Panama Treaty, our U.S. forces have been forced to locate elsewhere. Sadly, these new sites lack the proper infrastructure and proximity to adequately replace the elaborate facilities in Panama, potentially affecting U.S. counternarcotics activities in the region.

So while the focus this morning of the hearing is solely on the financial and commercial impacts of the Canal Treaty, I hope that my colleagues will bear in mind the negative impact the Treaty might have on our Nation's war on drugs.

Thank you, Mr. Chairman. I yield back.

Chairman BACHUS. Thank you. Let me introduce the first panel, if I could.

Dana, I am sure you need no introduction, but Dana Rohrabacher is serving his sixth term in Congress, a Member of the California delegation, and serves on the House Science Committee where he is Chairman of the Space and Aeronautics Subcommittee. He has been a leading advocate that the United States should maintain some military presence in the Canal, should not totally walk away from the Canal. He is an expert on not only the Carter-Torrijos Treaty, but—the neutrality Treaty? Is that the right word?

Mr. ROHRABACHER. Carter-Torrijos Treaty.

Chairman BACHUS. And he is also a Member of the International Relations Committee. We welcome you to today's hearing.

Dr. Tomas Cabal is Professor of Business at the University of Panama, which is a national university. He has extensive journalism and media experience. He serves as a freelance producer and correspondent for both radio and television in Panama and for ABC news. He hosts a daily news commentary in Panama, and received a Bachelor of Science degree from Louisiana State University and a Master's from Florida Atlantic University. We welcome you to the hearing.

Mr. Robert Mazur is President of Chase & Associates, Tampa, Florida. He served for eight years as a special agent for the U.S. Drug Enforcement Administration. He received numerous performance awards from DEA, U.S. Customs and the IRS. He has given numerous lectures on issues relative to drug money laundering and trafficking, of fraud and corruption and their effect on commerce and finance within Colombia.

Our next witness is Mr. Patrick Hall. He is Senior Vice President of Operations and Marketing for Cooper T. Smith Stevedoring. I think your testimony may be as relevant as anyone's testimony, Mr. Hall, in that—and I think some of the testimony that I have read in your opening statement has not been published before. And that is simply that the bidding process for the two ports is very much in question and appears to have been corrupted, appears to be certainly a question of bid rigging. And because American concerns, including yours, bid on operating these two ports, at one time you were the successful bidder on them; and then the Panamanian government, without any comment, rejected your bid and took the bid of another company which has raised considerable concerns here in the United States and in Panama. So I think your testimony is going to raise even more alarms. We rely on the good faith of both this company and of the Panamanians in operating a clean show down there.

With that, Mr. Rohrabacher.

**STATEMENT OF HON. DANA ROHRABACHER, A MEMBER OF
CONGRESS FROM THE STATE OF CALIFORNIA**

Mr. ROHRABACHER. Thank you, Mr. Chairman, and I want to thank you for taking the initiative to conduct this hearing on the turnover of the Panama Canal to the government of Panama one week before the ceremony will take place in the Canal Zone.

Today we commemorate the 1941 surprise attack on Pearl Harbor, and it is critical that we focus attention on the potential threat posed by the growing presence of Communist China at this key geostrategic chokepoint in this hemisphere. Also alarming with the withdrawal of American security forces, as is called for by the Carter-Torrijos Treaty, this has empowered a broad array of international criminal organizations operating in Panama which we just heard reference to. These global gangsters are involved in high-level money laundering, drugs and weapons smuggling, trafficking in illegal aliens, and the counterfeiting and distribution of American intellectual and entertainment products.

In short, as America is withdrawing from Panama—and America's withdrawal from Panama is indeed leaving a vacuum—some of the worst elements in the world, including the Communist Chinese, are moving in to fill the void. The question is, are we going to sit back and passively watch it happen? That seems to be the policy of the Clinton Administration. In mid-1996 the Clinton Administration accepted the results of a corrupt bidding process for Panama's premier ports even though the deal was defined by State Department officials as: "lacking transparency" and, "highly unusual." This corrupt maneuvering enabled the Hutchison Whampoa Company, whose chairman, Li Ka-Shing, is a close associate of the inner circle of Beijing's ruling elite, to be awarded the ports on both ends of the Canal and the adjacent strategic properties.

With your permission, Mr. Chairman, I will submit for the record of this hearing a copy of the June 17, 1996, Panamanian government listings of the bids by the different consortium at the auction for the Panama Canal ports.

Chairman BACHUS. Hearing no objection, so ordered.

[The information can be found on page 92 in the appendix.]

Mr. ROHRBACHER. This was supposed to be the defining transparent action in terms of how ports would be leased in the future and just an example of a transparent auction. You will see by the documents that we have submitted for the record that while the Chinese Hutchison International Terminals bid \$10 million, as did Cooper T. Smith, Kawasaki consortium, you will also see that U.S. Bechtel Corporation bid \$11 million and the Manzanillo/Stevedoring Services American consortium bid \$11.6 million, but who ended up getting the selection was Hutchison Whampoa. As is clear by this documentation, they of course were far from the top bidder. One must wonder why the Panamanian government under former President Perez-Belladares threw out the high bids by American companies. This apparent favoritism ultimately enabled the Chinese company to gain possession not only of the ports which were originally listed, but of other key strategic properties in the Panama Canal Zone.

With the exit of American security forces, the situation in Panama is deteriorating. I recently visited Panama and it was very evident. The mainland Chinese criminal triad gangs, some of whom have ties to Chinese intelligence agencies, are active throughout Panama, are in partnership with the Russian mafia and with Cuban intelligence services and South American cartels. This coalition of evil is conducting drug and weapons smuggling and many other endeavors that are profit-making in the criminal arena and a threat to the people of the United States of both our safety and other avenues in terms of our national security.

While the United States military and other security forces have been withdrawing from the Canal Zone, Marxist narco-terrorist forces are expanding their power in neighboring Colombia and are developing a presence in Panama itself, in the far reaches of Panama, but still within striking distance of the Canal Zone.

Panama does not have an army. It does not have an air force, and it does not have adequate naval assets to credibly protect its sovereign territory, much less to defend a strategic asset like the Panama Canal. Panama's national police units are known for their lack of professional competence and certainly no match for a determined adversary. Official corruption is rampant throughout the country.

It is essential to look at the Chinese role in Panama not only in terms of economic competition, but as part of a larger strategic picture. During the past two years I have traveled around the Pacific Rim, recognizing what is certainly a long-term strategy on the part of Beijing to gain control of the world's key strategic chokepoints. A "vacuum filling" pattern is evident. Everywhere in the Pacific when the U.S. withdraws or is negligent militarily, politically, the Communist Chinese move in.

A Beijing front company controlling ports at both ends of the Panama Canal increases the security risks to the United States of America. That would seem evident. In addition, their control of the ports and cargo stevedoring, the loading and unloading of millions of container boxes of ships departing from and traveling to the United States, this also intensifies the U.S. Customs concern regarding the two-way flow of sensitive weapons-related technologies as well as drugs and other contraband. The expanding numbers of

Chinese personnel entering the Canal Zone enhances the potential for sabotage, especially in the event of a conflict with China over Taiwan or the South China Sea, should such a conflict occur.

Li Ka-Shing and his Hong Kong-based Hutchison Whampoa Company and their subsidiaries are closely associated with the Beijing regime and have a history of acting as a source of funding or acting as intermediaries in deals with the People's Liberation Army. Unclassified documents by U.S. intelligence agencies and the U.S. Bureau of Export Affairs and the U.S. Embassy in Beijing and the Rand Corporation identify Li Ka-Shing and Hutchison Whampoa as financing or serving as a conduit for Communist China's military acquisition of sensitive technologies and military equipment.

U.S. intelligence agencies have identified Li as a member of the board of the China International Trust and Investment Corporation, that is CITIC, which is a principal funding arm of the Chinese and a technology-acquiring source for China's military. In fact, in 1979 Li was the founding member of CITIC. In 1997 Rand Corporation stated, "CITIC does enter into business partnerships with and provide logistical assistance to the People's Liberation Army."

Li is also a business partner of the giant Communist Chinese shipping firm COSCO, which in addition to commercial transport, acts as the merchant marine for the Chinese military. COSCO has been involved in shipping Chinese missile technology and biological warfare components to North Korea, Pakistan, Iraq, and Iran. A November 1999 Hong Kong report, which I request be admitted as evidence in this hearing, cites COSCO's merchant ships as being fitted by the People's Liberation Army to conduct military operations, including mine-laying and anti-submarine warfare.

Li Ka-Shing has also engaged in numerous business partnerships with the Red Chinese Resources Company, a firm that has been identified by U.S. congressional investigators as a front for Beijing's intelligence agencies.

By using Hong Kong-based firms with close ties to the regime, the thin line between the People's Republic of China's government and private companies is blurred, and as the Canadian government's Operation Sidewinder determined, there are significant ties between the Chinese military, the Triads, and certain Chinese tycoons.

If we do nothing, Mr. Chairman, within a decade the Communist Chinese regime, a regime that hates democracy and sees America as its primary enemy, in partnership with the Triads and cartels, will dominate the tiny country of Panama and will control the Panama Canal. We cannot afford that to happen. This is not in the interests of the United States, and it would be a severe compromise of our national security.

I thank you again for taking the initiative of holding this hearing, and I hope we can draw America's attention to this potential threat.

[The prepared statement of Hon. Dana Rohrabacher can be found on page 83 in the appendix.]

Chairman BACHUS. Thank you, Congressman Rohrabacher.

Before I move to the other witnesses, let me read to you a statement that the President made in a press conference last week. He

said, "I would be surprised if any adverse consequences flow from the Chinese running the Canal. I think the Chinese will in fact be bending over backward to make sure that they run it in a competent and able and fair manner."

Do you agree or disagree with that statement?

Mr. ROHRABACHER. I think that statement on the part of the President is very telling. Some people say it was a Freudian slip. The fact is I don't think that the President meant to disclose the information that he disclosed in that statement. That statement would indicate that the President of the United States has already had discussions with Chinese leaders about their control and their operation of the Panama Canal. Up until this time the White House has been denying over and over again that there was any possibility of the Communist Chinese coming to dominate and control the Panama Canal; that instead it was just some company, some private company, Hutchison Whampoa, that was going to control the ports on both ends of the Canal. Obviously, the President has had conversations with the Chinese about this, and the President understands that there is every possibility in fact that the Chinese probably have an intent on eventually controlling the Panama Canal. In fact, every bit of evidence that we have of their activities suggest that.

But for the President of the United States to suggest that this is not a national security concern to the United States of America, it stretches his credibility to the breaking point. Furthermore, of course, the President suggests that Communist China is our strategic partner. Communist China, which has armed themselves to the teeth based on American technology that they have bought or stolen as they move forward to get control of strategic chokepoints around the world, as they continue in their genocide in Tibet and the destruction of the rights of their own people with no liberalization of democratic rights in China whatsoever, anyone with any sense at all can see that Communist China poses the greatest threat to America's national security of any country in the world, and we must be cautious in our dealing with them. For the President just to say that he is confident that they are going to run the Panama Canal in an efficient and fair manner, it is just beyond me that anyone in a position of authority could say something as ridiculous as that.

Chairman BACHUS. His trust—the President and the Administration's trust of the good intentions of the Chinese Communist government, do you think that today's developments where it has been announced that the Julang-2 submarine-launched missile will be deployed on their new submarines and that will be the first example where strategic systems have been developed and deployed using military secrets stolen from Los Alamos?

Mr. ROHRABACHER. Mr. Chairman, the President of the United States has to be aware that the Chinese have been involved in developing these weapons of mass destruction. There is no doubt that the President has been aware through our intelligence sources of this submarine that you just made mention of, or the development of the missiles that you are talking about. After all, those missiles were the beneficiaries and the development of those missiles—the beneficiary, as you say, of technology that American taxpayers

spent billions of dollars developing supposedly for our own national defense. For him during this time period to treat the Communist Chinese as America's strategic partners, again, the American people better pay attention to the security needs of our country, because it is clear that the President of the United States is not.

Chairman BACHUS. The Administration has repeatedly advised the Congress—until last week's admission—that there was no reason or no validity whatsoever in believing that the Chinese were influencing or exerting or capable of exerting any control whatsoever over the Panama Canal or its operation. Do you believe that the President and the Administration have simply been naive, uninformed or misinformed or, in fact, that there is misrepresentation—I mean, it would have to be one or the other, would it not?

Mr. ROHRBACHER. What we see from this Administration and its relations with the Chinese growing presence in Panama is consistent with what this Administration has been doing with the Chinese for the last six or seven years. This Administration has been bending over backward to ignore any belligerent act and potential threatening act on the part of Communist China to the United States, while on the other hand they have been trying to do their best to magnify any possible positive interpretation of Chinese statements or Chinese policy actions. This type of wishful thinking does not serve the interests of our country well.

In terms of Panama, what they are doing is totally consistent with the fact that this Administration shut its eyes to the transfer of military technology to the Communist Chinese, which is a great threat to our national security. Now they are trying to shut their eyes to this power play. And it is an evolutionary power play, but it is still a power play on the part of the regime in Beijing to make sure that its buddies, the Hutchison Whampoa Company, which is controlled by a man who is in the inner circle of the Chinese leadership, Li Ka-Shing—that by closing our eyes to this type of evolutionary power play, this Administration is putting our country in great jeopardy, and, as I say, ignoring the things that we should be watching out for.

Chairman BACHUS. Thank you very much. We will come back and ask questions at a later time.

First, Professor Tomas Cabal. Obviously, in your statement you will advise us whether or not the people of Panama are also concerned about the developments within Panama in the way that the Treaty has been carried out.

**STATEMENT OF DR. TOMAS A. CABAL,
PROFESSOR, UNIVERSIDAD NACIONAL DePANAMA**

Mr. CABAL. Thank you, Mr. Chairman, Mrs. Biggert. With the departure of American military forces from the isthmus, the threats to Panama's security are multiple and originate from the country's strategic location astride the narrow waist of the Americas. Drug trafficking, arms smuggling, illegal aliens, money laundering, and large investments by Chinese companies pose potential threats to Panama's national security, threats that also affect the United States. Due to the time constraints, I will concentrate on two areas that have a direct link to geopolitical realities in Panama and in the Americas.

Panama's vicinity to the major drug-producing nations in South America has transformed the country into a key transshipment point for large quantities of illegal drugs. Colombian drug barons take advantage of the country's proximity to ship some 300 tons of cocaine and large amounts of heroin through Panama, drugs that are in constant demand in the United States and Europe. The military dictatorship that seized power in 1968 opened the gates to Colombian drug traffickers. The return of democracy to Panama in 1989 did not remove the threat of international drug smuggling and money laundering.

Panama's international banking center, the Colon Free Zone, the largest of its kind in the Americas, the Panama Canal, the country's merchant marine, also the largest in the world, and strict bank secrecy laws have allowed drug traffickers to use the country as a money laundering haven. Panama's liberal tax laws, a commercial code that simplifies the creation of shell corporations and the purchase of bearer shares, also explain the country's attraction to Colombian and Mexican drug cartels. During the Noriega years, drug barons used Panama as a depository for huge amounts of illegal drug profits. Since Panama uses the U.S. dollar as its currency and since the country has very liberal banking laws, organized crime has exploited the benefits that the government offers international investors. In spite of efforts by several administrations, large amounts of illegal drug funds pass through the Colon Free Zone and are deposited in the more than 100 banks that operate in the country. Colombian authorities note that the drug lords launder their money in Colombia by selling discounted dollars in exchange for Colombian pesos needed by local businessmen doing business in Panama. The goods purchased and paid for in discounted dollars are then smuggled into Colombia without paying Colombian taxes.

Of the more than \$1.5 billion of Panamanian goods purchased, Colombian businessmen only pay taxes on \$500 million. Other activities in the Free Zone also facilitate money laundering. One of the preferred methods involves the purchase of gold or gold jewelry. U.S. Customs is currently investigating a company, Speed Joyeros, a company in the Free Zone that has become the largest exporter of gold in the Americas. According to the investigators, \$25 million in gold ingots or gold jewelry is shipped out of Panama every month. The two gold mining companies that operate in Panama are closed due to the low price of the precious metals, so authorities suspect that the large amounts of gold being exported are the result of money laundering. As part of the scheme, crooked businessmen inflate the price of the gold to hide the illegal funds delivered by drug traffickers. The invoice, for example, of a \$1 million transaction is doubled, allowing drug dealers to launder an extra million.

In its November 29 issue, *U.S. News and World Report* has an interesting article on the activities of Speed Joyeros that highlights how drug traffickers launder their money in the international gold market. Experts estimate that the Colon Free Zone allows drug traffickers to launder between \$2 billion and \$3 billion a year.

A key indicator that narco-dollars have infiltrated a local economy is the level of excess liquidity in the banking system. In Pan-

ama, according to figures provided by the National Bank, more than \$2 billion of excess funds was transferred last year to the Federal Reserve Bank in New York.

Panama's dynamic construction industry also facilitates money laundering. Figures provided by Panama's construction association note that in the last five years construction projects have totaled some \$2.5 billion. Of this total, about 50 percent have been built without the use of banks or other financial institutions. Real estate is a good investment for money launderers since it is really difficult to document the true cost of a building. The money launderers also invest in hotels, discotheques, casinos, and other businesses that handle large amounts of cash. One of Panama's largest hotel chains is owned by Spanish investors that have been investigated by Spanish authorities for money laundering.

The Panamanian government is well aware of the potential threat generated by drug dealers and money launderers. Panama has created a special financial unit to investigate suspicious financial transactions, but a lack of resources and specialists has limited the government's ability to combat money laundering. Only one case has resulted in arrests, and recently the Panamanian Supreme Court overturned the convictions.

The arrival in Panama of powerful Chinese companies has added a complex ingredient to the transfer of the Panama Canal. Hutchison Whampoa, a Hong Kong-based company that operates maritime facilities worldwide, won the right in 1997 to operate the ports of Balboa and Cristobal, ports that service the Pacific and Atlantic entrances to the Panama Canal. The United States operated both ports until 1977 at which time, as mandated by the Canal treaties, it turned over both facilities to Panama. The Panamanian government held bids and, after a questionable process that favored Hutchison Whampoa, awarded the contract to the Chinese company, allowing them to upgrade the ports and operate them for the next fifty years.

Experts disagree on the level of influence that the Chinese will have in Panama, but they note that the contract allows Hutchison Whampoa abundant leeway in their operation of the port facilities. Hutchison operates worldwide and they control 50 percent of all stevedoring services in Hong Kong, a situation that lets them set the price for container transport and may allow them to undercut the two competitors that manage similar port facilities in Panama. According to the National Security Center, Hutchison's chairman, Li Ka-Shing, is a key advisor to the Chinese leadership in Beijing. Mr. Ka-Shing is a controversial figure who also serves on the board of China International Trust and Investment Corporation which is a principal arm of the Chinese government and a technology-acquiring source for the Chinese military, according to Congressional sources. Li is also director of the Communist Chinese shipping firm COSCO, which in addition to commercial transport, is the merchant marine for the Chinese military. Again, according to congressional sources, Li has also engaged in numerous business partnerships with Chinese Resources, a firm that has been identified by U.S. congressional investigators as a front for Beijing's intelligence agencies.

The chairman of Hutchison Whampoa is the subject of a parliamentary investigation in Canada, according to reports published by Canadian newspapers. The investigation, code named Operation Sidewinder, targeted powerful Chinese businessmen to determine if they were facilitating the purchase of Canadian companies with funds provided by the Chinese mafia. In its latest report, Transparency International ranked China as one of the most corrupt countries and classified Chinese corporations as willing to pay bribes.

These allegations are extremely serious since some experts believe that Hutchison will be able to affect Canal operations and that the ship pilots could impede the normal flow of vessels through the waterway. This theory is disputed by the Panama Canal Commission who explain that only they can determine the level of expediency in Canal traffic, a fundamental concern for the United States, since the U.S. Navy has the right to head-of-the-line privileges for its vessels.

Whatever the outcome from the presence of Hutchison Whampoa, the truth of the matter is that the People's Republic of China is rapidly filling the vacuum created by the departure of American military forces from the isthmus. Other Chinese companies such as the Great Wall of China, mentioned in the Cox Report, and COSCO are investing in Panama. Their presence adds to the danger of using the Colon Free Zone to purchase restricted technology with dual civilian-military use.

As reported by the *Miami Herald*, the Chinese are now operating two electronic eavesdropping stations that allow their military forces to monitor U.S. communications. The Chinese companies are investing in modernization of the Panama Railroad and are actively seeking a contract to operate Howard Air Force Base. The closing of this facility has hampered the efforts by the United States to monitor the activities and suspicious flights of international drug traffickers.

The Chinese presence adds a new dimension to the geopolitical struggle between two political systems that are antagonistic. Many experts in the United States feel that America's preeminence in the Pacific Rim will be tested by the Chinese in the near future. Disagreements over trade or other political disputes could spill over into Panama. A large and influential Chinese presence in Panama could alter the political equilibrium in the region if Beijing were, as an example, to support leftist guerillas in Colombia. Panama clearly maintains diplomatic relations with Taiwan, but continued expansion of investment by the People's Republic of China could signify an end to that relationship.

Panama is Taiwan's most important diplomatic ally in the region. Chinese investments in port facilities in the Bahamas convinced the Bahamian government last year to switch its diplomatic allegiance from Taiwan to Beijing. If Chinese companies secure control of Howard Air Force Base, Rodman Naval Station on the Pacific entrance to the Canal, and the Panama Railroad, the ability of the United States to influence events in Panama could be greatly diminished. Chinese experts from the mainland and Hong Kong account for 20 percent of all goods purchased by the Colon Free Zone. The People's Republic of China is the fifth most important user of

the Canal, and COSCO is one of the principal clients of the international waterway.

As Chinese investment grows in Panama, their ability to influence the local Chinese community will also increase. Overseas Chinese communities are targets for the Chinese mafia. Known as "triads," these criminal gangs prey on Chinese citizens. They foster illegal gambling, prostitution, loan sharking, strongarm methods, drug trafficking, illegal aliens, kidnapping, and murder. Activities in Panama and in Central America of Chinese triads are on the rise, a situation that worries law enforcement agencies since the business of these criminal gangs is very difficult to detect and to infiltrate.

[The prepared statement of Dr. Tomas A. Cabal can be found on page 93 in the appendix.]

Chairman BACHUS. Thank you very much.

Mr. Mazur, I appreciate you testifying. I understand that you were a DEA agent in Panama; is that correct?

Mr. MAZUR. I worked, Mr. Chairman, in Panama in an undercover capacity when I worked for the Drug Enforcement Administration as a Special Agent.

Chairman BACHUS. Thank you.

STATEMENT OF ROBERT MAZUR, PRESIDENT, CHASE & ASSOCIATES

Mr. MAZUR. I am currently the President of Chase & Associates, a company that provides consulting, training, and expert witness services in several fields, including money laundering and international drug trafficking. I started my firm in August of 1998, shortly after I retired from Government service and concluded a 27-year career as a Federal agent. My company presently serves a number of private law firms, Government agencies, and public companies. I continue to frequently interact with the law enforcement community on a number of levels. I conduct advanced training to Federal agents at the national law enforcement academies and I am a consultant to the Office of Independent Counsel, David Barrett, here in Washington, DC. I serve as an anti-money-laundering compliance consultant to a public company that deals frequently with the U.S. Customs Service.

During my law enforcement career, I was a Special Agent with three agencies: The IRS Criminal Investigation Division, the U.S. Customs Service Enforcement Division, and the Drug Enforcement Administration. While working for each of these agencies, I was primarily responsible for conducting long-term investigations of international drug trafficking organizations. I directed dozens of lengthy investigations in various capacities. I functioned as a Project Manager and Case Agent and, in this instance, most importantly as a Long-Term Undercover Agent. I have been qualified in U.S. District Court and the Superior Court in Canada as an expert in international money laundering as well as an expert in international drug trafficking.

During the late 1980's through 1994, I assumed several long-term undercover roles and infiltrated various international drug trafficking organizations including both the Medellin and Cali drug cartels of Colombia. My primary role with these cartels involved

the coordination of laundering drug proceeds with various corrupt financial institutions, businessmen, bankers, and financial planners. My undercover roles in these three investigations led to the prosecution of several hundred traffickers and money launderers and the collection of more than \$600 million in forfeitures and fines and the development of critical evidence that was used in the conviction of Panamanian General Manuel Noriega.

I was the primary undercover agent that infiltrated the Bank of Credit and Commerce, and my reporting of hundreds of conversations with BCCI officers was the cornerstone of the prosecutions that led to the dismantling of the bank.

I have been honored to serve in the difficult task of attempting to thwart the international drug and money laundering investigations that poison our citizens, murder witnesses, corrupt governments and institutions, and create an unfair economic advantage for those who invest billions of drug dollars earned each year. My achievements in the investigation of the world's largest drug cartels and money laundering organizations occurred—and I really want to stress this quite a bit—I worked shoulder to shoulder with members of a team, a team comprised of hundreds of law enforcement officers, prosecutors, analysts, agency administrative staff, and their devoted families who sacrificed many hours of their lives for a cause. Had it not been for the devotion and professionalism of that team, I would not be testifying before you today. I could not have succeeded without the unfailing support of that family.

Although I have viewed the drug trafficking and money laundering world as a traditional investigator of historical facts, I was also given a unique opportunity to experience that world from the inside. As a Long-Term Undercover Agent over a collective period of five years, I interacted as a member of the drug and money laundering world on a 24-hour basis. My undercover roles enabled me to interact closely with dozens of significant members of the world's most notorious drug and money laundering groups.

Although it would be impractical for me to mention each of the significant criminals with whom I dealt closely, I would like to mention a few of these individuals so you can better understand why I was in a position to gain a unique picture of the effect that high-level traffickers and money launderers have on Panama and other nations.

With respect to the Medellin Cartel, I dealt closely with one of Pablo Escobar's—the former head of the Medellin Cartel—attorneys and closest advisors, a gentleman by the name of Santiago Uribe, who was responsible for the laundering of a significant portion of Escobar's fortune. Mr. Uribe was a professor at a university in Medellin. In addition, Uribe assisted in the orchestration of the assassination of law enforcement officers in Colombia. He was the author of Colombia's non-extradition treaty which has been rescinded as a result of the courage of the present administration in Colombia.

I also worked very closely with one of Fabio Ochoa's cocaine transportation and distribution specialists, Roberto Alcaino, Fabio Ochoa being one of the members of the Medellin Cartel. While working in an undercover capacity, Alcaino and I became partners in the laundering of drug proceeds for the Medellin Cartel mem-

bers. Our apparent friendship led to his disclosure to me of an entire clandestine lab operation that produced cocaine that was transhipped through Argentina to the United States and Europe. Information disclosed to me by Alcaino led to his arrest at the site of a 2,500-pound cocaine seizure; and after his arrest, still not realizing that I was an undercover agent, Alcaino put me in charge of his organization to collect drug debts and deal with suppliers.

I also dealt directly with one of Gerardo Moncada's primary assistants. Mr. Moncado was Mr. Pablo Escobar's replacement to the Medellin Cartel. I dealt with a gentleman by the name of Rudolph Armbrecht. Mr. Armbrecht was a former commercial pilot who acquired a small air force for the Medellin Cartel that was used to transport tons of cocaine throughout North and South America.

With respect to the Cali Cartel, I worked closely with corrupt bankers and businessmen, and through the Black Market Peso Exchange and dozens of fictitious export companies these corrupt professionals laundered tens of millions of dollars in drug proceeds for members of the cartel, including Miguel Rodriguez Orejuela.

With regard to the Bank of Credit and Commerce, I routinely met with officers of the bank throughout the world and received a firsthand education from them about various methods to effectively launder drug proceeds. Among other officers, I dealt on a daily basis with a gentleman by the name of Amjad Awan, the former manager of the Panama branch of BCCI. At the same time that I dealt with Mr. Awan, he maintained a close relationship with Manuel Noriega and functioned as Noriega's financial advisor.

With regard to Panama, I shared office space with Gilbert Straub, a convicted drug money launderer who was formerly a lieutenant of Robert Vesco. In the early 1970's, Straub ran Vesco's operations in New Jersey. He is the individual that personally delivered \$50,000 in U.S. currency that was initially used to buy the silence of the Watergate burglars. After Straub, Vesco, and others were indicted for SEC violations in the early 1970's, he fled to Panama, established Panamanian citizenship, and embarked on a career of laundering illegal proceeds for U.S.-based organized crime figures. Straub informed me of innumerable facts relative to the illegal activities he and others staged from Panama.

While in Panama, I dealt with a host of drug traffickers and money launderers. The individuals were involved in the Colombian cartels, the Russian mafia, the Italian Mafia, U.S.-based organized crime, illegal arms dealers, and money managers in control of fortunes stolen by corrupt world leaders. Virtually all of these individuals looked with great optimism toward the day when the U.S. forces would be withdrawing from Panama and the U.S. presence in Panama would be minimized.

I would like to highlight my undercover conversations with one particular individual that has a major influence in Panama, Jorge Krupnik. Although Mr. Krupnik's account of his integrating criminal conduct and legitimate business activities is astounding, it isn't that dissimilar to the activities of the majority of the contacts I made while working undercover in Panama. Despite his indictment in the U.S. for drug money laundering offenses in 1994, Mr. Krupnik continues to be a very influential businessman in Panama. He is associated with political figures in Panama, government

officials in Russia, government officials in Cuba, Colombian drug traffickers as well as organized crime groups in the United States. Because Mr. Krupnik is a Panamanian citizen, Panamanian law does not permit his extradition to the United States for offenses stemming from his laundering of drug proceeds. Like many individuals involved in significant criminal activities, he uses Panama as a safe haven from which he injects illegal proceeds into legitimate businesses throughout the world.

I was introduced to Mr. Krupnik in 1993 when I visited him at his office in the Banco Exterior building in Panama. At the time, Mr. Krupnik was already well known to law enforcement agencies. By his own account, he was formerly a close associate of General Manuel Noriega. During the Noriega regime, Krupnik was in charge of the procurement of arms for the country of Panama and maintained exclusive rights to deal with certain arms dealers. A few days before Noriega was captured by U.S. troops, Noriega and his bodyguards used Krupnik's home as a place of refuge.

Mr. Krupnik was born in Russia. He previously resided in many countries including the United States. Since establishing residence in Panama, he has become a significant member of the business and political community. When I knew him, he owned a construction company and a marine terminal with charter ships and tankers. He sold commodities including food goods, cigarettes, emeralds, petroleum, and automobiles throughout the world. Basically, Mr. Krupnik finances investments worldwide. When I dealt with Mr. Krupnik, he maintained close business ties with individuals in Russia, Italy, Cuba, Switzerland, Colombia, Panama, the United States, and other countries.

Like most of the criminal element in Panama with whom I dealt, Mr. Krupnik anxiously awaited the diminished influence of the U.S. in Panama. Mr. Krupnik viewed the U.S. withdrawal as an opportunity to assist interests in other parts of the world to increase their economic influence in Panama. In particular, Mr. Krupnik worked closely with unidentified "businessmen" in the Far East with whom he hoped to build a Special Economic Zone in Panama. The construction cost of this zone was estimated at \$3 billion. Among other features, this zone was supposed to include a commercial district, international finance center, hotels, marina, housing; warehouses, industrial districts for light, heavy and high-tech industries, and the redevelopment of Port Balboa.

Aside from future projects such as the Special Economic Zone, Mr. Krupnik spoke of his extensive involvement in the present-day infrastructure of Panama. After gaining an understanding that I was involved in the laundering of tens of millions of dollars in drug proceeds for the Cali Cartel, Mr. Krupnik offered me unlimited access to aircraft, shipping facilities, and other equipment that operated in the ports and airports of Panama.

Among other proposals, Mr. Krupnik offered the following: the exchange of U.S. currency generated from drug trafficking for Colombian pesos, commercial goods, real estate, or gold bars; the use of a money laundering scheme that involved fictitious sales of emeralds; the laundering of drug money through contacts in the New York City diamond district; the illegal transportation of U.S. currency aboard commercial aircraft maintained in Panama; the laun-

dering of drug money through contacts in Las Vegas; the laundering of drug proceeds to bank accounts in the Bahamas and Switzerland; the exchange of U.S. currency in Panama for currencies stockpiled in Colombia, and, in this case, the investment of drug proceeds and business ventures in which Mr. Krupnik participated, including the automation of the port of Cristobal, and improvements to Panama's rail system. According to Krupnik, in exchange for investments in these projects he would ensure that these facilities could be used by Colombian traffickers to transport drugs and money.

The facts outlined above are only a small sample of the type of criminal activity I regularly witnessed in Panama. The majority of my conversations with money launderers and drug traffickers in Panama were recorded, including my conversations with Mr. Krupnik. The Drug Enforcement Administration has maintained control of these recordings.

In light of the eminent withdrawal of U.S. troops from Panama and the likely reaction to this event by major organized crime groups throughout the world, I recommend that the U.S. attempt to assist the Panamanian government with the likely increased criminal activity that will plague their country. An enhanced understanding and partnership between the U.S. and Panamanian authorities offers a strategic defense against the exploitation of Panama by outside criminals.

In my opinion, consideration should be given to increasing the budget and resources of the Drug Enforcement Administration and the other U.S. law enforcement authorities that are hosted by the Panamanian government. Asking these agencies to find funding in their existing budgets to react to this threat would be a disservice to the many other priorities that they must address and the importance of this issue. If the U.S. Government is serious about helping our allies confront new threats imposed by the never-ending resources of organized criminal groups, their actions relative to Panama will serve as a primary example of whether their heart is in this fight.

I believe that when the Panamanian people recognize that the U.S. respects the sovereignty of their nation and offers enhanced bilateral cooperation to address the threats posed by the increased insurgence of sophisticated criminal organizations, they will certainly respond favorably. The increased threats posed to Panama are not only important to the U.S. and Panama, but the entire world. The exploitation of Panama's banking community by organized criminal groups can extend a financial lifeline to terrorism anywhere in the world.

In view of the increased threat imposed by sophisticated criminal groups to Panama and the international banking community, I would also consider the merits of initiating several long-term undercover operations like those in which I was authorized to function in an undercover capacity. These special operations, which require Attorney General Exemptions and were initiated during 1986 and 1991, appear to have occurred with less frequency since the early 1990's.

While the granting of Attorney General Exemptions addressing global money laundering organizations may have diminished dur-

ing the recent past, an unusual number of regulations have been contemplated and imposed upon the world banking community during the same period in an effort to monitor transactions that might involve illegal proceeds. Although well intended, these regulations do not affect the more sophisticated money launderers. Providing resources to the relevant law enforcement agencies and empowering those resources through the issuance of Attorney General Exemptions, addressing global money laundering organizations is the most effective deterrent to the Jorge Krupniks of the world.

The views expressed herein are mine and not necessarily those of any of the agencies that I worked with. I am here as a U.S. citizen.

[The prepared statement of Mr. Robert Mazur can be found on page 102 in the appendix.]

Chairman BACHUS. Thank you.

Our fourth witness is Mr. Patrick Hall; and Mr. Hall, in introducing you in my opening statement, I mentioned that approximately two-thirds of the cargo transiting the Panama Canal has either departed from or is destined for United States ports. In fact, there are 13,000 ships using the Canal each year, and two-thirds of the cargo on those ships is either bound for the United States or has departed the United States.

If you look at grain from the Dakotas and Nebraska, that grain relies solely on the Panama Canal. So our farmers in that region exporting their product rely totally on the Panama Canal as a cost-effective transit. Because it is of such commercial importance to the United States, it is no surprise, I think to any of us, that there are tremendous financial banking and commercial interaction between the United States and the government of Panama, and there are tremendous commercial and financial banking interests which we have in the country of Panama.

Your company dealt with the Panamanian government in the bidding process for the operation of these two ports, is my understanding.

Mr. HALL. Yes, Mr. Chairman, that is true.

Chairman BACHUS. There have been legitimate questions that have been raised over the financial banking and commercial implications of potential control or operation of the Canal by Hutchison Whampoa. I think your testimony is going to be particularly important, because they were a competing bidder to you in operating in the Panama Canal.

So we welcome your testimony. And I think the way that the Panamanian government dealt with you as an American company and with Hutchison Whampoa could be quite relevant to how they might deal with American companies in the future when we compete with companies like Hutchison Whampoa. Thank you.

**STATEMENT OF PATRICK C. HALL,
SENIOR VICE PRESIDENT, COOPER/T. SMITH**

Mr. HALL. Mr. Chairman, on behalf of my company, Cooper/T. Smith Stevedoring, I want to thank you for giving me the venue to relay the facts relating to the bidding process we experienced bidding for the port concessions in the Republic of Panama.

In the early 1990's, Cooper/T. Smith was involved in negotiations with individuals and entities regarding the eventual Manzanillo International Terminal located on the Atlantic side of the Panama Canal. Although these relationships never materialized, Cooper/T. Smith did develop a strong interest in Panama, and specifically in the Port of Cristobal.

As a result of our interest, we began discussions with the government of Panama on the possibility of obtaining a concession for the Port of Cristobal. These discussions took place during 1994 and 1995. Our interests were well received and we established a strong relationship with Dr. Hugo Torrejos, Director of Ports, as well as numerous other government officials.

In the summer of 1995, we were informed that the American company, Bechtel Enterprises, had been retained by the government of Panama to conduct a study on the possibility of concessions for the Ports of Cristobal and Balboa on the Pacific, as well as the railroad crossing the isthmus. We were further informed that at the conclusion of this study a public bid would be held with respect to the ports, and that we would be one of the prequalified companies who would be allowed to bid.

As we awaited the completion of the study and the official announcement of the public bid, we were informed that Bechtel had been allowed to make a private bid encompassing both ports and the railroad. This was in the spring of 1996. Shortly thereafter, we were informed by our local attorney in Panama that the government of Panama was again interested in receiving our proposal. We were informed that the Bechtel proposal had presented such a low bid that the government was insulted and the local labor unions were furious.

In April of 1996, the government hired an independent consulting group, ICF Kaiser, to assist them in reestablishing the bidding process. In the meantime, we had begun discussions with International Transportation Services Incorporated—ITS—regarding the possibility of joining forces on our bid proposal; thus, collectively bidding on both ports. ITS had been working together with a local Panamanian company, Pananal Shipping Investment—PSI—in negotiating with the government of Panama on a private concession for the Port of Balboa. In fact, ITS and PSI had executed a Memorandum of Understanding with the government with regard to the Port of Balboa.

In June of 1996, with ICF Kaiser's work complete, the government called for an open bid. The bid was to encompass only the two ports, as the railroad concession had already been awarded. Our new consortium, Cooper/T. Smith/ITS/PSI, presented our bid on time and in the proper form as requested by the government. Our bid was for both ports, Cristobal and Balboa, as requested. With respect to the other bid packages received, there was a great deal of confusion, as they were delivered at varying times and contained bids on specific areas within the two ports. Due to the "inconsistency" in the bids, the government decided to rebid the concession. This "new second bid" was due on June 18, 1996. In an attempt to resolve the previous "inconsistencies," the government made clear the criteria and the deadline for the "new" bid that was due.

Again, our consortium presented its bids in a timely fashion and consistent with the criteria requested by the government.

We are uncertain as to who actually bid on time; however, we were informed that Hutchison—HIT—presented their bid approximately two hours after the deadline. Further, once opened, the Hutchison bid was also determined to be less favorable than the Cooper/T. Smith/ITS/PSI bid.

Soon thereafter, June 20, 1996, we were informed by our local attorney in Panama that the publication *El Panama America*, in that day's edition, ran an article stating the following: "Note: ITS is an American subsidiary of Kawasaki Corporation." This is translated: "The government determined last night in principal two projects, and in addition, awarded to the Japanese-North American group Kawasaki Cooper/T. Smith the operation of the Ports of Cristobal and Balboa.

"The minister, Francisco Sanches Cardenas, revealed that Ernesto Perez Balladares announced before members of the Democratic Revolutionary Party, the concession of the Ports of Cristobal and Balboa to the group Kawasaki Cooper/T. Smith.

"Kawasaki offered the payment of an annual rent of \$10 million, 9 percent of the gross earning of container cargo, 7.5 percent of the bulk cargo, a participation share for the state of 10 percent without manifest compromise of acquiring the equipment of the National Port Authority, without a concrete monetary offer for indemnification of the public employees that participated in the service to be privatized and without establishing the amount of the immediate investment nor the total for the project.

"The president preferred the offer of Kawasaki-Cooper to that presented by Bechtel, which proposed to operate integrally both ports and the railroad, Ferrocarril de Panama, while promising to implement an initial investment of \$11 million, 7.5 percent of the total gross earnings of the entire project, promising to pay \$10 million for the equipment of APN, obligating themselves to \$30 million in order to indemnify the public employees and promised to make an immediate investment of \$110 million, \$155 million in five years and with a grand total investment in the project of \$560 million."

We were then contacted and requested by the government of Panama, through the office of Dr. Hugo Torrejios, to travel to Panama for the official announcement. Within a few days, Mr. Angus Cooper, II, the Chief Executive Officer and Chairman of the Board of Cooper/T. Smith; Mr. Patrick Hall, Senior Vice President of Cooper/T. Smith; and Mr. Jeff Weston, In-house Counsel for Cooper/T. Smith, traveled to Panama City.

We were accepted in the office of Dr. Torrejios, along with the employees of our partner, ITS, and were officially congratulated by Dr. Torrejios of our award for the concession. During the meeting, Dr. Torrejios received a telephone call requesting his presence at another meeting. He asked that we please wait for him in his office in order for us to continue our celebration. Upon his return, approximately one-and-a-half-hours later, we were informed that he would have to recant his previous congratulations. He explained due to some "lack of transparency" there would have to be another bid. He further explained that all bidders would receive a new set of criteria for the now third bid.

Under extreme confusion as to the government's actions, ITS submitted a "letter of protest" on behalf of the consortium clearly stating our discontent and concerns concerning the process in which the bidding took place. This letter was never answered. Further, we never received any new bid material and eventually resubmitted our June 18, 1996, bid package. The bid was delivered and opened on July 29, 1996.

Eventually, HIT was awarded the concession. We were later informed that HIT merely doubled our June 18, 1996, bid as their offer on July 29, 1996. Further, we were informed that HIT was the only company to actually receive the promised new criteria for the third bid.

We have had little or no contact with Panama since that time.

[The prepared statement of Mr. Patrick C. Hall can be found on page 107 in the appendix.]

Chairman BACHUS. Let me just ask for one clarification. What was the date that you traveled to Panama and were advised that the concession to operate both ports had been awarded to the Japanese-American consortium?

Mr. HALL. I believe it was June 20, 1996.

Chairman BACHUS. June 20, 1996. And some hour-and-a-half after being told that you had been awarded the concession, that your company—

Mr. HALL. We were in Mr. Torrejios' office and were told that a letter was being drawn up to confirm that we would start negotiations on the contract. His secretary came in and said he had a call. And he came in, said he would be back in a few minutes, he had to meet with the president. He came back an hour-and-a-half later and gave us the bad news.

Chairman BACHUS. So, actually, he had to meet with the president of Panama?

Mr. HALL. That is what he told us.

Chairman BACHUS. All right. Thank you very much.

At this time I am going to ask if any Members of the subcommittee have any questions. I will reserve my questions until both Members have asked theirs.

Mrs. Biggert, Mr. Baker has a commitment at about 12 o'clock. Would it be all right for him to proceed? I appreciate that.

Mr. Baker.

Mr. BAKER. Thank you, Mr. Chairman, and Mrs. Biggert for your courtesy.

Mr. Chairman, I will be brief. I wish I had time to go more in depth into the concerns that the panel has raised this morning. I think your leadership in calling this hearing is most appreciated; and the testimony of these witnesses, if it could be presented to the full Membership of the Congress, I think would give great cause to rethink the potential of this ultimate transfer.

With having expended over \$3 trillion in the region over a period of years since the Canal was constructed, the loss of life that occurred during the construction phase itself, the fact that we have acted as a world leader with definite capacity in that region of the world, I cannot understand how there have not been greater repercussions within the Congress about the manner in which the transfer will be conveyed.

Specifically, the bid processes were, I think, alarming. The treatment of American interests, which have invested enormous capital in this region of the country; the fact that significant amount of trade, particularly from the southern agricultural States, that must go through the Canal for world access; the fact that Panama has no established military to maintain and preserve the security of the Canal; on top of all the financial commitments made to date; the fact that the deal now calls for the United States Government and this Congress to forward another \$160 million to convey the Canal debt free, I find absolutely astounding.

I have filed legislation, Mr. Chairman, which would at least do two things. It would say as a condition of forwarding the residual \$160 million, which I understand are fees and tariffs gathered by the operation of the Canal, that the United States Government would preserve a right to continue occupancy of the Howard Air Force Base in some fashion for a continued military presence in the region. And, second, that if we do in fact convey the \$160 million, that the funds be used only for the maintenance of the Canal. As it is, there is no obligation that the \$160 million be used in any way in relation to the operation of the Canal.

And I understand that the maintenance requirements and the lack of qualified personnel to operate that Canal are of extreme concern. And given the financial difficulties the country now faces, it would not be unrealistic to expect that \$160 million to find other creative ways of being used as opposed to the continued preservation of the Canal.

Mr. Chairman, I stand fully supportive of whatever direction the subcommittee chooses to take in this matter. I think it is of grave national significance, militarily and economically, and I am very grateful that you took the leadership to call this hearing.

And thank you, Mrs. Biggert, for your courtesy. I regret that I cannot stay.

Chairman BACHUS. Thank you. And now I will yield to the gentlewoman from Illinois.

Mrs. BIGGERT. Thank you, Mr. Chairman. Maybe somebody could just review very briefly. There were really two parts of the Treaty that were signed in 1997 about turning over the Canal, but also the provision for maintaining the neutrality of the Canal so that even though it is turned over we would still have a way to go back. Is that correct?

Mr. CABAL. I think for all practical purposes this Canal transfer is a done deal. There are other considerations, for example, whether the text of both treaties, the English version and the Spanish version, do they match. I know that there is a resolution. One of the Congresswomen has introduced legislation in the Congress to try to straighten it out, but for all practical purposes, Mrs. Biggert, I really believe in the Panamanians that that is a done deal.

However, there are other measures currently on the negotiating table that can allow the United States to maintain a presence and to help Panama enhance its security preparations in the administration and the control of the Canal. The Clinton Administration has just presented a new security agreement which would provide considerable technology and economic aid that would allow Panama

to begin to fulfill, completely fulfill, its security commitments to the Canal.

Now, why do I say a done deal? Because for the Panamanian people the Canal is a major asset. It is run by Panamanians. I have no doubt in my mind that Panamanians can and will run the Canal the way it should be. But we do have other concerns, for example, the continued presence of the Chinese. Now, there is nothing wrong with Chinese investments per se. But a small country like Panama, with the type of investment we are talking about and the geopolitical fallout from such investments, is certainly something to worry about.

We have other security concerns, such as what is going on with the narco-guerillas on the Colombian border. We need helicopters and fixed-wing aircraft, and we need to bring up the Panamanian police and security organizations to a level in which these threats can be contained. And the United States can play, I believe, a significant role in a partnership with the Republic of Panama to make sure these things happen. But it will take a substantial push from Congress to wake up the people here in Washington as to what we are talking about.

I am most grateful for the subcommittee in inviting us to share our thoughts with you, because all of a sudden the eighth marvel of the world, a tribute to Yankee engineering and Yankee ingenuity suddenly just disappeared from the political radar screens here in Washington, and we have major concerns and we have major worries, and we have major situations that need to be addressed. But we need to do them jointly in a new partnership, in a situation which the United States and Panama can continue to work together to enhance the operation of the Canal and to secure and protect both countries from these threats that you have heard so many details about in this hearing today.

Mrs. BIGGERT. What do you think about the attitude of the Panamanian public versus those that are in the political elite? Do you think there is a difference in what they perceive as the American influence remaining in Panama?

Mr. CABAL. Eighty percent of the Panamanian people want the United States to remain. Unfortunately, the Clinton Administration and the Perez Balladares administration could not get together for a continued operation at Howard Air Force Base.

The United States now has a major problem in patrolling the Pacific area, of controlling drug flights, the flow of drugs. We are talking about 300 tons of cocaine, substantial amounts of heroin flowing through Panama on the way to the streets of Washington, New York, the streets of America. And the Panamanian people would be delighted to have a continued military presence of the United States in Panama if some type of a fair economic arrangement could have been worked out.

We are talking some 20,000 Panamanians have lost their jobs. Well-trained people, professionals, individuals that were earning wages substantially higher than what they do in Panama, and all of a sudden these people have been left out in the cold. Now, in recent polls, 76 percent of the Panamanian people welcome a continued presence of the United States. We have grown up as a nation. We do not fear an American military presence, if it is done

on an equal footing or equal basis. However, the Clinton Administration got lost. They offered no economic compensation. They said, as a matter of fact, you should pay us to remain in Panama. And under those considerations, simply, the negotiations fell through.

But certainly if this Administration or the next administration were to offer some type of economic package that would allow some type of American presence, you can be certain that the Panamanian people in a plebiscite would support it overwhelmingly.

Mrs. BIGGERT. Were most of these 20,000 jobs from working at Fort Howard, or the air force base?

Mr. CABAL. Between the Canal Commission and the American military presence, we are talking about \$350 million a year pumped into the local economy and about 20,000 Panamanians have lost their jobs. We are talking about 100,000 citizens of Panama on the dole these days because they cannot work.

Certainly with the continued operation of Howard Air Force Base, we are only talking about 2,000 jobs, but there is a multiplier effect and an economic fallout in a positive sense. These people could have kept their jobs and could have continued to earn decent salaries.

Again, any time you bring up the issue of a continued American presence in Panama, if it is done in the right economic form, it will receive overwhelming support by the Panamanian people.

Mrs. BIGGERT. There have been some stories about setting up like a trade center in the port area, not a Disney World, but something to make it more of an international trade area. Do you foresee that happening and would that need the influx of American dollars?

Mr. CABAL. Yes, ma'am. Certainly there is a complex plan to integrate the ports, the maritime facilities, the railroad and new expressways into what they call a multimodal transportation hub, in which vessels arriving from the Pacific and the Atlantic, their cargo would be stored, sorted out, redistributed and reexported.

One of the things that happens is that the Panama Canal has a certain limitation as to the size of the vessels. Post Panamax vessels, vessels larger than the width of the Canal, cannot transit. So you have to unload some of this cargo on one of the two extremes and ship it across piggyback on the railroad. So certainly Panama maintains a potential to become the Singapore of the Americas.

We welcome American investment, and hopefully we can clear away these negative results of not so clear a transparent bid process, but, more than anything else, Mrs. Biggert, we need to remind the American people and the American business community that we welcome their investments in Panama. Cellular telephones, for example, Bell South, is in Panama. There are many international corporations, many American companies that can benefit and can jointly develop the strategic advantages that Panama offers the world. We are one of the few countries that uses the U.S. dollar as its legal tender, as its currency.

So certainly there are many opportunities for American businessmen and American corporations to come down to Panama and to work with the Panamanians in developing the country.

Mrs. BIGGERT. What guarantees would American companies have that they would not be treated like Mr. Hall's company has been?

Mr. CABAL. Well, again, as a Panamanian, I have to admit our judicial system is many times at fault. We need to work on improving our judicial capacity and independence of the judicial branch of government. But, again, that is something that can be worked out with both governments.

And, again, one of the manners in which this can be addressed is by situations such as this. As the information is given out, if the media takes interest in what is going on, if irregularities are reported and denounced, pretty soon we will get rid of the bad guys; and we can go ahead and do business the way it should be done.

We have laws on the books that certainly protect American investors, and I believe if Uncle Sam takes an interest, if Uncle Sam reminds Panama of its judicial obligations, legal obligations, and if the American business community participates fully in investment opportunities, yes, these things, like what the gentleman today expressed, I think these things will go away and they will be the exception rather than the rule.

Mrs. BIGGERT. Thank you. I have a couple more questions.

Chairman BACHUS. Go ahead.

Mrs. BIGGERT. Thank you. I have a question for Mr. Mazur, if I might.

You said that you recommended that the U.S. attempt to assist the Panamanian government with likely increased criminal activity. If we are not really welcome there, how do you suggest that we do that?

Mr. MAZUR. Well, my experience in talking with my colleagues, which I continue to maintain contact with, gives me the impression that the relationship between the law enforcement authorities there has continually improved and that they are optimistic about continuing to improve them.

I think that the removal of U.S. troops and an appearance of a lesser U.S. influence will act as a catalyst in the minds of the traffickers who already have a presence; and, therefore, the threat I think will be increased. Some of that, I think, has been anticipated. I know that because of several of my former colleagues in different parts of the country who are now going to be working in Panama. But to what degree that has happened because of my being out of the agency for the last year-and-a-half, I could not say exactly.

But I think an increased number of individuals and an increased number of resources is, at a minimum, going to be something that would be a tremendous asset to minimize a snowballing effect of the threat, which I think is going to happen without doing that.

Mrs. BIGGERT. Thank you.

And then, Congressman Rohrabacher, you said that if we do nothing that the Chinese regime will dominate the country of Panama and the Panama Canal. I think that probably we disagree on the trade issue, but I think right now China is seeking accession to the World Trade Organization; and to me, I see some effect of our principles. If we open up the country of China with lowering the trade barriers, which the bilateral agreement which has just been worked out will do, and with their accession into the World Trade Organization, do you see that as an effect on what happens?

Mr. ROHRABACHER. I do not see that lowering the barriers and letting evil people into your midst has ever changed evil people into

benevolent people. I have never seen this "hug a Nazi, make a liberal" theory ever come true. No matter how you hug them and you caress them and you try to give them responsibilities and authorities inside whatever organization that you are talking about, it just seems that those evil people do not change their stripes. They still will turn around and just maul you at any chance they get.

The fact is that the Chinese regime has not at all liberalized in the last ten years. We have had huge increases in trades. In fact, the deficit that we have now with the Communist Chinese alone is like \$50 to \$70 billion a year. And supposedly that is more economic interaction. Supposedly that will make them better. But what are they spending their money on? Building missiles; weapons of mass destruction. As we just heard from the Chairman today, submarines that carry missiles that can hit any city in the United States. They go out and they participate in underhanded maneuvers, bribing people in Third World countries in order to get control of strategic points.

This is a serious threat that has been, number one, ignored by the Administration. And too many people in our own business community have been victims of wishful thinking that, well, if we just deal with these people, they are going to change. I don't see any evidence of that.

Mrs. BIGGERT. Well, as I said before, we do not agree on that issue, but your comment was if we do nothing. What shall we do, then?

Mr. ROHRBACHER. First of all, we must recognize that China is our adversary and a potential enemy and not a strategic partner. That is the most important thing for us to operate. Change that operating premise.

Number two, in Panama specifically, and as Tomas was saying, who is our greatest ally in Panama? The Panamanian people. Seventy-six percent of them want to see the United States continue to have a security presence in Panama and to be somewhat in a partnership with them for the benefit of both of our countries.

So the most important action that we take concerning this long-term threat that we are discussing today or even medium-term threat is that we should do nothing that alienates the people of Panama. And all of this talk about canceling the Panama Canal Treaty and taking back the Canal for us is very counterproductive. Number one, it will not happen; and, number two, it will alienate the people of Panama.

But there are certain things we can do with the people of Panama. They want honest government. They do not want their government dominated by the Communist Chinese or any of these criminal elements that we are taking about. So we must work together with them. They have a new president down there since this dirty rotten maneuver we have just heard about today. They have a new president, and that new president may be very different than Balladares. But we have to work with President Moscoso to make sure that she is successful.

I have a resolution, called H. Con. Resolution 186, that is a sense of the Congress. And I believe this would go a long way in asking the new president of Panama to, number one, cancel the lease agreement with Hutchison Whampoa and have a new bidding proc-

ess that is transparent and fair. And if we manage to do that, that will turn around this trend that we are talking about today. And, number two, it calls on the new government of Panama to negotiate with the United States a security arrangement that will be to both of our benefits.

There is no reason why we cannot have a military air base down there. The Panamanians would like us to do that with some of our military forces, and just so long as the Panamanians know that we are respecting the agreements that we have already made. And with that, we will find that our interests and the interests of the Panamanian people are absolutely parallel. And, again, I think this is the direction we have to go, reinforce that good-will and that spirit that we have developed over the decades with the people of Panama and turn around this evolution toward dominance of Panama by the Communist Chinese.

Mrs. BIGGERT. Thank you.

Thank you, Mr. Chairman.

Chairman BACHUS. Thank you.

Congressman Rohrabacher, my first question was going to be about your resolution. I think it is important that we do highlight the three things that you requested in this.

The first, as you say, is to request that the new government of Panama nullify the lease agreements for the Balboa and Cristobal port facilities on each end of the Panama Canal and initiate a new bidding process that is both transparent and fair.

In that regard, Mr. Hall, I will ask you this question: Your company was involved in, I guess, the bidding process on a number of occasions; is that correct?

Mr. HALL. That is correct, Mr. Chairman.

Chairman BACHUS. And you have participated in fair, open, and honest bidding processes before, have you not?

Mr. HALL. That is correct, Mr. Chairman.

Chairman BACHUS. Would you describe the bidding process in Panama as fair, open, and honest?

Mr. HALL. Not in the past, it has not been.

Chairman BACHUS. And the bidding for port concessions at Balboa and Cristobal, do you consider that you all were dealt with fairly and honestly?

Mr. HALL. I did not feel that we were treated by the rules that they laid down themselves.

Chairman BACHUS. I see. Well, let me again say that the Congressman in his resolution asked for a new bidding process that is both transparent and fair. Was the bidding process that you participated in transparent and fair?

Mr. HALL. We did not feel that the bidding process was transparent or fair in any one of the bidding processes that we went through.

Chairman BACHUS. At no time was it fair or transparent?

Mr. HALL. The rules that the Panamanian government laid down for everybody to follow, we felt, were fair. But they themselves did not abide by the rules that they presented to us as bidders.

Chairman BACHUS. I see. All right. Fine. So the bidding process was corrupted at some point, or appeared to be.

Mr. HALL. Just say it looked suspicious.

Chairman BACHUS. All right. Thank you.

Mr. Rohrabacher, you have traveled extensively in the Pacific Rim. Do you see a pattern of China having a strategic strategy of increasing their influence? And, if so, do you see that influence as one of a strategic partner or a strategic competitor to the United States?

Mr. ROHRABACHER. I would go beyond strategic competitor. I would say it is not just a strategic competitor, that Communist China today, with its being the world's worst human rights abuser, a regime that continues genocide against the people of Tibet; and the believers in God in their own country are suffering great repression, that this, is a country that is in fact not even a strategic competitor, but a potential adversary and perhaps a potential enemy of the United States that we have to be aware of.

The Communist Chinese do not have a large navy. The United States has a large Navy, although our Navy is shrinking, dramatically shrinking in the last ten years. But even so, the Chinese Communist navy is small, and we can see a pattern on the part of the Chinese to make up for that small navy. The fact is they are trying to gain control of strategic points that will permit them then to dominate or control strategic waterways.

About a year ago, after several years of being thwarted by our own State Department from being able to go to this area, I visited the Spratly Islands, which are actually islands at low tide; at high tide they are below the surface, and they are more like lagoons with reefs. And these are very close to the coast of the Philippines. They are about 100 miles from the Philippines, but they are 800 miles from China; and the Communist Chinese we discovered had three warships, which of course reflects a large portion of their naval military might, inside the lagoon of a place called Mischief Reef. And they were building fortifications there.

Since we have left, since I visited there, they have finished their fortifications. These can land and take off helicopters; missiles can be launched from those fortifications. So we have a bracketing there of an important waterway by the Communist Chinese that will give them leverage against Japan. Because 51 percent of all of Japan's commerce and almost all of its energy resources goes straight through that area that the Chinese Communists would be bracketing with this new fortification.

So at the same exact time they are involved in this maneuver, we see them try to get themselves into a position of dominating the Panama Canal and eventually controlling the Panama Canal. One cannot help but see that there is a pattern to what they are doing. There is a purpose to their behavior. And, again, if the United States acts weak in the face of a tyrant, we are going to pay the price. We are going to pay the penalty.

We can in Panama now turn around this situation with a determined effort that this Administration has not been willing to take. And that is what my resolution calls for, is that this new partnership between the government of Panama, the new government, and the United States Government.

Chairman BACHUS. You know, we heard the announcement this morning that they are starting to construct their latest Chinese submarines which will be capable of hitting every major city in the

United States. And the intelligence reports are purported to say that they will use it as a strategic deterrent to the United States. Are you aware of anything as a U.S. Congressman that we are doing illegally or which would pose a threat to them as far as a deterrent?

Mr. ROHRBACHER. We have not only not been a threat to the Communist Chinese. In this last six years this Administration has just gone way to the extreme of trying to prove our friendship and benevolence toward the Communist Chinese regime.

We, after all, set the ground rules of trade between our two countries. We have permitted the Communist Chinese to flood our markets at 2 or 3 percent tariffs against their goods while they charge 30 and 40 percent tariffs against American goods being sold in China; and that might be in a highly regulated market at that in terms of what we are permitted to ship into Communist China and sell.

But what has that resulted in? We have given them \$70 billion in hard currency by agreeing to this unfair trade relationship. That is what their trade surplus with us is. Well, how can they think of us as being their enemy if we are giving them the ability to buy tens of billions of dollars of weapons with their hard currency that they earned from an unfair trading relationship that we permit to exist with them?

No. What we have here is a classic example of a despotic regime, of tyrants who are trying to deal with an open and free society, and the free society mistakenly trying to change the tyrant's psychology by dealing with them in a fair and honest way and let us be nice to the bad guys. It does not work. It did not work with Adolf Hitler; it did not work with the Japanese militarists, who just fifty years ago were defeated in the Pacific.

But leading up to that great war in the Pacific, in the 1920's and 1930's, we were trading with the Japanese. American businessmen thought they were going to change the Japanese militarists' approach to the United States by making them dependent on us, by giving them oil and scrap metal, which of course came back in the form of bombs and naval capabilities on the part of the Japanese.

We have the same challenge today, Mr. Chairman, with the Chinese. The Communist Chinese believe that, number one, they are racially superior, same as the Japanese militarists did in the 1920's; the Communist Chinese believe they have a historic right to dominate all of Asia, or all of that part of Asia into central Asia as well, as well as a large chunk of the Pacific basin. And, number three, like the Japanese militarists, the Communist Chinese know that it is only the United States of America and our courage and our determination that stands between them and this historic domination of that part of the world that they believe they have a right to.

This is a formula for disaster if we try to treat militaristic tyrants as if they are good guys that can be persuaded by psychologically dealing with them in a positive way and giving them trade benefits to our country.

Chairman BACHUS. All right. Thank you.

Professor Cabal, you have described the Panamanian public as very much committed to a continued U.S. security presence in Pan-

ama. There seems to be a real disconnect between the Panamanian people and the political elite in Panama as far as what they want.

In this regard, because there is such a difference of opinion, political leaders normally try to follow the will of the people that they represent. What evidence do you have about corruption or influence peddling close to the president of Panama? Do you have any reason to believe that such exists?

Mr. CABAL. Yes, I do, Mr. Chairman. Again, it is interesting to note Mr. Mazur's intervention, because I too, as a journalist, am quite aware of Mr. Krupnik's activity in Panama. He continues to do business. Nobody seems to investigate him. He was indicted in a criminal investigation, but could not be extradited because he is now a Panamanian citizen. And then you wonder what Uncle Sam is really doing. How come they did not implement the Mutual Legal Assistance Treaty that would compel the Panamanian authorities to come forward and at least investigate Mr. Krupnik?

Recently, he was a key player in obtaining a concession. Mobile and an Arab group took over petroleum facilities that service vessels that transit the Panama Canal. So here you have an individual who has been indicted in a criminal court in the United States doing business as usual.

One of Panama's largest hotel chains is owned by Spanish brothers, the Fernandez Espinas brothers, who are under criminal investigation in Spain for money laundering. The Spanish government requested, through diplomatic channels, support from a previous administration to investigate these individuals, because there is clear evidence that they were working side by side with a Colombian drug cartel. Well, not only did nothing happen, but the Fernandez Espinas brothers continue to do business as usual in Panama and run a string of hotels in Panama, Colombia, and Spain.

So when you add those elements together, Mr. Chairman, you wonder really what is going on on both sides of the equation. How come the United States, the Drug Enforcement Administration, Customs, Treasury, other agencies do not come forward and request aid from the Panamanian government through the Mutual Legal Assistance Treaty, when you put that together with other individuals?

Panama is a small country, and one would say that part of its idiosyncrasy is a mindframe in which money is thicker than blood. Commerce and cutting deals is part of the Panamanian way of doing things. However, that should not extend or transcend into the political arena and certainly not into the legislative or judicial branch of government. So my belief in this, Mr. Chairman, is if the United States, through its specialized agencies, continues to put pressure and continues to forward information and to request the same type of information that they legally do, you are going to get results. You will get some of these criminals in jail where they belong.

Notice, for example, what is happening in Mexico where Mexican authorities have requested the support of the American FBI and other agencies to investigate the criminal activities of their drug cartels. I think something like this can be done, but there has to be a distinct interest from the United States Government and its

agencies to the Panamanian government that, no, we will not allow the Mr. Krupniks of the world to go on about their business; that we cannot allow the Fernandez Espinas brothers to expand their operations in Panama like nothing is happening; and, no, we cannot allow these criminal elements to move in and out of the country without any reaction.

Notice, for example, Panama played a key role, along with the Mexican government, the Ecuadorian and the Colombian governments, in a recent operation called Operation Millennium. Drug dealers, money launderers, criminal elements, organized crime—it is a multinational syndicate that needs multinational cooperation.

So we do have our problems in Panama, but we do not have the resources, we lack trained personnel, and we certainly need to rely on the United States to provide the intelligence, the knowledge, the information, the criminal indictments so we can put these people away and get them out of influential situations.

Again, as a Panamanian, Mr. Chairman, it is offensive to realize that Robert Mazur spent years trying to put Mr. Krupnik away; and, because this man is a Panamanian citizen, he cannot be transferred to face trial in the United States. This is very offensive to me as a Panamanian. And, hopefully, one will find that the United States Government, that this Administration and the new administration for next year, will take a more distinct interest in helping the Panamanian authorities put these people away.

If Uncle Sam, if the Congress requests—we have mentioned all types of information here that is already in the hands of the DEA, in the hands of the Customs Department—there is information there, there are files, there is all type of intelligence, that I believe if the Congress takes the time and makes the effort to contact these agencies, these officials, I think something will move and it will move in the direction of Panama, and the Panamanian people will react.

I honestly believe that we have an honest president that is willing to clean up her administration if evidence is given, specific evidence is provided that allows them to take legal measures against these criminals.

Mr. ROHRBACHER. Mr. Chairman, if I could add just one note to what Tomas has just said. There is a relationship between this criminal activity and the Communist Chinese maneuvers that are going on that are the subject of the hearing today.

Chairman BACHUS. I have a follow-up question on that that we might want to let him answer, and then.

Mr. ROHRBACHER. Go right ahead. Yes, sir.

Chairman BACHUS. Let me ask you a follow-up question and then we will get into the growing Chinese influence.

But before I get to that, you have polls in Panama saying that the Panamanian people support a U.S. security presence.

Mr. CABAL. Yes, sir.

Chairman BACHUS. You are strongly of the opinion and your testimony is that the United States should maintain a security presence in the Panama Canal Zone. How do we do that at this late date?

Specifically, Congressman Rohrabacher is here; and he has introduced a resolution in the U.S. Congress, and let me read the three

parts of that resolution. And as I read each part, I would like you to respond as to how that would be greeted in Panama; what would be the reaction of the Panamanian people. What do you think would be the reaction of the Panamanian government? Are these things practical requests?

The first: The United States Government should request that the new government of Panama nullify the lease agreements for the Balboa and Cristobal port facilities on each end of the Canal and initiate a new bidding process that is both fair and transparent.

How would that be greeted?

Mr. CABAL. Well, certainly the American ambassador at the time went public and created a major scandal, a political scandal in Panama when the diplomatic representative of the United States Government was in the papers and on TV denouncing the irregularities, the severe irregularities. We now have Mr. Hall here who has come forward and given testimony and evidence that there were irregularities.

Under Panamanian law, something still can be done, I believe, particularly if the new president takes an interest in reviewing the procedure and again in calling out for something to be done as a fallout or as a consequence of these irregularities. It seems that—it appeared that the same property, the same land, was awarded to three different concessionaires. And in the end the Panamanian government had to absorb a \$60 million loss because some of the land allocated to the railroad, to the area near Albrook Air Force station and to Hutchison was the same property. So they have now had to basically eat \$60 million, or absorb \$60 million as part of the contract.

So I honestly believe there are legal possibilities in which this bid and this bid award can be revised. Certainly coming from the United States, from the Congress, from the Government, I think something could be done. And certainly public opinion would support an investigation into something that was denounced by the U.S. State Department and by its representative in Panama that it was irregular. It did not happen the way it should have been.

And I see no reason why the Panamanian people will take offense if one of these bid proposals was reviewed and if a new bid was called and everybody had a level playing field.

Chairman BACHUS. And in this regard, Congressman, we made our request that the United States Government investigate this bidding process. Mr. Hall, has anyone from the United States Government approached you prior to us inviting you to this hearing inquiring as to the legitimacy or the fairness of the bidding process?

Mr. HALL. Nobody has approached me and asked what happened.

Chairman BACHUS. Fine. No one from the United States?

Mr. HALL. Nobody from the United States Government has approached me and asked me what happened during the process, no, sir.

Chairman BACHUS. All right. I find that incredible.

Mr. ROHRBACHER. That is enough to take the wind right out of your lungs to hear that. This is an Administration that is supposedly watching out for our national interests, and they have not even looked into these very serious charges to this degree? It is incredible.

Chairman BACHUS. The second part of the Rohrabacher resolution is the United States should request that the new government of Panama investigate charges of corruption relating to the granting of the Panama Canal port leases by the previous administration. How would such a request be greeted by the Panamanian people?

Mr. CABAL. I would say, Mr. Chairman, with 100 percent support. The Panamanian people want the best deal.

There are substantial doubts as to what went on in the former administration. The new government has rolled back certain laws; certain concessions have been suspended because there was not complete transparency. So in the minds of the Panamanian people and public opinion, I am sure they would welcome a blue ribbon commission or blue ribbon committee, some type of investigation by either the legislative or the executive in which these things were brought forward. But they are only going to move forward, Mr. Chairman, if there is interest, and the interested party is the United States, if the United States, its Congress or any of its agencies come forward and say, look, we need to look at this.

What happened? The State Department has a complete file on what happened during the bid process. Their representative was out there complaining they were getting a raw deal. So the information is there. I am sure that President Moscoso would have no qualms in at least looking into what went on. And certainly the Panamanian people would not think it is Big Brother looking over your shoulder. On the contrary, let us see what went on, and if there is some type of legal remedy, I am sure some type of legal remedy could be found.

Chairman BACHUS. The third part of the resolution was the United States Government should negotiate security agreements with the government of Panama that protect the Canal and ensure the territorial integrity of the Republic of Panama. Would that be welcomed by the Panamanians?

Mr. CABAL. Yes, sir.

Chairman BACHUS. And is it too late?

Mr. CABAL. No. We have on the table—just last week Panama's minister of government revealed or announced that there is an ongoing negotiation with the Clinton Administration pertaining to a new security agreement with the Republic of Panama. As part of this negotiation, the Panamanian government has separated, has put aside a certain area of the Howard Air Force Base, Rodman Naval Station, a communication center at Curacao, other facilities at Fort Davis on the Atlantic side, and parts of the general training facility at Fort Sherman. All of these elements, according to the document released by the Panamanian government, fit into an overall strategy which would allow, among other things, to monitor electronically and via satellite all vessels transiting the Canal, the most important port facilities in the country; and it would also allow American intelligence agencies to monitor the areas, the land and the border near Colombia.

So the mechanics are there. It is just a matter of implementation. I find it ironic, to say the least, that the U.S. Government has gone out and spent \$100 million in Ecuador to build up a facility that has one-tenth the capacity of Howard Air Force Base. I find

they are in negotiations—the Pentagon is in negotiations with the governments of Aruba and Curacao, Peru, and Ecuador to try to make up the lack of air coverage provided by Howard Air Force Base. And here we have a facility—you have excellent runways; it is the largest facility of its kind south of the border that could very well be integrated into an overall security agreement, at least, for example, forward observation landing rights.

All of these things are still on the table and can very well be negotiated between both governments if there is, in my mind and in the Panamanian public opinion, some type of economic compensation. I have no clear figure of what it is going to cost the American taxpayer to pay for the increased fuel cost of having American AWACS fly out of Key West or these other locations when they could very well be flying out of Howard Air Force Base.

So in response, Mr. Chairman, there is a security agreement right now on the table between the Clinton Administration and the Moscoso government that would allow for some type of continued American presence within an overall security agreement in which the U.S. and other countries, such as Canada, that have already expressed interest in participating, which they could very well participate.

And I add one additional element, Mr. Chairman. There is one sore spot that is still left between Panama and the United States, and that has to do with the firing ranges, the cleanup of the firing ranges used by the American military. The current Administration's position is they have done what they can do, that they do not want to damage the environment, and that is it. That is the end of the line as far as the cleanup of the ranges is concerned.

Panama has hired American specialists to go in there and look, and they have determined that more can be done, and that it is unfair that the United States simply on December 31 forgets about the firing ranges and simply walks away, in spite of the fact that over the last ten years, 23 Panamanians have died and dozens have been injured, because the U.S. military did not clean up the ranges. I think that it is an ongoing situation that can be addressed beneficially by both governments. And if the United States takes an interest and takes the initiative in helping Panama clean up the ranges at an estimated cost of \$100 million, I think we are going to get somewhere.

The security agreement has a price tag of about \$150 million, which includes the hardware, the helicopters, the vessels to enhance the security of the Canal and of the country. And I am sure both countries, at this late stage of the game, right down to the ninth inning, that there is still time and a legal vehicle, a legal mechanism in which these issues can be addressed and resolved to the mutual satisfaction of both countries and both governments.

Chairman BACHUS. Thank you. Now I want to move to the next question.

Have you seen or been informed of the increased presence and influence of China in Panama during the past twelve months?

Mr. CABAL. Yes, sir. I can certainly agree with Congressman Rohrabacher's view. The Chinese take a long-range view of the world. You just heard me—the *Miami Herald* has reported increased Chinese activities in Cuba. They are operating electronic

eavesdropping stations that permit them to monitor U.S. communications.

Hutchison Whampoa walked into the Bahamas last year, invested \$40 million in port facilities in the Bahamas. The Bahamian government decided that was enough to sever relations with Taiwan. They certainly changed allegiance from Taipei to Beijing after Hutchison Whampoa walked in there.

One of the main investors in Panama is a company called Evergreen, which is a Taiwanese-based corporation. Evergreen is the largest container transport company in the world, again owned by Taiwanese investors. They do substantial amounts of business in the People's Republic. So Evergreen simply cannot operate in Panama without some type of a combination with the Beijing government. Why? Because they have all types of facilities in the People's Republic.

So when you put this together—for example, as I was reading the Cox Report, I was surprised to note that a Chinese corporation identified with negative activities in the United States, the Great Wall of China, is now active in Panama. They are trying to set up a Silicon Valley-type investment, high-tech, in the City of Knowledge. They are already operating in the Colon Free Zone. So you wonder, what is the Great Wall of China doing in Panama and what is their ultimate intention?

Then when you add all of these things—for example, I am very disturbed to notice that the chairman of Hutchison Whampoa, Mr. Li Ka-Shing, is now the subject of a parliamentary investigation into organized crime by the Canadian government. So when you put all of this together you wonder, would Panama have the full capacity to deal with these corporations, with the multinationals and whatever geo-political agenda the Chinese decide to implement into the Canal or the region? I am very disturbed, and I think the United States Government should also be disturbed about what is going on.

Chairman BACHUS. Let me ask you this. What is the role of Hutchison Whampoa at the Rodman Naval Port?

Mr. CABAL. Well, the information that I have received is Hutchison, as part of their bid process, they have the right of first refusal to operate Rodman Naval Station. That is a maritime facility located in the Pacific entrance of the Panama Canal. We have watched recently and seen there have been surveyors. They have been out there surveying the property. Hutchison has said they are not interested, but again they have been out there surveying the facilities, and they may very well make a bid for the Rodman Naval Station.

I am also been informed by knowledgeable sources in Panama that Hutchison, through one of its subsidiaries, is also interested in bidding for control of Howard Air Force Base. It is a \$3.5 million project. That again would give Hutchison a dominant position in the Panama Canal and the whole maritime facility in Panama. They seem to be taking their investments and their opportunities in Panama very, very seriously.

Chairman BACHUS. Thank you.

You mentioned—let me try to find this—here we go. You mentioned the City of Knowledge high-tech export zone that is being planned?

Mr. CABAL. Yes.

Chairman BACHUS. Is that at the Fort Clayton location?

Mr. CABAL. The City of Knowledge will be located at Fort Clayton, which was just recently turned over to the Panamanian government. It is the former headquarters of the U.S. Army South.

The Panamanian government has plans to develop a high-tech industrial park and export processing zone at Fort Clayton. So they have received requests from universities and think tanks and other organizations, but also from Chinese corporations such as Great Wall of China that has offices in the Colon Free Zone, and they are interested in working with and developing and operating within the City of Knowledge.

So, again, you wonder about the situations such as dual-purpose technology, patents, rights, and so forth, intellectual property and these types of things, and you wonder what it is they are up to and what their potential mischief is in such a position as this.

Chairman BACHUS. So they are interested in being active investors?

Mr. CABAL. They have forwarded and received a permit to operate within the City of Knowledge, the Great Wall of China Corporation, yes.

Chairman BACHUS. That is near the port of Balboa; is that right?

Mr. CABAL. Yes. Clayton military base overlooks the locks. It is very close to both Rodman and the Pacific entrance. Clayton overlooks the first set of locks in the Pacific entrance which is called Miaflores.

Chairman BACHUS. Again, what is your concern about the Great Wall Corporation?

Mr. CABAL. My concern is it has a starring role in the Cox Report: espionage and industrial espionage, falsification and other nefarious activities related to their functioning elsewhere. I, as a Panamanian, am very nervous that a corporation that has been cited by a congressional report such as the Cox Report appears involved in any type of activity in Panama.

At the same time, I am very concerned that the Canadian government is investigating Mr. Li Ka-Shing. You can't have this type of thing. The chairman of the company is being investigated, because the Canadians have something called Operation Sidewinder and have indications that organized crime, Chinese mafias, are commingling the funds with Chinese investors and buying up Canadian corporations. The result of this scandal in Canada has been they have set up a parliamentary investigation that is going to go all over the country for a year looking into organized crime in Canada.

One of the elements of organized crime again is the Chinese mafia, the so-called Chinese triads. The fact that the chairman of Hutchison Whampoa has been singled out or identified in a parliamentary investigation of this nature, I find it very, very troublesome.

Chairman BACHUS. That investigation was reported by the Vancouver newspaper that—

Mr. CABAL. The *Toronto Globe and Mail*, the *Vancouver Provincial*. The Canadian media wholesale has reported in detail. It is not only Mr. Li Ka-Shing, Stanley Ho, the so-called Macao casino king, other important investors.

Mr. Chairman, Mr. Ka-Shing has invested over a billion dollars in real estate in Canada. He is a very powerful, influential individual in Canada and again will have to face parliamentary inquiries as to the nature of the funds they are investing in Canadian corporations.

Chairman BACHUS. You have introduced, Congressman Rohrabacher, at least one report of this, of hundreds of thousands of dollars of contributions being investigated in Canada?

Mr. ROHRABACHER. It is called the Sidewinder report. It has been an investigation going on now in Canada. I would think that the subcommittee might be well served to request a copy of a preliminary copy of the report. It has not been issued yet.

Chairman BACHUS. Without objection, we will do so.

I suppose—does Panama have an open disclosure of campaign contributions? I guess those that are reported—

Mr. CABAL. No, the law does not require that campaign contributions be revealed. The former Panamanian president claimed publicly that it wasn't a good idea, because if you supported a losing candidate then the people in the new government would make life difficult for you.

But, no, there is no legal obligation in Panama to reveal the source of the funds. As a matter of fact, it caused major embarrassment to the Perez-Balladares government when it was later found that at least \$50,000 had come from a Colombian drug dealer. Mr. Balladares publicly explained that he had no knowledge that these were drug funds.

But, no, we do need to work on that in Panama. We don't have to reveal the origin of the funds of campaign contributions. It is an ongoing worry among Panamanians to find out where the political funds are coming from.

Chairman BACHUS. Thank you.

And, Mr. Mazur, let me ask you this. Two weeks ago the FARC guerrillas stole two helicopters from a former U.S. military base. Is that Albrook? Were you aware of that?

Mr. MAZUR. Since my retirement in August of 1998, I have not been involved in those types of matters.

I did want to mention one thing with respect to political contributions that you might find interesting, Mr. Chairman; and that is that Mr. Krupnik and his associates with whom I dealt, a number of the people in that small world that not everyone sees in the everyday walk of life, made it quite clear to me that political contributions were an extremely important portion of their formula for success. Other than to say that those general things were said on a continuing basis, I can't be any more specific.

Chairman BACHUS. What were his activities? Would you again inform the subcommittee of who he is and what he does?

Mr. MAZUR. He is outwardly a very active legitimate businessman in Panama. When I had contact with him and as a result of that contact he was indicted for drug money laundering offenses here in the United States and has, by his own account, decades of

association with major organized crime groups in many parts of the world.

Chairman BACHUS. I see.

Mr. ROHRBACHER. Mr. Chairman, again just to note, the relationship between the government in Beijing and the Communist Chinese party that controls Beijing and some of these organized crime groups in different parts of the world is becoming very evident. There is sort of a blurring of the lines. This is very much their way of doing things, where you blur the lines between what is the government and what is not the government and what relationship actually exists between the triads and the mafia and the government in Beijing.

Right now, for example, Burma, as you know, produces a huge hunk of the world's opium. Well, who controls Burma? You have a regime in Burma called the Slorc regime that might as well be a vassal government to the Communist Chinese in Beijing.

How is that opium exported out of Burma? It goes right up the old Burma Road right into China and out the various distribution sources.

This is a totalitarian regime. They know what is going through their country. They know who is involved in this type of activities. If you put a country like this into a position to dominate us, a very small country like Panama, as we just heard, with a very little investment, they could corrupt the whole system. And we have already heard the result of them trying to corrupt the system perhaps has led to the loss of the port facilities on both ends of the Panama Canal for American companies and being put into the hands of an enemy of the United States.

When I visited Panama—again, just another example of how the Communist Chinese influence is corrupting the situation and is connecting with various crime efforts that we have been hearing about today—the head of the Panamanian intelligence service, their CIA, Samantha Smith, had gone into hiding when I went down there. I talked to our embassy, and our embassy said they couldn't find her. Well, within about ten hours my staff and I had found Samantha Smith; and being a former newsman myself and having a great writer that works with me, we were able to find Samantha Smith.

Samantha Smith is head of the Panamanian CIA, but not our CIA, but their intelligence service, was in hiding because the president of that country, Balladares, the same president that oversaw this corrupt maneuver in terms of the issuing of this lease for the ports in the Panama Canal, well, this same man, his intelligence chief told us and has verified and talked to Members of Congress, we brought her up here, suggesting that the Communist Chinese were paying President Belladares \$30,000 apiece for illegal Chinese immigrants to be brought from the mainland of China through a very special route through the international airport there, the upper level in Panama City, and then flown to the United States, some of whom, I might add, stayed in Panama, but many of them headed to the United States.

We must ask ourselves, if the Communist Chinese are paying \$30,000 apiece to bring people in from China, who is worth \$30,000 to bring in from mainland China? If they want day laborers to sort

of work in very low salaries, they are not going to bring in people at \$30,000. Every one of our major cities have illegal immigrants that can work for a pittance and be exploited by these people. Who are the 150 people that were brought into the United States through Panama at \$30,000 apiece?

I would have to guess that they are people connected with criminal activities. Otherwise, they could have walked in the front door. I would expect they were people involved in criminal activities. Otherwise, they wouldn't be worth \$30,000 apiece to bring into the United States.

This is the type of corruption that we look at that can change a country's government overnight. If we don't watch out, as I say, we are going to find this same type of element which are interlocking with these organized crime elements around the world, the Communist Chinese are going to end up dominating the strategic choke point in this hemisphere, that is the Panama Canal and the Republic of Panama.

Chairman BACHUS. Thank you.

Mr. Mazur, let me ask you two questions; and then I will discharge the panel. Now that the United States is turning over the Canal and withdrawing all of its military, what effect do you think that will have on our efforts and the efforts of Panama and other countries to combat money laundering and corruption?

Mr. MAZUR. It is my opinion that it is going to heighten the challenge dramatically. Again, because I believe that, as I was told by the criminals that I dealt with, they viewed the withdrawal of U.S. troops as just one indicator of a lesser influence of the United States which they feared quite a bit because of the accountability they might otherwise be held to. In my opinion, it is incumbent upon us to recognize that whatever resources we have applied will not, in my opinion, continue to be able to stem the tide, because it is going to be double the challenge or more in the near future.

Chairman BACHUS. So the basis of the military presence in Panama was in fact a very positive force in combatting money laundering?

Mr. MAZUR. It had a trickle-down effect. In my opinion, the real "where the rubber meets the road" as far as the money laundering is concerned is primarily through the cooperation of the two nations' law enforcement communities. When I see it through the eyes of the criminals with whom I dealt, it was an indicator, again, of a lesser involvement, in their opinion, of U.S. activities.

And although it might not technically be accurate to say that the withdrawal of U.S. troops was going to necessarily affect the work between the small number of agents working in that country with the Panamanian law enforcement authorities, their challenge is going to be dramatically increased because of it. And to a sense, yes, indirectly, it certainly does have an effect in the fashion I just described, in my opinion.

Chairman BACHUS. I will ask the professor, both you and Mr. Mazur, this question. Panama has been criticized for having very liberal banking laws and strong bank secrecy laws that have allowed Panama to be a haven for drug traffickers and money launderers. What can be done, if anything? What needs to be done

to obtain Panama's cooperation in bolstering their banking laws and tightening them up and allowing more disclosure?

Mr. CABAL. Well, you have, first, the Mutual Legal Assistance Treaty which allows both countries to interact and react.

For example, there was a criminal family known as the Mordaks, M-O-R-D-A-K. These were businessmen operating out of the Free Zone, very much like what I had described, using gold bars and gold jewelry to launder money for the Medellin Cartel. I wrote in my daily column about the Mordaks in 1991, and it wasn't until 1997 that one of the Mordaks who did not have Panamanian citizenship was arrested by the Panamanians and expedited. He is now serving a forty-year sentence in a Federal prison for money laundering.

His brother, however, was captured in Costa Rica. He managed to bribe his way out of the Costa Rican jail, fled back to Panama, and because he is a Panamanian citizen, he cannot be extradited to the United States. He goes on his business as if nothing has happened.

But the Mutual Legal Assistance Treaty—then, of course, the exchange of timely information between law enforcement agencies is the proper vehicle in which these investigations can be carried out. Panama is one of the few countries in Latin America that is operating a financial investigative unit to look into money laundering. They have received assistance from FinCEN, the Financial Crimes Enforcement Network out of the Treasury Department, and they are looking into suspicious transactions.

I believe that bankers, people in the Free Zone, people in the construction industry, Panamanian businessmen are now fully aware of the continuing threat of money laundering and the dirty money in the local committee. But, again, it requires a substantial push from the U.S. and from its law enforcement agencies that have the intelligence, that have the resources, that have the information. If this information is produced in a timely manner and delivered in a logical and sequential manner to the Panamanian government, you can be certain that some of these criminals will end up behind bars.

If the United States were to take a similar attitude that it is taking with the Colombian government, joint operations, getting these people extradited, getting them to stand trial, you would stem the tide of money laundering; and then Panama's banking system, which is a good, solid, creative banking system, can be put to work on behalf of the Panamanian people and the international investors and we can put away this criminal element. But it requires substantial cooperation, and I think the push must come from the United States more so because you have the resources, you have the specialists, you have the agencies and the law enforcement capacity to get your hands to reach out the long arm of the law and help Panama put these criminals away.

Chairman BACHUS. And you have not seen that?

Mr. CABAL. No, I have not seen that. On the contrary.

Chairman BACHUS. Mr. Mazur, what could be done to stop the Jorge Krupniks of the world? What needs to happen in Panama to make it possible to bring him to justice?

Mr. MAZUR. Extradition is all that is necessary. The evidence is being maintained here in the United States that would support the government's case against Mr. Krupnik. So with respect to him in particular, that is a key issue.

With regard to—

Chairman BACHUS. Have we made any attempt to—have we requested that he be extradited?

Mr. MAZUR. I am not aware of the fact that he could, given the offenses that he is charged with.

Mr. CABAL. Under the Mutual Legal Assistance Treaty, a Panamanian citizen can be compelled to come forward and testify in the United States courts. He can also be arrested. The United States can request his arrest and his prosecution in Panama.

A recent case involving some Arab businessmen in the Colon Free Zone in a joint operation with the Canadian Mounted Police, they determined these individuals were guilty of money laundering. They were arrested and tried and convicted in Panama with information provided by the Canadian authorities. So in the case of Mr. Krupnik, through the State Department and the Mutual Legal Assistance Treaty, specific information could be brought forward to have this man arrested in Panama and tried in Panama for money laundering even though that money laundering occurred mostly in the United States or the United States was the ultimate target.

Mr. MAZUR. That may be the case, but with respect to prosecution in the United States, at least as I have been told by the prosecutors personally handling the case, that their efforts would be futile to request the extradition of a Panamanian citizen for money laundering offenses in the United States. And so, therefore, it is for that reason that that has not occurred, it is my understanding from talking directly to them.

Chairman BACHUS. It would be interesting to—I would hope that the Justice Department would follow through on that and at least make that request. Then we would know whether or not that request would be futile. I don't think that you know until you make the request.

Let me ask you this. Has there been any effort to have Panama voluntarily commit to the OECD anti-corruption unit that is combatting bribery and corruption in international business transactions?

Mr. MAZUR. I am not aware of the facts around that, sir. I am sorry. I can't comment on that.

Chairman BACHUS. You are aware that—

Mr. CABAL. President Moscoso has just appointed a new anti-corruption commission in Panama as a signatory to the international treaties that could end up in criminal indictments as a result of bribery.

I noticed, for example, in this latest report, Transparency International has Red China right there at the top of the most corrupt countries. This year they produced a list of nefarious business practices carried out by these corrupt societies. Again, China was right there in the top five.

So there are organizations, and Panama is the signatory to these international treaties. And, yes, I think these situations could be addressed through international treaties. And I do believe that the

Panamanian government through this new anti-corruption commission would look into allegations of corrupt practices.

Maybe that is one of the ways of putting back on the table the Canal, the port facility bid, Cristobal and Balboa, simply that to provide information to the anti-corruption chief that severe irregularities occurred during the bidding process that need to be investigated, that the money may have changed hands, that things did occur that were not proper. He has the authority granted by the legislative branch to investigate all charges of corrupt practices such as bribing businessmen and bribing or intervening in corrupt bid procedures.

Chairman BACHUS. Professor, President Clinton has assured you that the Chinese will be bending over backward to run all of their commercial transactions in a fair and honest manner. You don't seem to—

Mr. CABAL. Well, as I see, Mr. Chairman, the way that the Chinese government has reacted to some of its people, this sect, Falun Gong sect, and as I have seen what they have done to the people in Tibet, I really do not believe that the government, the Communist government, a dictatorship such as the one carried on in Beijing that certainly has the prosperity and welfare of the Panamanian people—that it is one of their concerns. I think they have long-range plans. I think they have strategic interests that may or may not match our own.

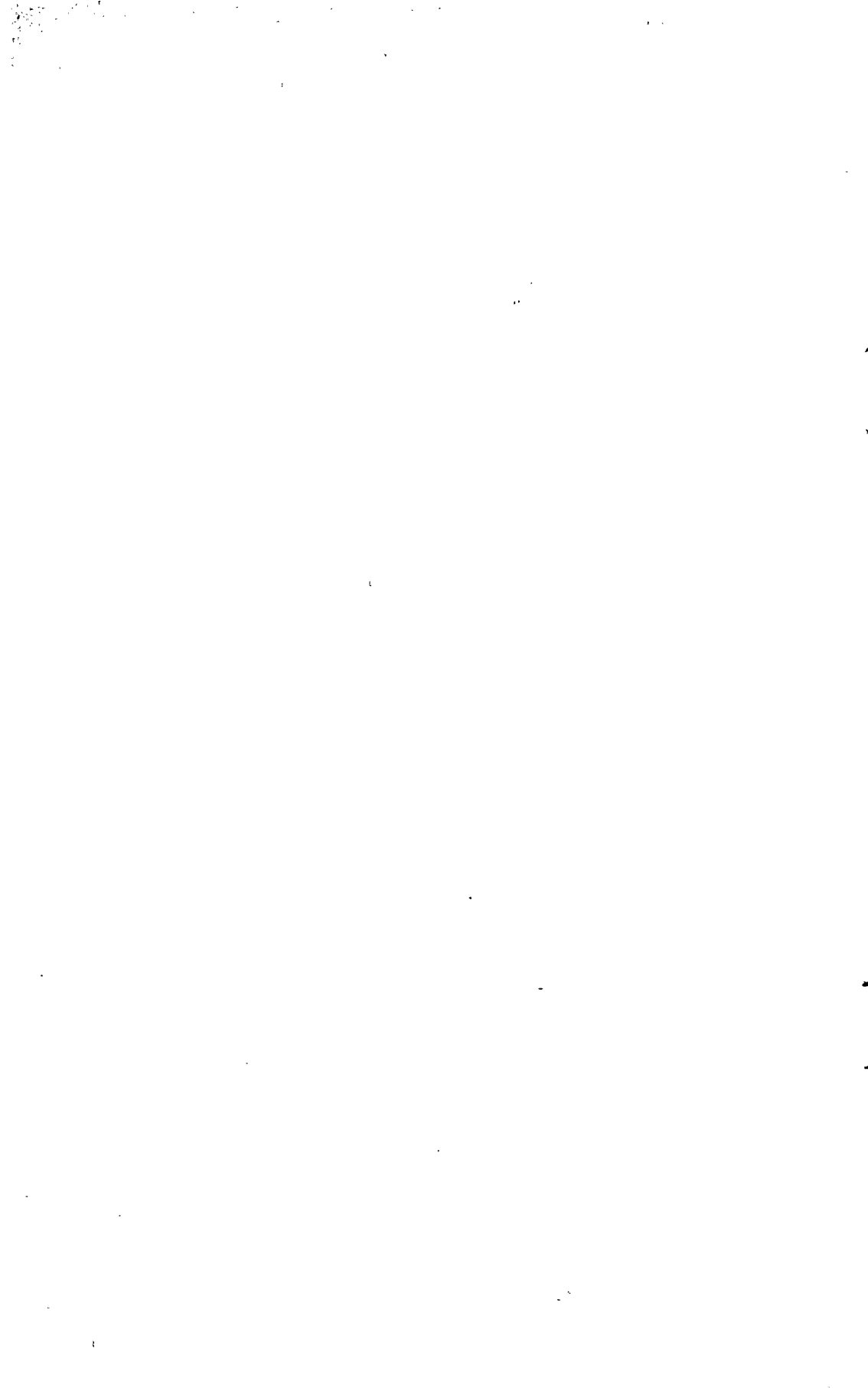
But I find it ironic that, as we begin the new millennium, a country, a noble country such as the United States, simply wants to fade away into the night and surrender and let go a strategic waterway that has tremendous impact and interest to the world maritime community. I find it again ironic this country's last couple of days paying attention to some reports about an American president such as Theodore Roosevelt, and I wonder what the American people really think and what they consider as they simply let the Canal fade and most of its resources into the hands of a strategic rival.

I honestly don't think the Chinese are worried about Panama, and I am convinced that if they can take advantage and if they can exploit the situation on their behalf, they are going to do it whether the Panamanian people agree or disagree. That is not something that will enter into their equation.

Chairman BACHUS. Thank you. I think that we will end on that note. Thank you very much.

Mr. ROHRBACHER. Thank you, Mr. Chairman.

[Whereupon, at 12:43 p.m., the hearing was adjourned.]



THE FINANCIAL AND COMMERCIAL IMPACT OF THE PANAMA CANAL TREATY

WEDNESDAY, DECEMBER 8, 1999

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC AND
INTERNATIONAL MONETARY POLICY,
COMMITTEE ON BANKING AND FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to call, at 10:10 a.m., in room 2128, Rayburn House Office Building, Hon. Spencer Bachus, [chairman of the subcommittee], presiding.

Present: Chairman Bachus; Representatives Green, and Carson.

Chairman BACHUS. Good morning. I would like to call the Domestic and International Monetary Policy Subcommittee to order.

Today we are conducting the second day of hearings looking into the impact of the withdrawal of the United States from the Panama Canal Zone and what impact that will have on the vital interests of the United States, including the financial, commercial, and security repercussions. Our concern is that with the complete U.S. withdrawal, all of these vital interests will be threatened. Yesterday's testimony gives me great concern or greater concern that that may be the case.

Last week the President said that he was not concerned and dismissed the notion that transferring control of the Canal could hurt America's vital interests. Let me quote the President: "I think the Chinese will, in fact, be bending over backward to make sure they run it in a competent and able and fair manner."

The President also said, and I quote: "I would be very surprised if any adverse consequences flowed from the Chinese running the Canal."

In effect, this means that the United States is dependent on the good-will of China to ensure the safety of the Canal. Is this the best we can do to protect American interests? Is reliance on the good-will of China warranted?

I have with me a copy of the book published this year by the People's Liberation Army Literature and Art Publishing House. This book—and I am going to introduce excerpts from it into the record—was written by two senior colonels in the PLA, the People's Liberation Army. It is called "Unrestricted Warfare."

[The information referred to can be found on page 112 in the appendix.]

According to the translator's note, the book proposes tactics for developing countries, specifically China, to compensate for their military inferiority to the United States during a high-tech war. A

recent *Washington Post* article said that the authors' tactics included terrorism, drug trafficking, computer virus attacks, and environmental degradation. The authors reflect opinions which are very current in Chinese military thinking. And the recent actions by China to expand its influence in the Pacific and in Panama must be seen in this light.

In a recent interview, one of the authors stated that, and I quote: "Unrestricted warfare would give a small country like Panama a chance to exploit the United States. It could have used no-limit warfare," and this is still part of the quote, "it could have used no-limit warfare for a first strike to cause the Americans much trouble, causing chaos to the U.S. financial system."

Let me repeat that again, because these are actually the words of a colonel in the People's Liberation Army in an article published this year in China. In this publication, here is what he said. He talks about the use of unrestricted warfare by the Chinese military, and he says this: "The unrestricted warfare would give a small country like Panama a chance to exploit the United States. It could have used no-limit warfare for a first strike to cause the Americans much trouble, causing chaos to the U.S. financial system."

We heard yesterday about the increased activity of Chinese corporations in Panama and how many of them have connections with organized crime. We were also told that international drug traffickers and money launderers consider the departure of the United States as an opportunity to gain strength in Panama.

And as an aside for any of you who did not attend yesterday's hearing, the person offering much of this testimony was a DEA agent who spent several years in Panama, who infiltrated some of these organized crime rings and worked undercover, and he has been highly awarded for his work in bringing people to justice in Panama.

As we learned yesterday, the Panamanian financial system is particularly susceptible to corruption and money laundering, even at the highest levels of business and government.

Lastly, we heard how in Canada the parliament is now investigating allegations of criminal activity by Chinese corporations over the last decade. This investigation includes Li Ka-Shing, the owner of Hutchison Whampoa. But the Administration says we have nothing to worry about in Panama.

On October the 22nd, 1999, General Charles E. Wilhelm, Commander in Chief of SouthCom, United States Southern Command, testified before the Senate Armed Services Committee that "we are not aware of any current internal or external threat to the Panama Canal." However, the Defense Department had earlier contracted with a security analysis firm, ManTech, a subsidiary of ManTech, a very large defense contractor.

The ManTech study, or at least a presentation of the results, has been obtained by this subcommittee, which, by unanimous consent, I will now place in the record.

[The information can be found on page 122 in the appendix.]

As I said, this report was commissioned and contracted to by the Defense Department and presented to them. I would like to place into the record that report at this time. The report plainly states that there are several threats to the United States, including—and

I will quote from the report: "increased"—and these are potential threats—"increased use of ports' free zone, Panamanian airway connection by international criminal elements to support narco-trafficking, and money laundering are a predictable result, as are the increased flow of cocaine and heroin into the United States."

Two, manipulation of the Canal may threaten, "priority shipments."

Three, increased manipulation of the banking sector will facilitate money laundering and will increasingly involve corruption of banking interests and other countries.

Four, destabilization of Panama will be a clear loss to the prestige of the United States of America and will signal clear limits to its influence to both legitimate and criminal elements elsewhere.

And, last, contested control of the Darien and sections of bordering provinces are a setback to U.S. strategy.

These potential threats outlined in this report commissioned by the Defense Department certainly seem to be threats to vital U.S. interests, and I would like to hear from the panelists about their assessment of these and the financial and commercial risks that might result from the U.S. withdrawal from Panama.

In yesterday's testimony, we had quite a bit of testimony about the number of ships through the Canal, the fact that two-thirds of the cargo is either destined for the United States or originates in the United States, that approximately 15 or 16 percent of all imports and exports to the United States come through the Canal; that oil and grain are two major commodities that are shipped through the Canal; that we depend on the Canal for our flow of petroleum and energy products; that the Dakotas and Nebraska, other States, are quite dependent on the Canal and the farmers there to ship their products to the Pacific Rim; that Florida is quite dependent on the Canal; that much of their agricultural exports, a large percentage, go through the Canal; and on and on. Very important, strategic Canal.

Our three witnesses today bring a wealth of knowledge to the subject. We are fortunate to have with us today a veteran ship navigator who piloted ships in Japan, Korea, and Panama. He was in Panama for twelve years. In Panama, he served as Canal port captain and supervisory pilot for the Panama Canal Commission. He also served as Chief of Port Services for the United States port in Pusan, Korea.

His experience at three different ports that were all returned by the United States to a foreign power makes him uniquely qualified to testify as to the operation of the Canal and what we might face as far as shipping through the Canal once the United States no longer controls the Canal.

We are also very fortunate to have Lieutenant General Gordon Sumner with us today. Lieutenant General Sumner has both military knowledge of the Canal, and his service includes a three-year-long effort to develop an airplane company in Panama.

I am looking at his biography. It states that he served for 36 years in the Army, was decorated as a Korean War hero who was captured by the Chinese troops, but escaped two days later. He served on the staff of General MacArthur, commanded an artillery division in the Vietnam War, and later served in a variety of posts

in the Pentagon. In 1975, he was named Chairman of the Inter-American Defense Board.

President Ronald Reagan appointed him Ambassador at Large for Latin America. He served in that position from 1981 to 1989, during which time he devised the Caribbean Basin Initiative, which has greatly helped development in the region. In this subcommittee in testimony about how we can help or assist other countries in their economic development, we all point to the Caribbean Basin Initiative as a very successful initiative.

So you can be very proud of that, Lieutenant General Sumner.

I am going to, at this time, take the testimony from the first two witnesses.

Admiral Thomas H. Moorer, who served as Commander in Chief of the Pacific Fleet, Commander in Chief of the Atlantic Fleet, and Chief of Naval Operations, and also Chairman of the Joint Chiefs of Staff of the United States on two occasions is en route to Washington. When he arrives, we will seat him.

But at this time, without further delay, do you gentlemen want to decide who goes first?

All right, Captain Puckett. We appreciate your attendance and particularly in light of the fact that in some newspaper articles yesterday, some of the newspapers here in Washington, I don't think they were at attendance at this hearing, but they talked about navigation through the Canal after the United States no longer is in control. They didn't give attribution to some of their statements, but we might want you to comment on some of the things they said, whether or not they are true, or whether you believe they are true.

Now, we don't know—since they gave no attribution to the statements, we don't know where they came from.

**STATEMENT OF CAPT. KENNETH P. PUCKETT,
PANAMA CANAL PILOT, RETIRED**

Capt. PUCKETT. Thank you, Mr. Chairman. Today it is a privilege to provide you with insight into the operation of the Panama Canal and share with you and other Members of this subcommittee my concerns for the future. It is not often that a seaman on watch is called to the pilothouse to offer his opinion on the course of the ship, and I thank you for that.

The Panama Canal, sir, is a very old industrial complex. The Panama Canal Commission, to their credit, spent millions of dollars to upgrade various components of the Canal. For example, they have added high-mast lighting to extend the hours of daylight, increased the size and horsepower of tugboats, and they are currently widening the famous Gaillard Cut, to name a few improvements.

However, the fact remains that the original concrete lock structures and 700-ton steel miter gates are over 85 years old. I believe it is the longevity of these components that will determine the viability of the Panama Canal in the 21st Century.

A little history for you, Mr. Chairman: The Panama Canal was designed and built to accommodate the World War I battleships, Arizona and Pennsylvania. These vessels were 106 feet in beam and had drafts of 34 feet with displacements of 34,000 tons.

By comparison, during World War II, larger military vessels, battleships, and aircraft carriers with beams of up to 108 feet, drafts of 38 feet, and displacements of 53,000 tons routinely transited the Canal. These World War II vessels barely fit the 110-foot-wide lock chambers with less than 12 inches between the ship's sides and the concrete lock walls.

The successful transiting of these vessels set precedence for the passage of the larger commercial vessels of today. Known as Panamax, these vessels have displacements of over 70,000 tons, which is more than double the size of the designed lock capacity. Panamax vessels now account for approximately 27 percent of all vessel traffic on the Canal.

What effect has the transiting of these larger vessels had on the locks and gates over the last fifty years? Basic physics remind us that water will not compress. It takes an enormous amount of energy to force the oversized Panamax vessel into a lock chamber. In order for a pilot to get a Panamax into a lock chamber, the vessel's engines must be placed at full speed ahead and the electric locomotives operated at maximum towing capacity. In some cases tugboats are directed to assist with the lockage by pushing on the stern of the vessel.

Each time a Panamax vessel is forced into a lock chamber, the whole structure begins to vibrate. It is these vibrations that concern me. Cracks can be observed in the concrete lock walls, and the steel miter gates leak. A breach of the lock walls and internal culverts or a miter gate failure could close the Panama Canal for an indefinite period of time.

Vital to the continuous 24-hour-a-day, 7-day-a-week operation of the Panama Canal is a reliable source of electricity and an abundance of fresh water. Currently, the Panama Canal Commission operates its own electrical generating plant.

Today Panama is experiencing an unprecedented increase in population growth and commercial expansion. These factors have resulted in an increasing demand for electrical power in Panama. As a result, power outages in Panama are not uncommon. After Panama assumes control of the Canal, will there continue to be a dedicated electrical power source for Canal operations?

I might add, it is a possibility they could integrate the Panama Canal Commission power plant into their system, which would reduce the availability of power back to the Canal.

Fresh water is the other resource that is vital to the operation of the Panama Canal. Each time a vessel passes through the Canal, it uses 52 million gallons of fresh water. That is over 1.5 billion gallons of water to move an average of 32 vessels through the Canal each day. This water comes from the abundant 130 inches of rain that annually falls in Panama's rainforest.

Historically, whenever there has been an increase in commercial development in a tropical environment such as Panama, there has been a corresponding reduction and loss in valuable rainforest watersheds. Nowhere else in the world does a rainforest have such collateral importance as it does in Panama. Without the rainforest, greater water runoff will occur during the rainy season.

Consequently, there may not be enough fresh water held in the watershed to operate the Canal during the dry season. Will current

plans to safeguard this vital Canal resource be honored and enforced? Once a rainforest is depleted, it takes decades to recover.

As a senior Canal pilot, I am frequently asked if I think Panama can operate the Panama Canal once they assume control on 31 December 1999. I have always answered in the affirmative. There are hundreds of men and women in Panama well qualified to manage and operate the Canal if given that opportunity.

It came as a complete surprise when I learned that Panama had relinquished control of two major ports and the Trans-Isthmian Railroad. While the strategic military issues are serious enough, what impact will this move have on the economic well-being of the United States and the future of world commerce?

A major concern expressed to me by ships' captains regarded vessel scheduling and pilot assignments. Their concerns become more significant in the view of the fact that a private company now operates the Ports of Balboa and Cristobal at the entrances to the Panama Canal. Current U.S. Federal regulations dictate that vessels transiting the Canal be scheduled primarily on a first-come, first-served basis. Transit fees are based on vessel tonnage and paid in advance. Priority scheduling is available for a 10 percent surcharge. Pilots are assigned in accordance with strict guidelines and based on duty rotation and qualifications.

Under Panama Law Number 5, that is, the new law, the control of shipping, berthing, and pilot assignments in the ports of Panama will be granted to the private contractor.

Chairman BACHUS. Captain Puckett, would you read that sentence again that you—

Capt. PUCKETT. Under Panama Law Number 5, the control of shipping, berthing, and pilot assignments in the ports of Panama will be granted to the private contractor. That is the way I read it, Mr. Chairman. This contractor is the Hutchinson Port Company, a Hong Kong-based Chinese conglomerate.

Consider for a moment this statement taken from an interview with President Dong of the Chinese shipping company, COSCO, as reported in the *Journal of Commerce* in August of 1998. In Mr. Dong's own words, he said: "In order to satisfy our customers' needs, remain competitive, and preserve market share, COSCO must offer confidential contracts" to its shippers.

If the Hutchinson Port Company controls vessel scheduling and pilot assignments in the ports of Panama, it stands to reason that they will give preferential service and ensure priority transit scheduling to their customers. Remember, time is money, and there are a limited number of vessels that the Canal can accommodate on a daily basis. Any preferred scheduling practice will foster a bidding war among shipping agents.

And I might interject here, every day of the week I was a port captain, I had an agent coming to me trying to influence our decision to send his ship through the Canal, because he was paid by the shipper and the owner to get it through as quick as possible.

Any preferred scheduling practice will foster a bidding war among these shipping agents, shipping companies, vessel owners, and even countries for that matter. Under such circumstances, how long will it be before the maritime industry worldwide loses confidence in the operations at the Panama Canal? What effect will all

this have on the strategic requirements of the U.S. military? Will our warships continue to be given priority transit scheduling, or will they be required to wait in line just like any other commercial vessel?

The Code of Federal Regulations dictates that a Panama Canal pilot be in complete navigation of a vessel in Canal waters. The purpose of the regulation is to enhance safety, eliminate confusion on the bridge, and maintain efficient traffic flow. To ensure enforcement of the regulation under international law, the Panama Canal Commission accepts full responsibility and liability for any damages to a vessel as the result of the actions of pilots or other Canal employees. Vessel owners, insurance companies, captains, and Panama Canal pilots have supported this regulation for seven decades.

The channel entrances to the locks at the Panama Canal are unlike any other waters in the world, Mr. Chairman. Different currents flowing in different directions at different depths at different stages of the tide affect the vessel as it approaches the locks. Panama Canal pilots are specifically trained and qualified to pilot a vessel under such unique conditions. Ships' captains look forward to having a Panama Canal pilot aboard their vessel to assume navigation control.

Effective 31 December 1999, the Panama Canal Commission and its successor, the Panama Canal Authority, have agreed to change the regulation that outlines the damage liabilities on the Panama Canal. The new regulation will state that the Panama Canal pilot will remain in navigation control, but a significant portion of the liability for damages will shift from the Panama Canal to vessel owners. In other words, vessel owners will be required to assume liability for damages caused by Canal pilots and Canal employees.

This major change in operating procedures creates anxiety in the maritime industry and fosters an atmosphere of distrust between ships' captains and Canal pilots. Designed to protect the interest of his owner, the captain will insist on participating in the navigation control of his vessel while in Canal waters. The ensuing conflict in navigation control will lead to an overall slowdown in vessel traffic and an increase in accidents.

Imagine for a moment the chaos in the cockpit of a 747 jumbo jet with two pilots fighting for control of an aircraft during a landing. I have experienced this six times in my life on the Canal, and I had full navigational control.

There are 32 accidents a year on the Panama Canal. Most of them are fender benders. A couple of them are a lot worse than that. Usually it is mechanical failure or a misunderstanding in language or sundry different items that cause these accidents. We still have 32 accidents a year. Add to that now the captain looking out for his owners and wanting to be involved in the control of his vessel as they approach the locks, and it is inevitable. They will either slow the ship down, or we will have more accidents. And a serious accident could close the Canal or one side of it.

While I was there for fifteen years, we had a vessel sink, two vessels sink in the Canal. We had collisions. We had numerous vessels hit the locks and cause pollution. We had one Navy destroyer that the whole sonar dome was completely destroyed and had to go

back to the shipyard. So there are accidents, and it is part of the operation. But add this next requirement that the shipping owner be held responsible for the actions of a machine he can't control, and it could get a little bit worse.

I will skip over the part about the weight and the cargo, because you have received it.

Chairman BACHUS. Go ahead and read that. We have the time.

Capt. PUCKETT. Each year, over 190 million tons of cargo pass through the Panama Canal. West Virginia coal goes directly to Korea, thus avoiding the extra 5,000 miles around the tip of South America. Grain from America's heartland destined for the Far East accounts for 23 percent of all Canal traffic. From my home State of Florida, over \$100 million of fruit and citrus is annually shipped through the Canal directly to Japan.

Some 67 percent of Ecuador's maritime traffic, 43 percent of Peru's, 23 percent of Chile's, 70 percent of El Salvador's, and 75 percent of Nicaragua's ocean commerce depend on the Canal. How would the U.S. and these countries get their products to market if the Panama Canal were to shut down tomorrow?

Are the harbors, ports, railroads, highways, and trucking systems of the United States capable of handling such a massive increase of cargo across our continent? Think about it. What would happen if only a fraction of the 190 million tons of Canal cargo were suddenly infused into the current transportation system? I understand from the *Journal of Commerce* that last year the rail capacity only increased by 100,000 tons. So we are reaching our maximum here in the United States as far as moving cargo.

The Panama Canal is an important link in the world's transportation system, and I believe should be viewed as a world utility. Whoever operates the Panama Canal controls this utility and holds the switch that ultimately regulates world commerce. The big question is, after 31 December 1999, who will assume the responsibility to make sure that that switch remains open?

Bear with me for a minute while I share some history with you, speaking about my previous experiences. In 1970, the United States began the process of returning the islands of Okinawa to Japan. The U.S. Army was in charge of port operations in Okinawa. I was ordered there to supplement the American Civilian Pilot force, assist with the turnover, and begin a confidential dialogue with the Japanese and Okinawa pilots.

That transition went smoothly, and I attribute our success in that transition to two important factors. First, the United States had begun renegotiating the Status of Forces Agreement well before the turnover was to take place. Consequently, all parties to the reversion knew exactly what to expect before, during, and after the turnover.

Second, and more important, we had the rule of law. Treaties are considered the law of the land in both countries.

Then in 1975, I was Chief of Port Services in Pusan, Korea. The summer of that year, the Korean harbor pilots purchased several new tugboats. Shortly thereafter, they arbitrarily began refusing Army tugboats to assist with U.S. military and U.S. civilian vessels. We reminded the Korean pilots that the Status of Forces Agreement and the supplemental articles specifically stated that

any time there was a problem affecting strategic military operations in Korea, the U.S. Army could utilize their own tugs and pilots.

We were able to maintain normal port operations for several months and finally essentially negotiated a settlement with the pilots. The Koreans refused to use our Army tugboats, and we implemented the agreement. Once again, a Status of Forces Agreement, coupled with the rule of law, protected the national interests of both countries.

I offer these experiences as examples of how the U.S. has handled treaty situations in the past.

Mr. Chairman, the Panama Canal treaties are vague in defining specific circumstances justifying any U.S. intervention in Canal operations. What is our recourse if the Canal shuts down for any reason? A Status of Canal Agreement—that is the new term I picked out of the air—a Status of Canal Agreement establishing verifiable, practical, and operational guidelines would fill that void.

From Carter to Clinton, six Presidents and their administrations have had over twenty-two years to prepare for the turnover of the Panama Canal. We are now at a crossroads in Panama and left with few options. Meanwhile, the Canal facilities continue to age.

I believe the United States should once again take the lead by calling for an international convention on alternative modes and means of transporting cargo across Central America. This would send a message to the world that the United States is not abandoning our commitment to free world trade. The practical, political, and economic importance of the flow of commerce across our continent is essential to the security of our Nation and to the generations that follow us.

That concludes my written statement, sir.

[The prepared statement of Capt. Kenneth P. Puckett can be found on page 129 in the appendix.]

Chairman BACHUS. Thank you.

At this time, we will go to Lieutenant General Sumner; and then, Admiral, I will introduce you. If you all want to work out a different order, it is fine with me.

Lt. Gen. SUMNER. Can you hear me all right?

Chairman BACHUS. I hear you great.

**STATEMENT OF LT. GEN. GORDON SUMNER, JR.,
U.S. ARMY, RETIRED**

Lt. Gen. SUMNER. First of all, I want to express my pleasure and consider it a privilege to appear before this subcommittee. This is my third appearance since June on this subject. I would preface my remarks by giving an overview of the threat.

First, I am pleased to see so many young people in this audience, because there is a lack of understanding amongst the general American public about the Panama Canal. And this is a splendid presentation made by Captain Puckett, because this is a subject that is vital to the economy and the future of this country.

I see what has happened in the past twenty-some-odd years, and Admiral Moorer and I testified here in January and February of 1978. Many people in this room probably weren't even born at that

time. But we have been struggling with this problem for many years.

At the time—1976-1978—I talked to Omar Torrijos about this situation. I later talked to Tony Noriega about it. It has been ongoing. And nothing has happened to correct the problems that we are seeing here today.

I view this as a part of the disarming of America; and not disarming us militarily, but disarming us economically. This is going to have a serious impact on our country. If you want to see the Dow drop 3,000 points, just have the Canal close. Blow the Gatun Dam and lose all this fresh water; and you are going to find 15 percent of everything this country produces goes through the Canal. It is going to be stacked up. For example, we would have hundreds of millions of tons of grain on the ground.

Now, the liberals have said from the very beginning, "Don't worry about the Canal, it is not critical." We have had senior military people testify before the Congress on this saying it is not critical, because the "dry canal" will pick up the slack. Well, the "dry canal" is full. In June, I presented to the Mica subcommittee of the House a videotape produced by Los Alamos National Laboratory, paid for by the Department of Transportation, showing our national transportation system. This showed graphically that the "dry canal" is full; it has no more capacity.

The Department of Transportation is also pursuing this project. And we are talking about efforts requiring millions of dollars. Further, when you produce a model of our international transportation system, you are looking at an enormous amount of data.

Chairman Gilman and Chairman Burton have written Secretary Cohen asking him to look into this problem from the national security standpoint. And in their letters, they also bring up the related economic problem.

Let me talk about threat for just a minute. You look at threat in two dimensions. One is capability. What is the capability of the FARC, the Colombian narco-terrorists, what is their capability? What is the capability of the Chinese Communists, or if you want to put it on a commercial basis, what is the capability of Hutchinson Whampoa to close the Canal permanently or temporarily?

I have talked to my Panamanian friends and said, "Suppose the Chinese Communists or Hutchinson Whampoa just pull a ship into the canal in front of the locks and anchor it?" They said; "Well, we would tow it." I said, "Have you ever tried to tow a ship that had ten anchors over the side? It can't be done." "Well, then, we would board it." And I said, "Yeah, you are going to board it with guns? Are you going to start World War III over this?" Look down the road at the capabilities.

Now the other dimension of the threat is the intention. The intention is more subjective, and that is something that people can argue about. People are entitled to their opinions, but they are not entitled to their facts.

And Captain Puckett has just been producing facts. We have a full court press by the White House now to try and tell the American people there is nothing to worry about. The President said, "the Chinese will do a good job in running the Canal." According

to his Press Secretary Lockhart, that was a misstatement. I am not sure it was at all.

But we have a problem here. President Carter, Walter Mondale, Stansfield Turner and Bob Pastor, were all the people that got this whole train started. When they looked at the threat, they basically saw no threat. Again, capabilities and intentions.

At the risk of offending my Navy friends in the audience here, Stansfield Turner and Jimmy Carter decided that this country doesn't need human intelligence. And human intelligence is the first line of defense for the Canal.

Now, you can say what you want to about Tony Noriega. He had good intelligence. I used to tell the Assistant Secretary of State that "Tony Noriega wasn't for sale, he was for rent." And he furnished us the information; we paid the rent every day, or somebody else paid the rent, the somebody else being Fidel Castro in most cases.

So we have this problem that has not only a military, but an economic side to it, and I find at this late date it may be too late to do anything. But maybe not. We have a new government down there. The new president has expressed a willingness to talk about this. The treaties mandated that we would negotiate a military presence to protect the Canal after the year 2000.

If you go back and read this testimony, Admiral Moorer, Admiral Holloway, the chiefs, all said, "We will go along with these treaties." But there were all sorts of things that are built into the treaty to protect us from the very situation we find ourselves in today.

To put it in Army terms, "the truck is in the ditch." We know what the ditch is. How are we going to get it out? How are we going to solve some of the problems that Captain Puckett has brought up? How are we going to be able to deal with a regional problem?

We are focused on the Panama Canal here, but in addition you have got the Colombian narco-terrorists. Colombia is fighting for its very existence as we speak today. The Colombian terrorists came into Albrook on the 1st of November and took two helicopters at gunpoint. It was a wake-up call. They bound and gagged the people and left them off at the hotel. It was a nice psychological warfare ploy on their part.

Chairman BACHUS. And for the record, that was a former Army base, was it not? Or was that a Navy—

Lt. Gen. SUMNER. Yes, Albrook was the Army air base there which we turned over to the Panamanians, and they moved their civilian airport, which was over on the other side of the city—they moved it into Albrook. These were civilian helicopters. They were not military helicopters. But the point was made, I think quite vividly, that we are here, we can do whatever is necessary.

These Carter-Torrijos treaties led, in my opinion, directly to operation "Just Cause." We had twenty-seven Americans killed, hundreds wounded. We had thousands of Panamanians killed. Nobody knows the number; they never come up with a firm number. But they were, in most cases, innocent civilians.

If we go on down this road, General Wilhelm has testified on the 26th of June as you pointed out, that he has contingency plans to go back into Panama, because under the Neutrality Treaty, we

have that right. The problem is, if the locks are blown and the dam has gone, sending Marines back in there is slamming the door after the horse is gone. That is not going to do us one bit of good.

Think again. When we executed "Just Cause", we had troops on the ground. General Thurman did not have to come in over the beach and be faced with opposition.

The PDF was there, but the PDF put up only a token resistance. But if we have to go do this again—I am speaking now from a military standpoint—it is a whole different ball game. And if the FARC is there on the ground with advanced weaponry, surface-to-surface missiles, anti-aircraft guns, we are looking at an enormous loss of life and significant bloodshed.

So what is the answer to this?

I think we have a window of opportunity here to do what Captain Puckett has talked about, what my friend Tomas Cabal has talked about. We need to sit down with the Panamanians and try to work this out. But we cannot do it as long as we have a President of the United States and a State Department that is adamantly opposed to doing anything about this problem. They are telling the America people, "Everything is fine, don't worry about it, the Chinese are going to do a good job running the Canal." If you read history and you study Toynbee and Spingler and Gibbons, when a great country like ours fails to understand what is in its national interests—and I am talking about our economic as well as our political interests—we are going to end up on the ash heap of history.

I think one of our problems is that we do not have enough people who are knowledgeable about Latin America in general and knowledgeable about the problems of Panama. The Panamanians, the State Department, and the White House have just sort of brushed off Latin America. The American Ambassador, Hughes, told me in front of Panamanians that the Secretary of State had no particular interest in Panama, and did not know what he was doing. Hughes resigned shortly thereafter.

We, as a Government, have used Latin America as a professional backwater for the military—and I think Admiral Moorer will support me. We don't put our best people in Latin America. I will say for Admiral Moorer, he sent me Admiral Kenoisen. There have been some attempts to correct this problem. It is not just a backwater for the America military; it is a backwater for the State Department. When the State Department people are assigned to Latin America, that is where they send their second-rate people, and I am sorry if I am offending some people with this, but it is the truth. I think we need, and particularly the Congress of the United States needs, to understand we have a big problem here. It is not going to be solved overnight. These problems has been festering for twenty years. I think it is up to the Congress or the Judicial Branch of the Government to lance this boil. It is a national disgrace, in my opinion.

I think probably I have said enough, sir. Thank you.

[The prepared statement of Lt. Gen. Gordon Sumner Jr. can be found on page 132 in the appendix.]

Chairman BACHUS. Let me say this, General. We sometimes, when we call witnesses before Congress, we encourage them to say

what is on their mind, and often they do not; and even after we ask them questions, they really don't express their true beliefs. Then when we talk with them in the hall after the hearings, they say, "This is what I really wanted to say." I think you said it in here instead of out in the hall.

I think that is as much as we can ask of our witnesses to give their opinion; and that is your opinion, and it is a strong opinion. If you heard the witnesses yesterday, we had a university professor from Panama who has a nightly news show, which has very high ratings in Panama; an ABC affiliate carries it there. He told us that the polls in Panama are showing that 70 to 80 percent of the Panamanian people do not understand why we are not maintaining a physical presence on the ground. He said many of the same things you have said today.

The Panamanian people have the same fears that we have. There is a disconnect between the government and the people. He also told us one very disturbing fact, and that is under Panamanian law, political contributions cannot be disclosed. So we have no idea who is contributing money to those in power in Panama to finance their campaigns or their elections, or who is financing them after they get elected.

The media in the United States certainly understands the necessity of full disclosure here. They understand how money can have a corrupting influence. We very well in this country understand the need for financial disclosure, to find out where the money comes from and who is contributing it. In Panama, there is a complete veil over that. We don't know why decisions are made. We heard testimony from the U.S. consortium that bid on the concession to operate the ports at both ends of the Canal, why that is so important for them. They were the successful bidder. They were invited to Panama to be awarded the contract. At the awarding ceremonies, the head of the port authority was called away by the president. He returned an hour-and-a-half later and said that they would not be receiving the bid, it would be rebid. They never again received specifications for the contract.

To my knowledge, that has never been widely reported in the newspapers in this country, the fact that there is strong evidence that the bidding process for the concessions to these ports was not fair, was not transparent, was not honest.

I share your frustration that I think you have from reading some of the things you and Admiral Moorer have said. Many of us on this subcommittee have those frustrations. Why does no one care? Why do they not care about these concerns? Why does it not raise a cautionary concern. In this country on a daily basis we have a headline news story about a contribution to some campaign and how that may affect someone's vote or decision on a matter. Yet, in Panama, we have had decisions that have tremendous influence on us, and no one is looking under the cover.

At this time I would like to—

Lt. Gen. SUMNER. Could I just make one comment? I wasn't here for the hearing yesterday, but I did read the testimony, and I ask that my experience with Panama Air be inserted into the record. I put this fact sheet out after Panama Air was taken away from me—and I have shotgunned this fact sheet out to the investment

community all over the world. The result was the foreign investment in Panama the following year dropped 50 percent. It is very difficult, and I pointed out to my Panamanian friends, for us to do business in Panama on anything but the smallest scale. We have the Foreign Corrupt Practices Act, which puts us—and I am speaking of the American investors who want to invest—we are in handcuffs, whereas a country like China or Germany or France, Italy, they are not constrained; and it is very difficult to compete. I guess it is a tribute to our technology that we do get business abroad, despite the Foreign Corrupt Practices Act. We cannot pay agent fees; we cannot bribe. Our system has to be totally transparent. That puts us at an enormous disadvantage in doing business around the world. Thank you, sir.

Chairman BACHUS. I very much appreciate that. It puts us at a disadvantage when our competitors do bribe, when our competitors do these things that we do not do and shouldn't do.

Lt. Gen. SUMNER. That is something the World Trade Organization should have taken up. You know, get a level playing field.

Chairman BACHUS. Good point.

Our next speaker, and it is an honor to introduce him as a fellow Alabamian, is Admiral Thomas H. Moorer, who served as Commander in Chief of the Pacific Fleet and Commander in Chief of the Atlantic Fleet, Chief of Naval Operations, and Chairman of the Joint Chiefs of Staff on two occasions. And I guess you are still Honorary Chairman of the Retired Officers Advisory Board of the National Security Center. That is an organization made up of 80 retired officers of our services, 40 of which have flag rank, and Admiral Moorer was elected as their chairman. So it is with great honor that we welcome you to the hearing today, Admiral Moorer. We welcome your comments.

**STATEMENT OF ADM. THOMAS H. MOORER,
U.S. NAVY, RETIRED**

Adm. MOORER. Thank you, Mr. Chairman. First I want to apologize for being late. It is the first time that has ever happened in over one hundred hearings that I have conducted here in this building.

Chairman BACHUS. And let me say this. We knew, because of your travel plans, we knew that you might be late and it was not a problem.

Adm. MOORER. Thank you, sir.

I have testified many times during the ill-advised Carter-Torrijos Treaty, and what I propose to do is simply to give a summary of what I said and then discuss some of the very important issues that both Captain Puckett and that the General discussed.

During the Carter treaty hearings, I stated: "The defense and use of the Panama Canal is wrapped inextricably with the overall global strategy and prosperity of the United States and the security of the Free World. If the United States opts to turn over full responsibility for the maintenance and operation of such an important waterway to a small, resource-poor, and unstable country as Panama by proxy or directly, the vacuum will be quickly filled by the Soviet Union or some other power center." Now, the Chinese

have negotiated with the previous Ballederes government, and this is known as Panama Law Number 5.

This law was enacted on January 16, 1997, by the legislative assembly of Panama; and it gives very extensive rights to Communist-controlled Hutchison Whampoa, Ltd., who are based in Hong Kong. As you recall, Hong Kong was recently turned over to the Communists by the British government. This company has close ties with a Mr. Li, a multibillionaire, with also close ties to the Chinese Communist army. I call attention of the subcommittee to the fact that the rights granted the Chinese grossly violate the United States rights under the Panama Neutrality Treaty. Panama Law 5 unethically shuts out U.S. bids and gives Panama extensive financial benefits.

I am sure Mr. Li, with his billion dollars as they express it down there, they are sending in bushels of money, and that was why Ballederes caved in like he did. So you have a situation where the rights and the interests of the United States are grossly violated by the Panama Public Law 5, and this cannot be ignored. There are several articles—I won't take the time of the subcommittee to give the details on, but they are violations of the original treaty; and consequently, what we are doing is permitting the Chinese Communists to acquire a foothold in our own country.

This I don't understand, because the facts are that we have sent troops to Kosovo, we have sent troops to Haiti, we have sent troops to Timor, but we do not have any troops to send in our own backyard where we really have the greatest threat that exists worldwide to the United States today. That I cannot understand. Not only are we turning over control of the Canal, but we are providing a launching point for missiles against the United States. If you read the paper this morning, you will see that on the headlines the Chinese are now preparing a series of launching points aimed at Taiwan. If we get involved in a Taiwan operation or for that matter, with the North Koreans into South Korea, putting our forces in jeopardy, well, then the Panama Canal will play a very important part.

So I think that the testimony given by Captain Puckett and Lieutenant General Sumner wrap up the problem very well. I would call the attention of the subcommittee to this Resolution 77 which was submitted by Congresswoman Chenowith-Hage, which gives a very orderly rundown of what the problem really is. I think it is high time that the United States Government, including the Executive and Legislative Branches, step in and take some action to guarantee the prosperity and the defense of the United States, because of the fact that the Canal is gradually being pecked away at, because it does not get the maintenance that the original treaty provided for.

And if it is not working right, we have to get down and fix it, and I have said many times, if we ever again get involved in a combat in either the Atlantic or the Pacific Oceans, people should realize that we have to have the Canal. I don't think you can make a case for the fact that some of the ships are too large to go through. The facts are that the aircraft carriers, for instance, have to have supplies no matter where they are, and so do the marine division. You cannot put a division of troops, army or marine, down on the

ground all around the world and not have a flow of ships bringing in the supplies that it takes for them to operate—the ammunition, the weapons, the uniforms, the medicine, and so on.

So those that suggest that the Canal can't handle the big ships, that is true. What we really should do is get down there and fix it so that it can handle the big ships. But in any event, we are in a very serious situation now, and I am surprised that something is not being done about it.

Now, the Clinton Administration, in the first place, their public affairs officer made a statement and said that anybody that thinks the Canal can't work perfectly is silly. He used the word "silly," and then in Senator Warner's hearing, there were five witnesses, including the Assistant Secretary of State, that came up and testified that everything is going to be rosy; and only last week, the President himself said he would be surprised if the Chinese couldn't handle the Canal smoothly. I think he had a slip of the tongue, because the treaty is with Panama, the treaty is not with the Chinese. But we are more or less turning now to negotiate with the Chinese on what we are going to do about Panama.

Then there is the fact that we are giving Panama—or rather the Chinese again—a launching area for attacking the United States with those missiles just like they are setting up to attack Taiwan.

So I can only say that I have spent my career of 45 years or so constructing war plans and studying threats and what have you, and I don't think there is any major operation that one can conceive of which involves the United States of America that doesn't require the Panama Canal. So I can't understand why supposedly intelligent people make statements and give testimony that we do not need the Canal, it is worn out, and if we don't use it, we will go by what they call "dry transport."

I would simply say so far as that is concerned that you are talking about tons in a ship and ounces in an airplane, when you start comparing the movement of large forces and large tonnage, whether you are talking about the economy, whether you are talking about the Defense Department.

So, Mr. Chairman, I would hope that this subcommittee would grab the bull by the horns and get the State Department and the Senate all working together with the Panamanians to come up with a new plan that corrects most of these problems and that serves to get the Chinese out of Panama. Thank you, sir.

[The prepared statement of Adm. Thomas H. Moorer can be found on page 137 in the appendix.]

Chairman BACHUS. I thank you, Admiral Moorer.

At this time I would like to introduce into the record a copy of a letter that is signed by twenty-four Members of Congress to the President on November the 10th, 1999, urging him that under the Panama Canal treaties, we do have the right to maintain a presence in Panama. We have urged—I will just introduce this letter, I think it speaks for itself.

[The information can be found on page 119 in the appendix.]

Chairman BACHUS. We have had no response to this letter. We have also had no response to our invitations to the State Department, to the Justice Department, to the Treasury Department to participate in these hearings and to talk about the commercial im-

portance of the Canal and to talk about the money laundering and the corruption in the government in Panama, or corruption in the practices, the irregularities in the bid-letting, which I am going to go into with you, Lieutenant General Sumner, because you also have a unique perspective on that, having personally participated in bid-opening in Panama for a concession.

Their response is not to respond to the facts. Their response to all inquiries by the media has been a pattern response that I have seen come from two different departments. It is the same response, and I don't know whether this is the White House media machine or whatever. Their response, Admiral Moorer, is that you have given this testimony several times, including to the John Birch Society, and that this is a concern stirred up by the John Birch Society. So they don't address the problem; they simply try to say that you gave the speech to the John Birch Society and therefore this is—

Adm. MOORER. I would like to say that I am not a member of the John Birch Society.

Chairman BACHUS. And I am glad you said that, simply because they continue to say their response to the concerns of the Congress, their response to when the media questions the Administration about the merits of the concerns that you and others are raising, and yesterday which were raised by Panamanians, raised by a DEA agent that spent eight years in Panama, their response is that the John Birch Society is stirring this up.

I want to say for the record that I have never had any communication with the John Birch Society to my knowledge since I have been a Member of Congress. I have never spoken to the John Birch Society. They have never officially talked to me. I don't know of any official correspondence or of any phone calls from the John Birch Society. I am sure that they are people that I represent, the people I know that may be members of that organization, but my concerns were not brought to me by the John Birch Society.

But that is just an attempt—you see that spin machine at work in Washington. The media is very used to it. They talk about it. But apparently in this case, it is working, because they are saying that and it gets into the articles. Of some seventeen articles that were published over the last week about the Canal, reference to the John Birch Society was made in one-half of those articles.

Adm. MOORER. Well, of course, they are grasping at straws. They are trying to find some way of getting the public at large to ignore the problem of the Panama Canal.

Chairman BACHUS. When the facts aren't on your side, talk about something else, and that is what they are doing. They could have been here today, they were invited to be here to talk about the things that were talked about yesterday, to address them, to rebut them. They are not here. They are not going to be in Panama, neither the President nor the Vice President will be in Panama for the transfer of the Canal. I can certainly understand why they are not going to be there. But the State Department, as of yesterday, continues to say that they are making no efforts whatsoever to negotiate for a continued U.S. presence. They are telling us that they are not making any efforts to address these concerns.

Now, two things are possible. One is that they are lying to this subcommittee, to this Congress, and to the American people when they say they are not holding any talks or making any efforts, and that they are; and if they are indeed holding such discussions, but they are saying to the American people there are no such discussions, then I think that is a matter of ethics for all of us, and veracity for all of us to judge. But if we take them at their word, if we assume that they are telling the truth and they are doing absolutely nothing as the December 31st date approaches; and as the President said last year, he is relying on the good intentions of the Chinese.

Adm. MOORER. Well, I think that is absolutely true. The Chinese are the same people that stole our technology and that are in Panama, and they don't hesitate to announce that the United States is their number one enemy, and I think you better look around. In viewing the security of the United States, you have to come down hard on capabilities and not waste your time trying to develop intentions and read their mind, because the capabilities are there for everyone to see that knows anything about the problem.

Chairman BACHUS. Yesterday—well, let me go back and say when the secrets were stolen from Los Alamos, there was some reference made that they would use them for commercial development, not for military development. We saw yesterday that they are developing missiles to be launched from submarines which they have now started constructing, using stolen technology from Los Alamos. So any reliance on their good intentions with what they would do with the military secrets, those good intentions disappeared as of yesterday morning.

Let me address the panel—and you have already answered this, Admiral Moorer—so Captain Puckett, I want to address this question to you.

You have seen firsthand the transition of the United States from Korea, Japan, and now we are leaving Panama. Were you concerned about the departures from all three, or is the departure from Panama different?

Capt. PUCKETT. I was not concerned either in Okinawa or in Korea. Those were natural processes that were taking place; and in Okinawa, for example, it was decided to give the islands and the operation over to the Okinawan and Japanese authorities. It went very smoothly. The Japanese were perfectly capable of coming in and taking over. The transition took less than six months. One day we were in control, the next day I turn around the bend and here comes a Japanese ship loaded with yen, and we brought it into the port and we packed up and left.

In Korea it was the same way. The Korean ports are being more and more commercialized. We still have military cargo going into Korea, of course, because we have to support our military over there. The Korean pilots and the tugs are bigger and better. We went from a total military—the last U.S. Army active military port was Pusan, Korea. When we closed that, we still have a presence there, we have contracting officers who oversee the military cargo that comes in and of course we have very good relations with South Korea, and we monitor traffic in and out. So that is a total contract operation.

The Canal is something all together different. That is a total commercial operation in the sense that the Panama Canal Commission treats everybody equal. If you have ever been aboard a ship, most ships' captains have a little slop chest in which they have different types of commodities which they use as gratuities to make sure that their paperwork gets done on time. The Panama Canal Commission, on the other hand, we had a pretty straight operation. Very few people took anything or did anything that was out of order. It was a very honest operation in that I can't remember having any real big problems with anything down there, and I wasn't concerned with the operation at all.

The Panamanian people that we trained, the young Panamanian pilots, they are superb. They are excellent. A lot of them are educated in the United States and places all over the world. That wasn't the operation. It was the concern that they had and we had with the government coming in and appointing political appointees to jobs and positions in which they had no technical ability whatsoever. That is where the problem lies right now, the concern of operating the Canal with political appointees rather than technical people who can really handle the job and maintaining the integrity of the traffic flow and the fairness and the assignment of ships on schedule and on time.

So no, I didn't have any problems with it the way it was set up, but it obviously is going to change now, because we have two separate entities; we have a private company in the ports influencing the ships that are coming in. There is going to be some confusions, and there is going to be some feathers ruffled, and there is going to be problems.

Chairman BACHUS. You mentioned that Hutchison Whampoa—and I think this is undisputed by even the Administration—that they will control the shipping, berthing, and pilot assignments in the ports of Panama.

Capt. PUCKETT. Yes, sir.

Chairman BACHUS. It is my understanding that Evergreen, a Taiwanese company, that they rely very heavily on these ports?

Capt. PUCKETT. They have an out-port over on the Atlantic side which is strictly a container operation. And they have their own pilots over there. Some of the Panamanian pilots that work for the commission actually moonlight over there and work over there. And Evergreen, Evergreen has a shuttle service which they primarily service their Caribbean partners, and occasionally one of their larger ships will pull in and then turn around and schedule itself for transit.

Chairman BACHUS. I think in your testimony you pointed out that several Latin and South American countries, a large percentage of their imports and exports travel through the Canal. If that commerce was slowed, not stopped, but simply slowed or delayed, would it have a significant economic effect on those countries or on the United States, if commerce through the Canal was simply slowed?

Capt. PUCKETT. We have Chile and Peru that provide us a lot of produce, grapes and peaches and apples, and a lot of fruits that come out of Chile and Peru that use the Canal to go to the East Coast of the United States and over to Europe. Those ships would

then have to be diverted to the West Coast ports of the United States to ship their cargo in containers and that would delay the movement of that containerized, refrigerated fruit and vegetables that come out of those countries.

Nicaragua, I am not too sure what they are exporting right now, but I know a lot of bananas from Equador and El Salvador and some of those other countries come through the Canal also. Tremendous banana traffic comes through the Canal to the United States and also to Western Europe. So those countries would be affected, and it would affect the cost of goods. You start unloading and loading and reloading and packing and shipping and putting on trail cars and trucks across the United States, the cost of produce from these countries will skyrocket, I think. That is just my opinion.

Chairman BACHUS. You mentioned—and I think several of the panelists mentioned—that our rail systems are at or near capacity. One of the trans-continental railroads, the Sunset Route, is over capacity.

Lt. Gen. SUMNER. That's right. There is a backlog; there is a two-week backlog.

Capt. PUCKETT. Mr. Chairman, I ordered an automobile from Detroit to get to Florida, and it was six weeks before it got there; and the primary reason is there was not enough railcars. We have a shortage of railcars throughout the United States right now. They just don't have them. They are not making them.

Lt. Gen. SUMNER. That is right.

Chairman BACHUS. And one reason, even when they are delivered, there is a delay in delivering them, because even if they delivered them, they could not pick them up and then ship them.

A congressional delegation recently visited the port facilities at Portland and Seattle and Tacoma, and we found that there was sometimes a two- and three-day delay and that that delay was causing tremendous losses. So our rail systems are very definitely at capacity. So it is obviously true.

How would control of the ports, or control of shipping, of berthing or pilot assignments at the ports, how could it affect shipping in the Canal? Now, I will say this. I am aware just from history that the Canal is narrow, the entrances are narrow. So I could envision it, as Lieutenant General Sumner, you mentioned, the pilots for Hutchison Whampoa could back one of these large ships out at a certain time, just backing it out to leave and cause a several-hour delay, I suppose. Is that a legitimate concern? Could they block the Canal for short periods of time?

Capt. PUCKETT. Congressman, right now, the assignment of pilots in the ports and in the Canal are controlled by one agency and that is the Panama Canal Commission. Movements in the harbor are controlled by the Panama Canal Commission. If a cargo ship wants to leave the port, they notify the Canal authority and they schedule a pilot, which is usually a Panama Canal pilot, on harbor duty to move that vessel. If you get two agencies moving at the same time and one of them decides—and there is not enough communications or communications is lacking, it doesn't have to take a deliberate effort, all it has to take is an individual who decides

that he has to get that ship off the dock without the—and he has to turn around in the Canal in many cases.

The other problem is changing pilots. A harbor pilot takes it off the dock, and he has to stop and wait for a Canal pilot to get aboard and take the ship through the Canal. That will cause delays. New York Harbor frequently has minor delays when the ship comes up through the harbor there; they have to take a docking pilot.

By adding more and more pilots to the matrix, it is obviously going to slow down the operation. It cannot help from doing that. The pilot that takes it off the dock may not be the transit pilot—he may be just a harbor pilot—and it gets more complicated. Without adequate coordination—it does not have to be a deliberate effort; it could be just an out-and-out mistake that will cause things to happen.

Chairman BACHUS. What if the Panamanian government sold the concession to operate the Canal itself as opposed to the ports? You know, many of us never thought that they would award control of shipping, berthing, and pilot assignments in their ports to a Chinese company. Is there anything that would prevent them from awarding a concession to operate, say, the railroad in the Canal or the actual operation of the Canal to a foreign corporation which competes with an American corporation, as this one does?

Lt. Gen. SUMNER. We have talked about the privatization of the Canal over the years, privatizing the Canal, have a consortium, say, Bechtel, Mitsubishi, come in and run the Canal. That I think has been pretty much discarded by the Panamanians. They do not want to see the Canal privatized.

From a technical standpoint, to answer some of the questions that Captain Puckett has brought up, you need technical expertise at a very high level, at a very high level indeed, to be able to deal with this problem. I have had some of the scientists at Los Alamos National Laboratory look at this, and it is a major problem. If Panama, the Government of Panama decides to go ahead and run the Canal as a cash cow, as a political goodie, I don't know how long it will stay in operation, because the technical side of it is really a world class technical operation.

Capt. PUCKETT. May I interject—

Chairman BACHUS. And in this regard, you might comment on what is the actual physical condition of the locks, the miter gates, the valves, the electrical system. You mentioned we have to count on power supply.

Capt. PUCKETT. When I left in 1996, it cost approximately \$850,000 to \$900,000 a day. Now, I am sure that figure will be distorted, but that is the figure I received in my office. It was about \$850,000 to \$900,000 a day to operate the Canal. Revenues were about \$1.1 million. The margin for error was narrow. In other words, all we needed was to buy one tugboat or two tugboats or a new locomotive and there went your profit for the year.

The idea that the Panama Canal has been self-supporting is a misnomer; it is not. It has never been. The sundry items, the buildings, the schools, all of the support facilities were provided by taxpayers' dollars; and if the Canal ever gets in a financial strap for maintenance or they start taking money away from money that is

set aside for maintenance, it will not be able to continue to operate. That is the crucial part. It is at a break-even point right now, and all we need is somebody to distract a little money or send it in another direction and maintenance is going to suffer.

I have noticed over the years, maintenance is always the thing that suffers first when you start diverting money. That is as it gets older, it requires more maintenance. Those valves have got to be pulled periodically and completely cleaned and replaced. The locks have got to be drained and the bottoms have got to be all checked out. The miter gates, the smaller gates must be pulled and floated out, another set come in, and the larger 700-ton gates have to be repaired in place. They are so big they cannot be replaced. All of these items start adding up on the budget.

It is amazing to me that I think we became a nonappropriated fund in the early 1980's, and thanks to General McCauliff and his people were able to maintain a fairly good maintenance schedule. But if that is not maintained, it is going to go downhill. A ship without a crew deteriorates faster than a ship with a crew. I know that from experience.

Chairman BACHUS. OK. Thank you.

The Hutchison Whampoa group, a Hong Kong-based company with reported ties to the Chinese military, is taking over the operation of the port of Cristobal and Balboa at the entrance to the Panama Canal. Does Hutchison Whampoa's management of ports at both ends of the Canal pose a threat to the United States?

Adm. MOORER. Well, I don't think there is any question about that, Mr. Chairman. I would point out to you that the Panama Law 5, which, in effect, gave all of these rights, if you want to call it that, or at least the grants to Hutchison Whampoa, authorizes Hutchison to occupy defense sites and it grants priority operations to Hutchison at the Canal entry points of Balboa and Cristobal, which conflict with Article 6 of the Carter Treaty, which gives head-of-the-line and expeditious passage for U.S. ships. The Chinese Communists are in a position to block this passage.

I would go on to say that the Panama Canal treaty, the so-called Carter-Torrijos Treaty, is illegal. To begin with, when the Senate was coming up to the vote, when the Senate was getting ready to vote, they saw that they weren't going to get the votes, and so we had what was called the DeConcini Amendment, and this amendment gave the United States the right—this amendment, the DeConcini Amendment, Senator DeConcini amendment, gave the United States the right to reenter Panama in the event that the Canal operation was interrupted. Well, Torrijos, after all, was not a president; he was actually a dictator working with President Carter, and so he put an amendment on his paper which said, in effect, that the DeConcini Amendment is null and void unless Panama cooperates with the United States when they go back.

So you have, in effect, a treaty with two different pieces of paper, and the convention that they have had on treaties over the years indicates that those two pieces of paper have to be identical or the treaty is null and void.

The other point is that the Panama constitution states that the president of Panama must sign all treaties. I have talked to Mr.

Lakas himself, who was president at that time, and he has told me twice he never signed anything.

So, for all practical purposes, the Carter Treaty is illegal to start off with. So I have listed in my statement several instances where they are—it is, in fact, illegal. So we ought to start with that and come up with a plan of coordination with Panama and work with the president of Panama, the new president, to work out this conflict; and I will repeat again, get those Chinese out of Panama.

Lt. Gen. SUMNER. Could I add a little bit to that? There are several lawyers, Larry Elgin and Larry Klayman of Judicial Watch are, as we speak, taking this into the district courts. They have examined these treaties in excruciating detail and come up with a whole laundry list of problems that make the treaties illegal.

The Congress, in 1978, headed up by Congressman Edwards of Oklahoma—there were I think 100 Congressmen that joined this lawsuit, which was filed in Oklahoma—and to my surprise, I find out that the lawsuit is still active and it is going through the appeal process. When you look at the enabling legislation passed by the Congress, the enabling legislation addresses the bases; it doesn't address the Canal. So there is a whole laundry list of legal problems here.

Chairman BACHUS. Let me say this, and for the purposes of this subcommittee, you know, the Judicial Committee—and I think the Congress as a whole can address the constitutionality or the legality of the treaties—this subcommittee at this point is progressing under the assumption that the treaty is valid and that it is going to be enforced, and the purpose of this hearing is to anticipate or to discuss problems that may arise when control of the Canal is transferred back to the Panamanians.

Lt. Gen. SUMNER. I understand.

Chairman BACHUS. One particular problem that was highlighted yesterday and referred to you all today is corruption in Panama and the fact that our commercial interests will now be dealing if not with the ports, it may be a Chinese corporation, but quite apart from that, they will be dealing with the Panamanian government. And commerce through the Canal—and I don't think anyone disputes this—the shipping and the berthing, the priorities, all of that, if it doesn't depend on the Chinese, or if they don't influence, or whether they do or not, it will depend on the Panamanians and who influences the Panamanians.

In that regard, I would like to ask you, Lieutenant General Sumner, and I had a question here to—

Lt. Gen. SUMNER. Well, while you are looking for that, I would like to make a statement. I am not a member of the John Birch Society either, and I never made any presentations to the John Birch organization. But, on that point, as the White House and the State Department have brought up the issue, I think the record should show very clearly that it has been the extreme left wing of the Democratic Party in this country, in cooperation with the extreme left wing of the PRD in Panama, those two extreme elements have ensured that all of these problems that we are discussing have aborted the negotiations.

Chairman BACHUS. Right.

Lt. Gen. SUMNER. I think that is important for the record. Most of the Panamanians want us to stay. If you ask most Americans, they may not understand Kosovo, they may not understand Timor, they may not understand Croatia, they may not understand even Haiti; but by gosh most Americans understand the Panama Canal. Panama is a gut issue with most Americans. And the extreme elements of the Democratic Party in this country and the PRD in Panama have been able to emasculate the effort.

Chairman BACHUS. Well, as you say, the White House has reported certain things about this treaty. What they have not emphasized in their media operation that you spoke to the John Birch Society, in other words, and that these hearings are influenced by the John Birch Society, which is not true. And I have received no contribution from the John Birch Society, nor have I sought any. So I am not influenced by them.

Lt. Gen. SUMNER. Sure, sure.

Chairman BACHUS. I will say this. What the White House has not said—what we have written and what they have not disputed, is the Panamanian people, and what has not been reported, is that the Panamanian people, the large percentage of them—there was testimony yesterday from two of our panelists—that the majority of the Panamanian people are concerned, they are concerned over the concession granted at the ports, they are concerned about the United States leaving Panama, and some of them feel that the United States in fact has abandoned Panama, and they are very concerned about that. This is the academic community as well as the general public bears that concern. And there were two reporters from major Panamanian newspapers here, one the main paper in Panama, and after the hearing she confirmed to me that the Panamanian people very much want the United States to remain, feel that the United States should maintain a presence, and that they question why the Clinton Administration is not making legitimate what they think should be a good-faith effort to negotiate for a presence.

Let me move on and ask you this.

Adm. MOORER. Mr. Chairman, could I just make one quick comment. The Ballederes treaty states that the Panama Canal Zone, which was bought more or less fee-simple, 10 miles on each side of the Canal, is the property of the United States in perpetuity, and the Supreme Court reviewed that and agreed in 1970.

So that treaty was not nullified when the other treaty, the Carter-Torrijos treaty was signed; they left that hanging. So that is another reason why this treaty is vulnerable, in my view.

Chairman BACHUS. All right. At the hearing yesterday, Cooper/T. Smith Stevedoreing Company, which was a part of a consortium bidding for the concession of these ports, testified that they did experience a lack of transparency and lack of fairness in the bidding process. In fact, they were awarded the bid, and then it was withdrawn.

Lieutenant General Sumner, you referred in your testimony that you submitted and that you didn't speak, and it states that your company won the bid, but the government of Panama rebid the proposal four times. Did you consider that process fair and transparent? And the reason I ask you is that American companies that

use the Canal are going to have to start relying on the Panamanians. They are going to have to start negotiating. They are going to have to start contracting with the Panamanians. And in this regard I think your experience would be relevant.

Lt. Gen. SUMNER. Yes. When I read the testimony yesterday, it was "deja vu all over again." I went through the bidding process for Air Panama. Air Panama was Noriega's airline and consisted of two 727s and 300 employees, which is what you need, I guess if you are going to run a major drug operation.

I put together a group of Panamanians, prominent Panamanians, one of them, Kaiser Bazan; another, J.J. Vallarino. I had what I considered to be the creme de la creme of Panamanian economic interests there as my partners. And with American investors, we put up \$5 million.

Every time we bid, the Panamanian government would shop my bid around. I had Rollin King from Southwest Airlines helping me on this, and we were going to put in a Southwest Airline 737-type of operation. We had a half-a-million dollar business plan.

To make a long story short, we won it. We started to go in operation. And the Director of Civil Aviation of Panama went out to Tocumen Airport for one of our first flights and, at gunpoint, took the passengers off our plane, tore up their tickets, and put them on COPA.

Chairman BACHUS. Put them on what?

Lt. Gen. SUMNER. On an airline owned by the Motta Brothers there, COPA, C-O-P-A, which was an airline which was not authorized to land in the United States. Unsafe airline. They have had multiple fatal accidents. I would not fly on it, and I would advise anyone in this room not to fly on it either. You can go over to the Department of Transportation and check their safety record.

I have submitted all this in a fact sheet, which I would like to have inserted into the record.

Chairman BACHUS. Without objection.

[The information can be found on page 133 in the appendix.]

Lt. Gen. SUMNER. I have sent this fact sheet all around the world to the investors, and they said the investment dropped 50 percent the next year. But there is a problem with corruption at the highest levels of government in Panama. President Endara would probably be in jail today, but as the ex-president of Panama, he becomes an automatic member of the Central American Parliament and has diplomatic immunity. Tomas, is that right? I am checking with my Panamanian friend here who knows this.

Now, Perez-Balladares, who has fallen into the same category, said he will not use that dodge to escape prosecution in the United States. We have this Chinese visa problem. I don't know whether they got into that yesterday or not. But it is going to surface—the *Miami Herald* has had that story published.

Chairman BACHUS. Could you just mention that to us briefly?

Lt. Gen. SUMNER. This is a problem of corruption in the government. We are hoping that Mireya Moscoso will be different.

Her second Vice President, Kaiser Bazan, is a graduate in the United States Military Academy. He was one of my partners in Panama Air. I think he is straight. I hope Kaiser can do something about this. But that is a Panamanian government problem.

Now, in the civil society, you have corruption. You know—and I am going to offend some Panamanians with this—

Chairman BACHUS. I am not sure we want to do that in these hearings.

Lt. Gen. SUMNER. No. But this is a common joke. "Panama is the crossroads of the world. It is also the double-crossroads of the world."

When you do business down there, you have major problems in the civil society in trying to deal with the people there that are in the investment world. This morning, I was talking to the new Deputy Chief of Mission of the Panamanian Embassy about this. They realize they have a problem.

I think there is an opportunity here to get more transparency. I think the point that you made, sir, about let's see where the money is coming from, the money trail, and I think that there are a number of things that can be done.

Now, one of the problems, and I point out in my testimony, is that the new president has a very narrow political base. The PRD is still pretty much in control of the legislative and judicial branches. Am I correct? I am getting confirmation from my Panamanian friend here, Tomas Cabal. As you know, generalities are dangerous.

But there is a problem here that I think we have to be aware of when we look at the economic and the banking situation. I talked to the DCM this morning about the banking problem. I was in Panama when we literally held a gun to their head and made them sign the MLAT Treaty. It was a ham-handed, clumsy way of doing business. The Ambassador, Deane Hinton, and I discussed this at length. We should have built a consensus in Panama before we did this.

I don't see that the problem of corruption as being dealt with as it should be. And I think the newspapers in Panama understand that. You can get on the Internet and read the Panamanian newspapers. And the newspapers talk about corruption. The Panamanians say, "Look at the United States. Here you are living in a glass house throwing stones. Look at the corruption in your government. Look at the number of your Cabinet officers that have been investigated and indicted, and look at the Ron Brown scandal," and the list goes on and on.

So finger-pointing isn't going to get it. I think we all need to understand that there is a problem, and we need to move forward for the new millennium.

Chairman BACHUS. OK. Thank you.

Let me ask you this question, Captain Puckett. And I think I have asked this of the other gentlemen. But does Hutchison Whampoa's management of the ports at both ends of the Canal pose a threat to the United States? What safeguards could be put in place to ensure that this company does not influence the scheduling of ships and pilots passing through the Canal? And once the handover is complete, what procedure will be used to determine how the pilots who steer the vessels through the Canal will be assigned to the ships as a traverse from one end of the Canal to the other?

Capt. PUCKETT. I think, Mr. Chairman, the industry will let you know if it is running properly. Kind of like I said before, time is money. And the maritime industry knows very well the cost of the operation of every ship on the ocean, either commercial and even in military. Everyone knows. It is not a secret industry. The minute a vessel is assigned out of schedule or appears that he is getting preferential treatment, you are going to see it in the *Journal of Commerce*, and you are going to see it worldwide. People are going to hear about it.

Chairman BACHUS. What do we do at that point?

Capt. PUCKETT. There is nothing in place for the United States to do anything that I can see in the treaty. For example, the U.S. naval vessel, once the treaty goes into effect, has to get an agent like any other commercial vessel. Right now, the U.S. Navy has its own people in many cases. But if they go into a small port in the world, they hire a ship's agent who is a civilian to take care of the necessary paperwork and the forms to get us through into a specific port. It is not uncommon for a military to hire an agent in one of these ports.

There is nothing to say that a military vessel, Navy ship, comes to Panama, and he gets to Cristobal, and he wants an agent, and he hires an agent, either through a telex or communication satellite or whatever; and that agent then has to take his hat in his hand and go up and say "I am representing the U.S. Navy, and I have got a ship to go through the Canal." And whoever is in charge, whether it be the Port Authority or Hutchison Whampoa, can say, "Well, we don't have a slot for you today, and you will have to wait till tomorrow." The agent is going to say, "This is a U.S. Navy ship." And they are going to look at you and say, "So what? You are an agent. You are a civilian. We don't see the Navy here. We see you." He is going to have to bid on that transit right along with everybody else.

I can say in the treaty that the Navy is going to be given priority transits, but when you have got to go through a civilian who has to take his hat in his hand to organize that transit, it is going to be a problem. Hutchison Whampoa, just by the mere fact they are not showing up with line handlers, the ship will stay at the dock.

You can manipulate ships all over the world, and no one really knows you are doing it unless you are the ship's captain looking down at the dock. I have known ships' captains to be fired when they were delayed getting off the dock, and it wasn't even their fault. They had no control over it.

I know of a pilot on the Canal who gave a Russian captain such a hard time, the captain gave it back to him. That Russian company fired that captain when it got to Cristobal. So you have to have your hat in your hand when you are dealing with agents and authorities in these different ports of the world.

Once this becomes totally civilianized, it is going to look like another port in the world, and the bidding process is going to start to begin, and the cost is going to go up. And the United States, again, if we want a warship that wants to go through, God help us if it has to be right away, because there is no guarantee. The treaty doesn't provide for it. It says it will, but the process is not in place to ensure it.

We need a Navy group down there or naval officer that can go in and put his foot down and say, "Hey, that is our ship." Maybe we want to send one down there every month just to test to see if it is working so we can get it through in a timely manner.

Chairman BACHUS. The *Washington Post* made the statement that the American warships—this was yesterday—retain the right to jump in front of other ships if they need to use the Canal.

Capt. PUCKETT. They don't retain that right as we speak. They are given priority transits, and they are fit into a slot or schedule. Usually, they are smaller vessels so the Canal can fit them in. I know of an incident in 1986 where the Navy had not transferred funds to the Panama Canal Commission, and the Panama Canal Commission denied the U.S. Navy transit. And the Navy captain—

Chairman BACHUS. So if the Panama Canal Commission becomes corrupted or influenced by outside interests, they can actually set priority rates. They can delay transit through the Canal. They can actually damage a ship and no longer be liable for the cost of that damage.

Capt. PUCKETT. They are limiting what they call minimal liability up to a million dollars, is what they are saying. Any fender-benders, there is no longer any claims. But, again, if I am a captain of a ship, I don't even want a dollar's damage. Because before I take my ship, there is a survey, and it says this is what is wrong with the ship. Bring it back in a year, and we will take another look. The insurance company is going to step in and say, "OK, there is \$300,000 worth of damage, and we will pay for it. Where did those damages occur, and who was responsible?" But if it happens in Panama and it is our fault, we usually pay the bill, because we were self-insured.

Chairman BACHUS. Is there anything in the treaty that—now, if they can set and charge a surcharge basically for giving priority to a certain ship, is there anything in the treaty that prevents them from charging a 50 percent surcharge or a doubling the cost of transit?

Capt. PUCKETT. Panama can do anything they want, the Panama Canal Authority. The problem is what the market will bear.

Chairman BACHUS. So the Panamanian government could double the cost of transit through the Canal next year?

Capt. PUCKETT. Yes, sir.

Chairman BACHUS. And the treaty gives us no recourse.

Capt. PUCKETT. Up to this point, the board of directors was having meetings every year, and they would determine if we need a cost of increase of tariffs and tolls. Those were sent out to the industry. The industry will give us feedback and say "We can't afford this. We don't think this is right." And there would be negotiations to make sure that the industry could bear the tolls. The tolls have gone up over 10 to 15 percent in the last five to six years that I know of. It is going to reach a point where the shippers will not be able to handle it. They are going to pass it on to the consumer.

Chairman BACHUS. But do they have an alternative? Or what is the transit time from, say, New Orleans to Los Angeles through the Canal, and what is the alternative?

Capt. PUCKETT. It is usually three to five days from New Orleans down to the Canal. You have a 24- to 48-hour period to get through the Canal and about a five to seven day period to the West Coast depending on the speed, the size, and what the—

Chairman BACHUS. Two weeks.

Capt. PUCKETT. Two weeks or less. It can be ten days in some cases.

Chairman BACHUS. What if they went around the—

Capt. PUCKETT. It is a long time, 35 to 40 days, sometimes two months, depending on the weather in South America, depending on the Cape—the Straits of Magellan is no place to be any time of the year. It is a nasty place to be.

Chairman BACHUS. So we are talking about two weeks or two months is the choice.

Capt. PUCKETT. Yes, sir.

Chairman BACHUS. And in certain parts of the year, two months would be a risky endeavor.

Capt. PUCKETT. Yes, sir.

Lt. Gen. SUMNER. If you have ever been around the Tierra del Fuego, you are never out of sight of a shipwreck. And I am not talking about sailing ships. I am talking about modern ships that didn't make it.

And you talk to my sailor friends here, nobody wants to go around Tierra del Fuego if they can avoid it.

Admiral MORRER. Well, I think it is about 8,000 miles further going around South America.

Lt. Gen. SUMNER. Nine thousand nautical miles.

Admiral MORRER. Nine thousand.

Chairman BACHUS. And nothing in this treaty that assures us— is there anything in the treaty that assures us the same rate as other countries, or could they give preferential rates?

Lt. Gen. SUMNER. Well, the enabling legislation that set up the operation of the Panama Canal instituted a number of policies. First of all, the operation would be fair and equitable, and that it would be a non-profit operation. Actually, the Canal has been working on appropriated funds up until, as Captain Puckett said, it became a non-appropriated fund.

And when you talk to the Panama Canal Commission, the working people, this has been a real problem.

Chairman BACHUS. But my question is this, is there any safeguard in the treaty once the Canal is handed over on the rates that we can be charged?

Lt. Gen. SUMNER. No: None that I am know of.

Capt. PUCKETT. No.

Chairman BACHUS. We have heard testimony that the Chinese are heavily influencing the government, that they are buying up businesses, that they are establishing operations. Obviously, they are going to operate the two large ports, which is going to give them tremendous influence, if nothing else.

Lt. Gen. SUMNER. Well, they have jacked the rates up at the ports way up. I think they increased the rates in the port by well over 100 percent. And that ran a lot of Panamanians out of business. Is that right, Tomas? After all, it is sovereign territory. They can do anything they want to.

And when we were looking at these treaties in 1978, I was going around Latin America in my official capacity as the Chairman of the Inter-American Defense Board, and my bosses were the chiefs of state, and let me tell you they were all worried sick about exactly this problem. They were afraid that Omar Torrijos would hold them up and put them in the queue, put them in the line depending upon what they were going to pay him.

Now, I have no knowledge about whether any of that happened. I don't think it did.

Chairman BACHUS. Let me go through some very quick questions here, and I have been told that we are somewhat challenged on time. And I think maybe, Captain Puckett, you might be particularly interested in, you know, commerce through the Canal after the transfer.

Capt. PUCKETT. Yes, sir.

Chairman BACHUS. Will priority be given to certain types of ships or ships from specific countries that will be allowed—

Capt. PUCKETT. I know where you are going with that.

Chairman BACHUS. Let's see. Will priority be given to certain types of ships or ships from certain countries that will be allowed—let me briefly—I wrote this question down wrong. Priority can be given to certain ships; is that correct?

Capt. PUCKETT. Yes, sir. Yes, sir.

Chairman BACHUS. And, theoretically, you can give priority to ships from specific countries. Now, let's just say that that could in practice happen unless there was something to prevent it. Is there anything in the treaty which would prevent the Panama Port Company or the Panamanian government from giving priority to ships from a specific country?

Capt. PUCKETT. I don't see anything in there. If I were going to build a multinational, international shipping company, and I could get into Panama or the Panama Canal, I could then go to South America—and this is hypothetical, of course—go to South America and say, "Look, I have got priority transit. Put your containers on my ship, and I will get them in the Canal."

Chairman BACHUS. You will get them there two days early.

Capt. PUCKETT. That ship is out of business. Then another shipping company. The next thing we know we have container ships going through the Canal carrying cargos from Central and South America just like Evergreen Lines is over on the East Coast and the Atlantic side. So it is a possibility. And it is subtle.

Chairman BACHUS. So who makes that determination? Would it be the Panamanian Governor, the Panamanian port company?

Capt. PUCKETT. The Panama Canal Authority would determine who goes through the Canal.

Chairman BACHUS. And when and in what order?

Capt. PUCKETT. And what order. And, again, there are some arbitrary rules that we have that says that because of the size of this ship, it has to go through during daylight. Or there are enough rules in there that can be manipulated that it, on the surface, it can appear totally fair, and still the captain calls his agent's company and says, "I have been sitting out here for six days, what the hell is going on?" Excuse my language.

Chairman BACHUS. So if a company, or if a country, or if a consortium of individuals who are contributing large sums of money to the government or have an influence on the commission, they could basically control when and how fast ships transited the Canal?

Capt. PUCKETT. Absolutely.

Chairman BACHUS. And to certain countries, which over 50 percent of their commerce travels through the Canal, such as you said Peru and you named several where it is a significant amount, those countries could actually be beholden to whoever influenced control or had influence over that operation; is that right?

Capt. PUCKETT. Yes, sir.

Chairman BACHUS. Theoretically, the port authority could actually dictate quite a bit of economic blackmail or influence over not only private shippers, but these countries that rely so heavily on the Canal; is that correct?

Capt. PUCKETT. Yes, sir. Another issue that hasn't been brought up is fuel. If I withhold fuel for your ship when you need to be refueled, the large Panamax vessels come through the Canal from the Atlantic to the Pacific, from the East Coast ports of the United States in Mobile or New Orleans, they come through at maximum loaded capacity, and many of them fuel in the Pacific side so they get that much more cargo on board.

Chairman BACHUS. In fact, as they go into the gates, it is my understanding they have to have their engines running at full tilt.

Capt. PUCKETT. Yes, sir.

Chairman BACHUS. And they burn a tremendous amount of fuel.

Capt. PUCKETT. Yes, sir. Usually they are on light fuel oil rather than heavy oil which is more expensive. Then on the other side, they refuel. If I wanted to manipulate shipping, I don't want to give anybody ideas here, I just wouldn't give them any fuel when they got to the other side. The barges wouldn't be available. There is a lot of money made in Panama on both sides fueling ships after they get through the Canal. That is a big business. That is another area of control.

Chairman BACHUS. Now, previously we had some rights of regulations there; or did we?

Capt. PUCKETT. Yes, sir. We provided the fairest system possible that we could get for the shipping companies and also to meet the needs of the Canal to get maximum capacity through.

Chairman BACHUS. OK.

Capt. PUCKETT. And I think we did a very good job at it, too.

Chairman BACHUS. Let me ask you one final question. You have mentioned water which is essential for the operation of the Canal, a certain supply of fresh water and electricity.

Capt. PUCKETT. Yes, sir.

Chairman BACHUS. We heard testimony yesterday that Chinese companies are buying large tracts of land, they are developing them, they are, you know, operating the ports which obviously can burn certain amounts of electricity.

With all that in mind, there is a ten-mile buffer zone on each side of the Panama Canal. And as I understand it, it was established for two reasons, first to provide a security zone to the actual

Canal works, and second to protect the rainforest adjacent to the Panama Canal.

Capt. PUCKETT. Part of the rainforest is in that buffer zone, yes, sir.

Chairman BACHUS. Now, the rainforest is what you depend on for the water, is it not?

Capt. PUCKETT. Yes, sir, it holds the watershed.

Chairman BACHUS. Now, this rainforest holds the fresh water to operate the Panama Canal Zone; is that correct?

Capt. PUCKETT. Yes, sir.

Chairman BACHUS. Your testimony was that 52 million gallons of fresh water is used each time a ship passes through the Panama Canal.

Capt. PUCKETT. Yes, sir.

Chairman BACHUS. There was testimony yesterday that Panama is selling off portions of this Zone for industrial and private development, much of this to Chinese interest, but let's just say to any interest. But the testimony was that the Chinese are developing a lot of this area.

And I will ask any of the panelists—we have asked the State Department, we have received no response—have any studies been done, or do you have any knowledge or are there any plans to regulate this development? Or would that be a necessary thing to do?

Capt. PUCKETT. Yes, sir, it would. And there have been studies. There are people, again, Panamanians who are trained and well capable of managing and bringing forth plans on how to increase and protect that watershed. Those plans are in place. The question is whether they will be enforced or whether they are going to conflict with this development. That is up in the air. I couldn't answer that, sir.

Chairman BACHUS. If they are selling off part of these zones for private development, that obviously is problematic.

Capt. PUCKETT. Yes, sir.

Chairman BACHUS. Is it true that without—or isn't it true, I will say—isn't it true, without this watershed, the Panama Canal will not be able to operate at full capacity and eventually could have to close for lack of water?

Capt. PUCKETT. During the dry season last year, we had a very short rainy season in Panama, and thus there was not enough water for the dry season. And drafts had to be restricted for vessels. It has only happened three times in the fifteen years I was in Panama, and that was just because of lack of rain.

If the water runoff is great and they have to release the water through the dam into the lake and then eventually into the ocean, it can't be used for Canal purposes other than maybe short-term generating of electricity, which is only a short-term thing in the Gatun locks.

That facility over there, the power generating plant over there, is only used as a last resort when they have too much water. It is virtually shut down most of the year. They say it is a generating plant, but it doesn't generate electricity, because they need that water for Gatune locks.

Lt. Gen. SUMNER. There is another problem here, sir, that impacts on this: the slash and burn of the Indians.

Chairman BACHUS. That was my next question.

We received—an environmental group gave us this information I want to see if this is true, that the Canal faces serious environmental problems due to drastic deforestation of the rainforest by landless peasants pursuing slash-and-burn agriculture that is greatly increasing the problem of silting in the Canal. Dredging the Canal cuts into time that ships can use the Canal for transport.

And they are actually saying that eventually, if this continues, the Canal will become so clogged that it will become useless, in other words, if the deforestation continues.

Does the Panamanian government—or do we have to rely on the Panamanian Government now that we have ceded control? And also the Panamanian government has now obviously deeded off a large segment of this land to private interest who may have—who knows what their interest is—but, does the Panamanian government view this as a serious problem? And what is being done? And would we have to rely on them?

Lt. Gen. SUMNER. Yes, absolutely. The Panamanian Government at least, at the public relations level, has recognized this problem. And you have not only the Panamanian Government with an environmental plan to try to look at this problem of silting up the Gatune Lake and not having the water available. There is also a number of non-governmental organizations, some of which I have been associated with, to try and do something about this.

You are coming back with this question to the corruption problem. Is it in the interest of some of the people that have been appointed to the Panama Canal Commission and to ARI. They are going to milk this cow for short-term profit as opposed to the long-term interest of the country?

I would hope that the new president would really take this problem seriously, because it is a ticking time bomb. If we don't do something about that—I say we, I am speaking of the Panamanian government now, because we lose any say in this at the end of this month—then a lot of these questions will become moot, because the Canal will silt up, and it will be closed, and that is the end of it.

So, it is a very serious problem. And I have discussed this with my Panamanian friends at length. There are a lot of very good people in Panama who understand that this is a problem. And it is whether or not they, operating as a democracy, can do anything about this.

Capt. PUCKETT. Mr. Chairman, I might add to that is that it is a domino effect. As the lake silts up, you are going to require more dredging. More dredging increases your maintenance cost.

In 1980, I was on the Columbia River when Mount Saint Helen's blew over the Corps of Engineers. And within three days from the time Mount Saint Helen's blew up and the silt got into the river, the river was virtually closed north of Longview, Washington.

So that silting effect is, it starts to develop, and it has a domino effect. And then the maintenance costs will go up, and there may not be enough money to keep continually dredging.

Silt is very difficult to dredge as compared to rock or sand or other heavy material. It takes twice as long to dredge silt, because you have got to pump it in and let it settle. So silting is a much harder composite to pick up with the dredge than it is digging in

rocks and sand along a beach somewhere. So maintenance costs will double.

Chairman BACHUS. All right. And, Admiral Moorer, you and I have totally—when I ask this question, I am adopting something you said, so I think you will enjoy this question. But the Administration, or the Executive Branch, has known for over twenty years—and that covered more than this Administration—but they have known for over twenty years that the United States was turning over the Panama Canal.

They have also known that after the turnover, that control of the Canal would be more unpredictable. You said that. I think that is the consensus of everyone.

Knowing that—and, yes, we can't predict what these people will do. We have read what at least these two Chinese senior colonels have said in the Beijing paper, that Panama could be used as a launching ground for economic or military strikes against the United States. We do know that. They have told us that. We can't plead ignorance on that.

But knowing that all these problems exist, are there any contingency plans in place should Panama fail to operate the Canal in accordance with the Panama Canal Treaties of 1977?

Admiral MORRER. No, sir. To my knowledge, there are none. And that is the reason I have felt all along that we should meet with the Panamanians. The facts are that the majority of the Panamanians would prefer to have the United States back, in my opinion, because—

Chairman BACHUS. Well, that is also the opinion of—the polls in Panama consistently say—and these are polls published by the leading papers and journals in Panama.

Adm. MOORER. So I think that we have got to fall out and fall in again and come up with an agreement that is mutually beneficial and which tackles all these problems that the gentlemen here on my right and left have been talking about. And you are not going to get that, though, unless the Administration sees fit to straighten this problem out, which they haven't done so far. The big buzzword today is "don't irritate the Chinese." And no one ever brings up the fact that we are really talking about a Panamanian treaty and not a Public Law 5 with the Chinese from Hong Kong.

Chairman BACHUS. All right. One alternative in this is not—but, if we discuss alternatives and we are talking about that there is some reason to believe that transit through the Canal could be slowed, or you know could become more unreliable—knowing that, I don't know of any plans to accelerate our highway or rail expansion program. In fact, I believe that the people of the United States certainly would not support more heavy trucks on our interstate highways transiting the country.

We talk about our rail systems being at or near capacity. I think we can all agree that our interstates have enough heavy trucks on them today. So I don't think that is an alternative. Rail is not an alternative. The Transportation Committee says that it will have very little increase in our rail capacity. So that leaves building another canal. How long would that take?

Lt. Gen. SUMNER. Can I address that one? Over the years, there have been studies made on the alternative canals—the sea-level

canal to get away from the water problem, and alternatively, building another canal in Panama, building a canal through Nicaragua. And I had long discussions with President Somoza about that, both in Nicaragua and in this country. As a matter of fact, he went to Los Alamos to discuss it.

Because one of the options was to use what we call "plowshare," small nuclear devices to help build the Canal. Well, you can imagine the environmental problems that would arise.

The idea of trying to build another canal is impossible. We talk about what this Canal is worth. I have heard the Administration say it is worth \$3 billion or \$4 billion. It is worth ten times that. We are talking about \$50, \$60 billion in sunk costs. And if you tried to build another one, the costs would be astronomical, if you could do it from an engineering standpoint.

Chairman BACHUS. Or political standpoint.

Lt. Gen. SUMNER. Or a political standpoint. You are not going to get by the environmentalists. When we discussed a sea-level canal, the environmentalists—the tree-huggers—came out of the woodwork and said, "Look, you are going to take and—"

Chairman BACHUS. That is the environmentalists?

Lt. Gen. SUMNER. The environmentalists came out of the woodwork, and they said "You have all this flora and fauna in the Pacific that would go to the Atlantic, and it would screw up the whole world," and, you know, like Chicken Little, "the sky would come falling in." The studies would fill this table. There are tons of studies that have been done on it. And none of it is feasible.

Chairman BACHUS. So, in other words, the studies—it is really not feasible to build another canal?

Lt. Gen. SUMNER. It is really not feasible from political, economical, environmental concerns—the list goes on and on.

Chairman BACHUS. Would you agree with that, Captain Puckett, it is just not reasonable that we can do that?

Capt. PUCKETT. The cost alone, they can build a larger set of locks at Miraflores and also over at Gatune, but the other problem would lie in the sundry areas and the development on either side. You can increase the capacity to maybe 50 ships. But, again, it is going to cost \$50 to \$60 billion to do that.

Chairman BACHUS. That would be to replace the present Canal?

Capt. PUCKETT. You can put another set of locks beside it and still utilize the other bridge. But, again, the other set of locks are starting to deteriorate also, but it would take ten years to complete that project.

Chairman BACHUS. I am talking about a different canal.

Lt. Gen. SUMNER. A separate canal?

Chairman BACHUS. And we are actually talking about a project that could take twenty years and a lot of money; is that right?

Lt. Gen. SUMNER. You really ought to get the Corps of Engineers in here.

Chairman BACHUS. I guess I am posing that question because we have no alternative.

Lt. Gen. SUMNER. No, we have no alternatives. The Mexicans have been talking about building another rail line across Mexico to help out. So far it has only been talk. But the most recent information I have is that the Chinese have come in, the Chi-Coms, the

PRC, and said, "Look, we will help build the rail line, and we will finance it." Well, the Mexicans said, "Wait a minute, time out. We are not sure that we want that sort of help."

Chairman BACHUS. Let me say this and we don't want to get—that might be for another hearing. I am going to wrap up. I have been told we need to wrap up. This room is committed to another function.

I do want to just comment on this. You know, we have talked about—there has been discussion today by Captain Puckett and all of us about the Canal; can it be manipulated? Can priority shipments be manipulated? Can scheduling be manipulated? And to those of you who yesterday and today said, "Yes, I will say that there is confirmation of what you said," and what we have been concerned about when we got this memo that the Defense Department commissioned, which I have introduced into the evidence, in that it talks about threats to the United States from ceding the control of the Canal. And one of the threats is manipulation of the Canal may threaten priority shipments.

So this is not something that you all have come up with on your own that has no basis or no substance. You have been saying that. And, Captain Puckett, you said that before.

The Defense Department commissioned this study, paid taxpayer dollars to have it delivered. And the report to them says that it is a threat. It is listed here as a threat.

The last thing I will say is we have discussed 15 to 16 percent of the commerce coming to the United States travels through the Canal. There was an earthquake in Taiwan a few months ago. And in that earthquake one-ninth of one-tenth, that is the way I am going to say it, one-ninth of one-tenth of our technology imports were interrupted. And it showed up in our economic statistics. It showed up in our productivity. The stock market dropped 500 points over concern over it.

And, again, I am going to say this. It was not 15 percent, it wasn't 1.5 percent or a tenth of that. It was a percentage of a tenth of a percent. It was a ninth of a tenth percent, I believe.

So that tells you how sensitive we are to not only one percentage point drops in commerce, but one-tenth of 1 percent, or a tenth of a tenth of a percent.

[The prepared statement of Mrs. Chenoweth-Hage can be found on page 110 in the appendix.]

Chairman BACHUS. With that, we will conclude the hearing. Thank you very much for your attendance.

[Whereupon, at 12:35 p.m., the hearing was adjourned.]

APPENDIX

December 7, 1999

Opening statement by Chairman Spencer Bachus
Domestic and International Monetary Policy hearing on
The Financial and Commercial Impact of the Canal Treaties
December 7, 1999

We stand at the crossroads of a historic but potentially dangerous transfer of power in the Americas. In just a matter of days, the U.S. will take one of the most strategically significant actions in its history: we will transfer control of the Panama Canal to Panama. We need to fully comprehend the heightened risks and threats that the United States will face as a result of the withdrawal of our forces and the transfer of canal control.

In the next two days, the subcommittee will consider the financial, commercial and other U.S. interests that will be affected by the withdrawal of the U.S. presence in Panama. The purpose is not to look to the past and say who gave away the Canal, but rather to look forward and ask: how will we protect vital American interests once the canal is turned over?

Let me say at the outset that I deeply regret the decision by the Clinton administration not to send someone to testify at either today's hearing or tomorrow's. The subcommittee invited officials from the Treasury Department, the State Department, as well as the U.S. Customs office. Their failure to testify is deeply disappointing, and I am not sure of the reason for their decision to neglect these hearings. But I am going to submit a number of very important questions, asking the Administration to explain what vital U.S. interests are at stake and what it is doing to protect them.

We should be concerned about insurgent Colombian guerillas in the Southeast, and the growing influence of China in Panama. We should be concerned about the problem of money laundering and drugs that has plagued the recent history of Panama. We should be concerned about American businesses being denied the opportunity to compete because of corruption and payoffs.

These are serious issues, and they have not been fully addressed by the Administration. Just last week, the President himself dismissed the notion that transferring control of the canal could hurt our interests. Let me quote the President: "I think the Chinese will in fact be bending over backward to make sure they run it in a competent and able and fair manner." The President also said, and I quote - "I would be very surprised if any adverse

consequences flowed from the Chinese running the canal."

The President failed to give any reasons why we should not be concerned other than the fact he would be surprised. But, even if the President isn't concerned, many Americans are, many members of Congress are, and many Panamanians are. Even the Pope is concerned. Over the weekend Pope John Paul II publicly "urged Panama to guard against outside influences after it gains control of the Panama Canal."

Congress needs to examine three serious questions after the U.S. presence is removed:

- 1) will money laundering and the flow of illegal drugs into the United States increase?
- 2) will growing corruption hinder American companies from being able to compete in Panama?
- 3) will the vital interests of American security and commerce be compromised?

We will hear testimony today that will address the first two questions, and tomorrow's hearing will focus primarily on the third.

In accordance with the 1977 Carter-Torrijos (tor - eee- os) treaties, the withdrawal of U.S. armed forces from Panama is virtually complete and will be finished by noon on December 31st. The purpose of these two days of hearings is not to re-open that debate and rehash the arguments of 20 years ago. Instead we must address the challenges confronting us today.

How will the U.S. retain its influence in Panama as a positive force for development, for democracy and for free markets? How will the U.S. combat the rise of narco-terrorism; the increase of money laundering, weapons smuggling and kidnappings in Panama; and the incursions into Panama by Colombian rebels, which become more brazen each day?

To address these challenges, the Carter-Torrijos (tor - eee- os) treaties contemplated a continued U.S. military presence in Panama after the canal transfer was completed. After all, the U.S. presence in Panama is important not only for the security of the canal, but to our anti-drug efforts and for economic development and political stability in the region.

During the past several years, Congress called upon the President to negotiate

with Panama to ensure the continued presence of United States troops in that country beyond December 31, 1999. Last month, 23 members of the House joined me in writing the President requesting negotiations with Panama for a continuation of the U.S. presence. Frequent polls show a majority of Panamanians support a continued U.S. military presence. Unfortunately, this goal has not yet been achieved.

There has been very little attention given to the future of the canal and Panama after the turnover. So now we are embarking on a profoundly different course with little assurance of Panama's safety and soundness. We will hear from a number of witnesses today who have first hand knowledge of the challenges that the United States will face in a future without the canal and without a continued U.S. presence in Panama.

There are many commercial reasons why the canal is important to the United States, the largest single user of the Canal. Today 92 percent of the world's oceangoing vessels are able to transit the Canal waterway. 13,000 ships use the Panama Canal each year, and two-thirds of the cargo is destined to or departing from the United States.

U.S. trade through the Canal is concentrated in certain commodities, many of which have no cost effective alternative to the Canal. For instance, grain from the Dakotas to Nebraska relies almost exclusively on the Canal for the most cost effective transshipment to destinations worldwide. Any significant interruption to Canal traffic could be catastrophic for these states and many others. As a result, world shipping interests have always appreciated having the U.S. bases in Panama, because shippers feel that traffic flowing through the canal will less likely be impeded if there is an American presence.

Recent events in Panama are a cause for increased concern about the safety of the Canal after the United States leaves. A recent spate of attacks in the southern region of Panama, including a village far beyond the Colombian border, call into question the ability of Panama to defend itself from FARC guerillas and narco-traffickers.

And on November 2, just a few weeks before the U.S. completely withdraws its forces, the FARC has stolen two helicopters from the former U.S. protected Albrook Airforce base. These events signal that the loss of an American presence may threaten the stability of its own borders as well as the integrity of the Canal. With no standing army, something must be done safeguard the Canal and our vital national interests in the region.

Testimony by Congressman Dana Rohrabacher
"The Impact of the Turnover of the Panama Canal Turnover "
Subcommittee on Domestic and International Monetary Policy
House Committee on Banking and Financial Services
December 7, 1999

Mr. Chairman:

Thank you for taking the initiative to conduct this hearing on the turnover of the Panama Canal to the Government of Panama one week before the ceremony takes place in the Canal Zone. Today, as we commemorate the surprise attack on Pearl Harbor, it is critical that we focus attention on a potential threat posed by the presence of communist China along the key geo-strategic choke point in our hemisphere.

In addition, the withdrawal of American security forces, as called for in the Carter-Torrijos Treaty, has empowered a broad array of international criminal organizations operating in Panama, who are involved in high-level money laundering, drugs and weapons smuggling, the trafficking of illegal aliens and the counterfeiting and distribution of American intellectual and entertainment products.

In mid-1996, the Clinton administration permitted a corrupt bidding process for the ports, defined by State Department officials as "lacking transparency" and "highly unusual." This corruption enabled the Hutchison Whampoa Company, whose Chairman Li Ka Shing is a close associate of the inner-circle of Beijing's ruling elite, to be awarded the ports and adjacent strategic properties.

With your permission, I will submit for the record of this hearing a copy of the June 17, 1996 Panamanian Government's listing of the bids by the consortiums at the auction for the Canal ports. This was supposed to be the defining transparent auction to decide the ports lease. You will see that while the Chinese Hutchison International Terminals bid \$10 million, the U.S. Bechtel Corporation bid \$11 million and the Manzanillo/Stevedoring Services of America bid \$11.6 million. The corrupt Panamanian government of President Perez-Balladares threw out these bids.. This ultimately enabled the Chinese company, with purported large under-the-table payoffs to Balladares and his cronies, to gain possession not only of the ports which were originally listed, but of other key strategic properties on the Canal.

Mainland Chinese criminal Triad gangs -- some of whom have ties to Chinese intelligence agencies -- are active throughout Panama, in partnership with the Russian mafia, the Cuban intelligence service and South American cartels in conducting drug and weapons smuggling. While U.S. military and other security forces have been withdrawing from the Canal Zone, Marxist narco-terrorist forces are expanding their power in neighboring Colombia and are developing a presence in Panama, within striking distance of the Canal.

Panama does not have an army, air force or adequate naval assets to credibly protect its sovereign territory. Much less to defend a strategic asset like the Panama Canal. Panama's national police units are known for their lack of professional competence, and certainly no match for a determined adversary. Official corruption throughout the country is rampant.

It is essential to look at the Chinese role in Panama not only in terms of economic competition on the Canal, but as part of a larger strategic picture. During the past two years, I have traveled around the Pacific rim recognizing what is certainly a long term strategy on Beijing's part to gain control of the world's key strategic choke points. A "vacuum-filling" pattern seems to be evident: Wherever in the Pacific the U.S. withdraws or is negligent militarily, politically or economically, the Chinese communists move in.

A company linked to Beijing controlling ports at both ends of the Canal increases security risks. In addition, their control of the ports and cargo stevedoring -- the loading and unloading of millions of container boxes from ships departing from and traveling to the United States -- this also enhances the two-way flow of sensitive weapons-related technologies.

The expanding numbers of Chinese personnel entering the Canal Zone enhance the potential for sabotage, especially if a war should conflict with China over Taiwan or the South China Sea should occur.

Li Ka-Shing and his Hong Kong-based Hutchison Whampoa company and subsidiaries are closely associated with the Beijing regime and have a history of acting as sources of funding or acting as intermediaries in deals for the People's Liberation Army. Unclassified documents by U.S. intelligence agencies, the U.S. Bureau of Export Affairs [BXA], the U.S. Embassy in Beijing and the Rand Corporation that identify Li Ka-Shing and Hutchison Whampoa as financing or serving as a conduit for communist China's military to acquire sensitive technologies and other equipment.

U.S. intelligence agencies have identified Li as a board member of the China International Trust and Investment Corporation CITIC, which is a principal funding arm of the Chinese and a technology acquiring source for China's military. In fact, in 1979 Li was a founding member of CITIC. A 1997 Rand Corporation report states, "CITIC does enter into business partnerships with and provide logistical assistance to the People's Liberation Army..."

Li is also a business partner of the giant communist Chinese shipping firm COSCO, which in addition to commercial transport, acts as the merchant marine for the Chinese military. COSCO has been involved in shipping Chinese missile technology and biological warfare components to North Korea, Pakistan, Iraq and Iran. A November 1999 Hong Kong reports [which I request be admitted to the hearing record] cites COSCO merchant ships being fitted by the People's Liberation Army to conduct military operations including, mine laying and anti-submarine warfare.

Li has also engaged in numerous business partnerships with the China Resources

Company, a firm that has been identified by U.S. Congressional investigators as a front for Beijing's intelligence agencies.

By using Hong Kong-based firms with close ties to the regime, the thin line between the PRC government and private companies is blurred. And as the Canadian government's Operation Sidewinder investigated, there are significant ties between the Chinese military, the Triads and some Chinese tycoons.

If we do nothing, within a decade a communist Chinese regime that hates democracy and sees America as its primary enemy, in partnership with the Triads and the cartels, will dominate the tiny country of Panama and the Panama Canal.



Stevedoring
Services
of America

Seattle

November 20, 1996

The Honorable William Hughes
U.S. Ambassador to the Republic of Panama
U.S. Embassy
Panama, Republic of Panama

Dear Ambassador Hughes:

We appreciate your efforts on our behalf with the development of a container facility on the Pacific Coast of Panama. We wish to provide you with an update and inform you that Stevedoring Services of America (SSA) and our Panamanian partner, Motores Internacionales (MOINSA), have completed final plans and are prepared to move ahead with the container terminal development at the site immediately adjacent to Rodman Naval facility, previously referred to as "Panama Pacific Terminal (PPT)".

We are prepared to invest and develop this project assuming the rights provided in our "Contract with the Nation" to build a port on the Pacific Coast of Panama at the area identified in Letter of Intent between the Government of Panama, Motores Internacionales, SSA-Panama and Maersk Panama. We plan to move ahead with this project without Maersk Panama, who has opted not to participate in the partnership. However, we consider Maersk Panama an irrelevant party when considering these rights granted to SSA and MOINSA (through Manzanillo International Terminal - Panama).

Our plans for the development of PPT provide for a Phase 1 investment of \$70,000,000, which will begin immediately. The Phase 2 investment of \$60,000,000 will begin shortly after the completion of Phase 1.

We have initiated the PPT project and already invested substantial sums, with the understanding of not only the rights mentioned above, but also our experience during the Balboa and Cristobal bid process. During the initial sealed bid, we offered the highest bid to the Government of Panama but were asked to withdraw due to monopoly concerns of operating more than one port on the Atlantic Coast of Panama. We withdrew at the Government's request and offered an alternative proposal to develop PPT. It is our understanding that PPT's development may now be compromised due to Hong Kong International Terminals' (HIT) request to have a three-year first right of refusal to develop the PPT site, which would create a "Pacific Coast" monopoly similar to the concerns expressed to us during the Balboa and Cristobal bid process.

We recognize the pressure the Government of Panama is under to complete the negotiations with HIT for the Ports of Balboa and Cristobal. However, please be assured that should the negotiations with HIT be terminated, we would be willing to assume the Ports of Balboa and Cristobal under the same terms and conditions currently being discussed.

As a U.S. company that has already shown its commitment to Panama by investing \$130,000,000 in Panama with the development of MIT, we are concerned about the potential "Pacific Coast" monopoly of Panama by a company whose commitment to Panama is in question. Enclosed please find an article regarding HIT that questions its commitment to Cristobal versus HIT's facility in Freeport, Bahamas. Also enclosed is an article that discusses HIT and SSA as the two largest port operators in the world.

We have sent letters to President Balladares and Dr. Gabriel Castro containing similar comments to those above. However, an issue not discussed as of yet with the President and Dr. Castro, is our desire to formally protest the Government of Panama's treatment of SSA under the U.S.-Panama Investment Treaty, if the Panamanian Government chooses to provide HIT with monopoly rights on the Pacific Coast of Panama. Not only will MIT suffer an economic disadvantage due to HIT's favorable treatment, but SSA will have been treated inequably in relation to the benefits extended to a Chinese company doing business in Panama.

We also wish to pursue any other action available to an U.S. Company doing business in Panama. We would appreciate your advice and counsel regarding these important issues.

Sincerely,
STEVEDORING SERVICES OF AMERICA



Andy McLauchlan
Vice President

Enclosures



*Embassy of the United States of America
Office of the Ambassador*

Panama, Republic of Panama

March 1, 1997

Dear Minister Arango,

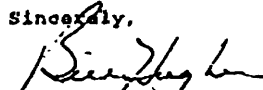
It is very important to both of our governments that there be a smooth transition from U.S. to Panamanian control of the canal and military bases. To help Panama meet this enormous challenge, we are alerting American companies to investment opportunities in the reverting areas. We are also in the process of creating a Binational Commission to expand and coordinate such efforts.

~~I fear, however, that our efforts are being undermined by a growing perception in American business circles that Panama's investment climate is unattractive. Over the past few months, representatives from numerous U.S. companies have come to see me to complain that the Government of Panama is impeding their ability to invest and trade.~~

At least five U.S. Senators have been contacted about the case on the enclosed list. High-ranking officials at the Departments of State and Commerce are also being lobbied to defend American companies which are alleging unfair treatment in Panama.

I urge your Government to take immediate steps to deal with the U.S. investors' complaints and to turn this growing negative perception around. I would be happy to use my good offices to facilitate solutions to these problems. If you or any other minister has a proposal in mind, I would be glad to hear it.

Sincerely,


William J. Hughes
Ambassador

His Excellency

Raul Gasteazoro Arango,

Minister of Commerce,

Panama City, Panama.

AMERICAN COMPANIES EXPERIENCING
DIFFICULTIES DOING BUSINESS IN PANAMA

Manzanillo International Terminal (MIT)

MIT has invested \$120 million in its container port in Colon, and expects to invest a further \$100 million there. After Chiquita, MIT is the largest and arguably the most important U.S. investment in Panama. It is the type of success story that can serve to attract other investors. Yet to date MIT says the Government has not met its contractual obligation to allow the company to build a container port at the Pacific entrance to the Canal. The Government has instead favored Hutchison International Terminals (HIT) by allowing it the right of first refusal which effectively will veto any prospective competition near Rodman Naval Station. MIT is asking the Government of Panama to honor its commitment by awarding it the site requested near Rodman.

Kansas City Southern Railway

The Government's contract with HIT gives that company parcels of land which Kansas City Southern needs to operate the railroad. KC Southern needs an area at Balboa to turn trains around, and an area to store containers. This was made clear in KC Southern's original proposal, which the Government accepted, and during contract negotiations with the Government, which were simultaneous with HIT's contract negotiations. KC Southern wants immediate negotiations with the Government to solve the land problem.

Cellular Vision

This U.S. company wants the Panamanian Government to review and to reverse its decision to revoke Cellular Vision's license. Cellular Vision is part-owned by Phillips, JP Morgan, and Bell Atlantic, all prestigious and influential American companies. The Ministry of Government and Justice cancelled Cellular Vision's operating license only three weeks after granting it, citing a failure to supply the Government with information as to where repeaters would be located. The technology involved does not require repeaters. Even if technical information were needed by the Government, the Government could request it as a first step, rather than cancel the license.

Cellular Vision has invested over \$700,000 in Panama, and is liable for \$2.5 million worth of equipment which it has contracted to purchase.

Varian Associates

Varian Associates was the lowest responsive bidder on a recent tender for a linear accelerator (value, about \$1.5 million) for the Caja de Seguro Social (CSS), but has not been awarded the contract. The Director of Social Security returned unanswered a letter from Ambassador Hughes inquiring about this case. The bid should be awarded to Varian as the lowest bidder in accordance with the original bid conditions.

Unisys

According to this well-known U.S. company, Unisys made the best proposal in a bid, also handled by the CSS, concerning the sale of computer equipment worth about \$15 million. Over eight months later, the CSS still has not purchased the equipment nor made any commitment to do so.

Saybolt

Saybolt performs inspection of petroleum products. Its concession in Balboa was canceled last month by the Port Authority. No reason was given except that the port had been privatized. Although the cancellation was legal because the concession agreement permits the Port Authority to cancel the concession on 30 days' notice, the Government had assured Saybolt that it would not exercise that provision of the concession. I hope you will be able to find a mutually agreeable solution to keep Saybolt in operation.

The Ports

Three prestigious U.S. firms participated in the ports privatization bid last summer. They lost out to the high bidder, Hutchinson International Terminal (HIT), after an unorthodox process which raised serious concerns in the international community. According to the terms of the final contract, HIT:

- a) can prevent competition at Rodman Naval Station through a right of first refusal given to HIT for three years;
- b) obtains, in effect, a free zone area exempt from taxes;
- c) receives all moneys from existing concessions retained by the state;
- d) does not have to enter into labor negotiations for the first 10 years;
- e) does not have to pay the minimum wage;
- f) can redirect Diablo Road and Gaillard Avenue at the expense of the state;
- g) can establish and vary the size of its workforce; and
- h) is exonerated from all income tax and import taxes on equipment.

These provisions, which are much more favorable than the original bid specifications, constitute a renegotiation. Had the American firms participating in the bidding known that these generous terms would apply, they would have bid differently for the ports.

PANAMA PORT DEVELOPMENT

BACKGROUND

- In 1995, the Seattle-based Stevedoring Services of America (SSA), through an affiliate Manzanillo International Terminal—Panama (MIT) entered into a 40 year "contract with the nation" of Panama to develop and operate the Manzanillo International Terminal on the Atlantic Coast of the Panama Canal. SSA so far has invested approximately \$160 million in the Manzanillo site.
- The MIT contract with the nation also gave MIT the right to develop and operate a terminal facility on the Pacific Coast of Panama once a site was identified. In 1996, MIT signed a Letter of Intent with the Panamanian Government to develop a Pacific Coast site adjacent to the Rodman Naval Base. Based on the Letter of Intent, MIT moved ahead on this \$130 million project to develop the Rodman site.
- Also in 1996, the Panamanian Government accepted bids to develop and operate the Cristobal marine terminal, a second marine terminal on the Atlantic Coast of Panama, and a marine terminal in Balboa on the Pacific Coast near the Rodman site. MIT submitted the most competitive bid for Cristobal, but was asked by the Panamanian Government to withdraw because Panama did not want a company to have a monopoly by controlling all of the marine terminals on the Atlantic Coast.
- At the end of 1996, the Panamanian Government entered into an agreement to allow Hong Kong International Terminals (HIT) to develop Cristobal on the Atlantic Coast, as well as Balboa on the Pacific Coast. HIT was awarded the right to develop and operate these marine terminals over two U.S. consortiums—Bechtel/Sea-Land and Cooper T. Smith/ITS.
- The HIT agreement also gave HIT a right of first refusal on the Rodman site previously committed to MIT. As a result, the Panamanian Government has given HIT an effective monopoly on Pacific Coast marine terminals—a right denied MIT on the Atlantic Coast.
- If the HIT agreement is allowed to go into effect, HIT will effectively have the ability to control container operations around the Panama Canal with significant implications for commerce throughout Central and South America.
- Even if MIT is allowed to develop the Rodman site after the three year HIT option expires, HIT will have gained control of the market by entering into long term contracts with the major carriers during the option period.





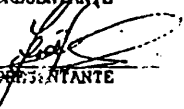
ACTA DE PRESENTACIÓN DE OFERTAS
 PARA LAS CONCESIONES EN LOS PUERTOS DE BALBOA,
 CRISTÓBAL Y EL FERROCARRIL DE PANAMA.

En el día de hoy, 17 de junio de 1996, a las cinco (5:00) PM, comparecieron al salón de reuniones del Ministerio de Comercio e Industrias las empresas que presentaron oferta para la(s) concesión(es) a efectuarse en los puertos de Balboa, Cristóbal y el Ferrocarril Transistmico.

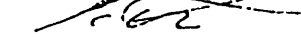
Las ofertas económicas de las empresas participantes corresponden al siguiente detalle:

EMPRESA	Fixed ANMPAY Pago Fijo Anual	% del Ingreso Bruto	% de Acciones
HIT	10mm	7%	10%
Kansas City	50	5% → 10% 7.5% Cont. 3% Cont.	50
KAWASAKI	10mm	7.5% 8%	10%
BECHTEL	11mm	7.5% 8%	12%
HIT-MARASK	11.6mm	2mm minimo	10%
Entre Canales	10mm	6.25%	12%

Para su debida constancia es firmado este documento en la ciudad de Panamá, a los 17 días del mes de junio de 1996, a las 5 PM.

<u>BIT</u> EMPRESA	 REPRESENTANTE
<u>HIT</u> EMPRESA	 REPRESENTANTE
<u>Bechtel Enterprises</u> EMPRESA	 REPRESENTANTE
<u>Kansas City dailroad</u> EMPRESA	 REPRESENTANTE
<u>KAWASAKI</u> EMPRESA	 REPRESENTANTE


 Ministerio de Comercio e Industrias


 Autoridad Portuaria Nacional

**THE TRANSFER OF THE PANAMA CANAL AND RENEWED THREATS TO
PANAMA'S NATIONAL SECURITY.**

By Dr. Tomas A. Cabal

INTRODUCTION-

As mandated by the Torrijos-Carter treaties, the United States of America will transfer the control and administration of the Panama Canal and all its military bases on the isthmus to the panamanian government at noon on december 31, 1999. The transfer closes out a historic chapter in the political and diplomatic relations between both countries. The United States played a key role in helping Panama secure its independence from Colombia in 1903. Anxious to negotiate a treaty with the newly independent republic that would allow the U.S. the right to build a canal, president Theodore Roosevelt sent american warships to the isthmus to deter a military intervention by colombian military forces. Initiated in 1904, the construction of the Panama Canal showed yankee engineering and yankee ingenuity at its best. A tremendous feat of construction and design, the canal stands as a classical example of man's desire to subjugate and control the forces of nature. The path between the seas allowed the United States to operate a two ocean navy and to project its power throughout the region. With the construction of several military instalations, the canal, its ports and the lands adjacent to the waterway functioned as a huge aircraft carrier, augmenting the geopolitical and military influence of the United States in Latin America and the caribbean. The military importance of the Panama Canal Zone was ratified during two world wars and the korean and vietnam conflicts.

As Panama prepares to assume the control and administration of the canal and the canal zone, the departure of all american military forces from the isthmus poses new threats and new challenges. In the overall geopolitical sense, american troops in Panama have been instrumental in projecting american military might and influence in the Americas. They have served as a pysical support for foreign investors from Europe and Asia that always believed that Uncle Sam would take care of their ventures in Panama. As the United States closes out its military presence in Panama, asian and european investors had expressed their hopes that the two countries could somehow negotiate an extension of american military bases on the isthmus. Political realities and constraints in Panama did not allow a continued US military presence in the country. With their departure, Panama must now face renewed threats and challenges that will affect the country's national security and will affect the way the world judges Panama's ability to operate the international waterway. The threats to Panama's security are multiple and they originate from the country's strategic location astride the narrow waist of the Americas. Drug trafficking, arms smuggling, illegal aliens, money laundering and large investments by chinese companies pose potential threats to Panama's national security. Threats that may also affect the United States. For this hearing I will concentrate on two important areas that have a direct link to geopolitical realities in the Americas. The first is money laundering and the second is a result of heavy investments by chinese corporations aligned with the Peoples Republic of China.

MONEY LAUNDERING- Panama's proximity to the major drug producing nations in South America have transformed the country into a key transshipment point for large quantities of illegal drugs. Colombian drug barons take advantage of the country's proximity to ship some 300 tons of cocaine and large amounts of heroin through Panama; drugs that are in constant demand in the United States and Europe. The military dictatorship that seized power in 1968 opened the gates to Colombian drug traffickers. General Manuel Noriega, who governed Panama with an iron fist from 1983 to 1989 is serving a 30 year sentence in the US for drug smuggling and money laundering. Noriega's reckless behavior and his close relationship with the Medellin drug cartel was one of the reasons used by president George Bush to order Operation Just Cause in December of 1989 to remove General Noriega from power.

The return of democracy to Panama did not remove the threat of international drug smuggling and money laundering. Panama's international banking center, the Colon Free Zone (the largest of its kind in the Americas), the Panama Canal, the country's merchant marine (the largest in the world) and strict bank secrecy laws, have allowed drug traffickers to use the country as a money laundering haven. Panama's liberal tax laws, a commercial code that simplifies the creation of shell corporations and the purchase of bearer shares, also explain the country's attraction to Colombian and Mexican drug cartels. During the Noriega years, drug barons used Panama as a depository for huge amounts of illegal drug profits. Since Panama uses the US dollar as its currency and since the country has very liberal banking laws, organized crime has exploited the benefits that the government offers international investors. In spite of

efforts by several administrations, large amounts of illegal drug funds pass through the Colon Free Zone and are deposited in the more than 100 banks that operate in the country. International drug dealers take advantage of the more than \$11 billion dollars in purchases made in the Free Zone to hide their illegal drug profits. Colombian authorities note that the drug lords launder their money in Colombia by selling discounted dollars in exchange for colombian pesos needed by local businessmen doing business in Panama. The goods purchased and paid for in discounted dollars are then smuggled into Colombia without paying colombian taxes. Of the more than \$1.5 billion dollars of panamanian goods purchased, colombian businessmen only pay taxes on \$500 million. Other activities in the Free Zone also facilitate money laundering. One of the preferred methods involves the purchase of gold or gold jewelry. U.S. Customs is currently investigating Speed Joyeros, a company in the Free Zone that has become the largest exporter of gold in the Americas. According to the investigators, \$25 million dollars in gold ingots or gold jewelery is shipped out of Panama every month. The two gold mining companies that operate in Panama are closed due to the low price of the precious metal, so authorities suspect that the large amounts of gold being exported are the result of money laundering. As part of the scheme, crooked businessmen inflate the price of the gold to hide the illegal funds delivered by drug traffickers. The invoice for a \$1 million dollar transaction is doubled, allowing drug dealers to launder an extra million. The money is then wired to banks in the United States and the money is cleaned. In its november 29th issue, U.S. News and World Report has an interesting article on the activities of Speed Joyeros that highlights how drug traffickers launder

their money in the international gold market. Experts estimate that the Colon Free Zone allows drug traffickers to launder between \$2 and \$3 billion dollars per year. A key indicator that narcodollars have infiltrated a local economy is the level of excess liquidity in the banking system. In Panama, according to figures provided by the National Bank, more than \$2 billion dollars of excess funds was transferred last year to the Federal Reserve Bank in New York.

Panama's dynamic construction industry also facilitates money laundering. Figures provided by Panama's construction association note that in the last 5 years, construction projects have totaled some \$2.5 billion dollars. Of this total, about 50% have been built without the use of banks or other financial institutions. Real estate is a good investment for money launderers, since it is very difficult to document the true cost of a building. Money launderers also invest in hotels, discotechs, casinos and other businesses that handle large amounts of cash. One of Panama's largest hotel chains is owned by spanish investors that have been investigated by spanish authorities for money laundering.

The panamanian government is well aware of the potential threat generated by drug dealers and money launderers. Panama has created a special financial unit to investigate suspicious financial transactions, but a lack of resources and specialists has limited the government's ability to combat money laundering. Only one case has resulted in arrests, and recently the panamanian Supreme Court overturned the convictions.

THE PRESENCE OF RED CHINA- The arrival in Panama of powerful chinese companies has added a complex ingredient to the transfer of the Panama Canal. Hutchinson Whampoa, a Hong Kong based company that operates maritime facilities worldwide, won the right in 1997 to operate the ports of Balboa and Cristobal; ports that service the pacific and atlantic entrance to the Panama Canal. The United States operated both ports until 1977 at which time as mandated by the canal treaties turned over both facilities to Panama. The panamanian government held bids and after a questionable process that favored Hutchinson Whampoa, awarded the contract to the chinese company, allowing them to upgrade the ports and operate them for the next 50 years. Experts disagree on the level of influence the chinese will have in Panama, but they note that the contract allows Hutchinson Whampoa abundant leeway in their operation of the port facilities. Hutchinson operates worldwide and they control 50% of all stevedoring services in Hong Kong, a situation that lets them set the price por container transport and may allow them to undercut the two competitors that manage similar port facilities in Panama. Hutchinson's chairman, Li Ka-shing, is a key advisor to the chinese leadership in Beijing. Mr. Li Ka-shing is a controversial figure who also serves on the board of China International Trust and Investment Corp., CITIC, which is a principal arm of the Chinese government and a technology-acquiring source for China's military according to congressional sources. Li is also a director of the giant communist Chinese shipping firm COSCO, which in addition to commercial transport, is the merchant marine for the Chinese military. Again according to congressional

sources, COSCO has shipped Chinese missile technology and biological warfare components to North Korea, Pakistan, Iraq and Iran. According to congressman Dana Rohrabacher, Li has also engaged in numerous business partnerships with China Resources Co., a firm that has been identified by U.S. congressional investigators as a front for Beijing's intelligence agencies. The chairman of Hutchinson Whampoa is the subject of a parliamentary investigation in Canada, according to reports published by Canadian newspapers. The investigation code named Operation Sidewinder, targeted powerful Chinese businessmen to determine if they were facilitating the purchase of Canadian companies with funds provided by the Chinese mafia. In its latest report, Transparency International ranked China as one of the most corrupt countries and classified Chinese corporations as willing to pay bribes.

These allegations are extremely serious since some experts believe that Hutchinson will be able to affect canal operations and that their ship pilots could impede the normal flow of vessels through the waterway. This theory is disputed by the Panama Canal Commission, who explain that only they can determine the level of expediency in canal traffic. A fundamental concern for the United States, since the U.S. Navy has the right to head of the line privileges for its vessels.

Whatever the outcome from the presence of Hutchinson Whampoa, the truth of the matter is that the Peoples Republic of China, is rapidly filling the vacuum created by the departure of American military forces from the isthmus. Other Chinese companies such as The Great Wall of China, mentioned in the Cox Report, and COSCO are investing in Panama. Their presence adds to the danger of using the Colon Free Zone to purchase

restricted technology with dual civilian military use. As reported by the Miami Herald, the chinese are now operating two electronic eavesdropping stations in Cuba that allow their military forces to monitor U.S. communications. Chinese companies are investing in the modernization of the Panama Railroad and are actively seeking a contract to operate Howard Air Force Base. The closing of this facility has hampered the efforts by the United States to monitor the activities and suspicious flights of international drug traffickers.

The chinese presence adds a new dimension to the geopolitical struggle between two political systems that are antagonistic. Many experts in the United States feel that America's preeminence in the Pacific Rim will be tested by the chinese in the near future. Disagreements over trade or other political disputes could spill over into Panama. A large and influential chinese presence in Panama could alter the political equilibrium in the region, if Beijing were as an example, to support leftist guerrillas in Colombia. Panama currently maintains diplomatic relations with Taiwan, but continued expansion and investments by the Peoples Republic of China could signify an end to that relationship. Panama is Taiwan's most important diplomatic ally in the region. Chinese investments in port facilities in the Bahamas convinced the bahamian government last year to switch its diplomatic allegiance from Taiwan to Beijing. If chinese companies secure control of Howard Air Force Base, Rodman Naval Station on the pacific entrance to the canal and the Panama Railroad, the ability of the United States to influence events in Panama could be greatly diminished. Chinese exports from

the mainland and Hong Kong account for 20% of all goods purchased by the Colon Free Zone. The Peoples Republic is the 5th most important user of the canal and COSCO is one of the principal clients of the international waterway. As chinese investment grows in Panama, their ability to influence the local chinese community will also increase.

Overseas chinese communities are targets for the chinese mafia. Known as triads, these criminal gangs prey on chinese citizens. They foster illegal gambling, prostitution, loan sharking and strong arm methods, drug trafficking, illegal aliens, kidnapping and murder. Activities in Panama and in Central America of chinese triads are on the rise, a situation that worries law enforcement agencies, since the business of these criminal gangs is very difficult to detect and to infiltrate.

STATEMENT OF ROBERT MAZUR TO THE
SUBCOMMITTEE ON DOMESTIC & INTERNATIONAL MONETARY POLICY
DECEMBER 7, 1992

I am currently the President of Chase & Associates, Inc., a company that provides consulting, training and expert witness services in several fields, including money laundering, and international drug trafficking. I started my firm in August of 1998, shortly after I retired from government service and concluded a twenty-seven year career as a federal agent. My company presently serves a number of private law firms, government agencies, and public companies. I continue to frequently interact with the law enforcement community on a number of levels. I conduct advanced training to federal agents at national law enforcement academies, I am a consultant to the Office of Independent Counsel David Barrett in Washington DC, and I serve as an anti-money laundering compliance consultant to a public company that deals frequently with the U.S. Customs Service.

During my law enforcement career, I was a Special Agent with three agencies, the IRS-Criminal Investigation Division, U.S. Customs - Office of Enforcement, and the Drug Enforcement Administration. While working for each of these agencies, I was primarily responsible for conducting long-term investigations of international drug trafficking organizations. I directed dozens of lengthy investigations in various capacities. I functioned as a Project Manager, Case Agent, and a Long-Term Undercover Agent. I have been qualified in U.S. District Court and Superior Court in Canada as an expert in international money laundering, as well as an expert in international drug trafficking.

During the late 1980's through 1994, I assumed several long-term undercover roles and infiltrated various international drug trafficking organizations, including both the Medellin and Cali drug cartels of Colombia. My primary role with these cartels involved the coordination of laundering drug proceeds with various corrupt financial institutions, businessmen, bankers, and financial planners. My undercover roles in three investigations led to the prosecution of several hundred traffickers and money launderers, the collection of more than \$600 million in forfeitures and fines, and the development of critical evidence that was used in the conviction of Panamanian General Manuel Noriega.

I was the primary undercover agent that infiltrated the Bank of Credit & Commerce (BCCI), and my recording of hundreds of conversations with BCCI officers was the cornerstone of the prosecutions that led to the dismantling of the BCCI money-laundering machine.

I have been honored to serve in the difficult task of attempting to thwart the international drug and money-laundering organizations that poison our citizens, murder witnesses, corrupt governments and institutions, and create an unfair economic advantage for those who invest billions of drug dollars earned each year. My achievements investigating the world's largest drug cartels and money-laundering organizations occurred because I worked shoulder-to-shoulder with members of a team; a team comprised of hundreds of law enforcement officers, prosecutors, analysts, agency administrative staff, and their devoted families who sacrificed many hours of their lives for a cause. Had it not been for the devotion and professionalism of

that team, I wouldn't be testifying before you today, because I couldn't have succeeded without the unfailing support of that family.

Although I have viewed the drug trafficking and money-laundering world as a traditional investigator of historical facts, I was also given a unique opportunity to experience that world from the inside. As a long-term undercover agent over a collective period of five years, I interacted as a member of the drug and money-laundering world on a 24-hour basis. My undercover roles enabled me to interact closely with dozens of significant members of the world's most notorious drug and money laundering groups. Although it would be impractical for me to mention each of the significant criminals with whom I dealt closely, I would like to mention the roles of a few of these individuals, so you can better understand why I was in a position to gain an unique picture of the effect that high level traffickers and money-launderers have on Panama and other nations.

With respect to the Medellin Cartel, I dealt closely with one of Pablo Escobar's attorneys and closest advisors, Santiago Uribe, who was responsible for the laundering of a significant portion of Escobar's fortune. In addition, Uribe assisted in the orchestration of the assassination of law enforcement officers in Colombia. He was the author of Colombia's non-extradition treaty, which has been rescinded as a result of the courage of the present administration in Colombia. I also worked very closely with one of Fabio Ochoa's cocaine transportation and distribution specialists, Roberto Alcaino. Alcaino and I became partners in the laundering of drug proceeds for Medellin Cartel members, and our apparent friendship led to his disclosure to me of an entire clandestine lab operation that produced cocaine that was transhipped through Argentina to the U.S. and Europe. Information disclosed to me by Alcaino led to his arrest at the site of a 2,500-pound cocaine seizure. After his arrest, still not realizing that I was an undercover agent, Alcaino and his organization authorized me to assume his role in the collection of drug proceeds and the distribution of funds to his cocaine suppliers. I functioned in this capacity for approximately thirty days after Alcaino's arrest. I also dealt directly with one of Gerardo Moncada's primary assistants and strategists, Rudolph Armbrrecht. Moncada was Pablo Escobar's replacement as the head of the Medellin Cartel during the period of time that Escobar was temporarily imprisoned in luxurious quarters in Colombia. Armbrrecht, a former commercial pilot, acquired a small air force for the Medellin Cartel that was used to transport tons of cocaine throughout North and South America.

With respect to the Cali Cartel, I worked closely with corrupt bankers and businessmen. Through the Black Market Peso Exchange and dozens of fictitious import/export companies, these corrupt professionals laundered tens of millions of dollars in drug proceeds for members of the Cali Cartel, including the cartel's leader, Miguel Rodriguez Orejuela.

With regard to the Bank of Credit & Commerce International (BCCI), I routinely met with officers of the bank throughout the world and received a first hand education from them about various methods to effectively launder drug proceeds. Among other officers, I dealt on a daily basis with Amjad Awan, the former Manager of the Panama branch of BCCI. At the same time that I dealt with Awan, he maintained a close relationship with Manuel Noriega and functioned as Noriega's financial adviser.

With regard to Panama, I shared office space with Gilbert Straub, a convicted drug money launderer who was formerly a lieutenant of Robert Vesco. During the early 1970's, Straub ran Vesco's operations in New Jersey. He is the individual who personally delivered \$50,000 in U.S. currency that was initially used to buy the silence of the Watergate Burglars. After Straub, Vesco and others were indicted for SEC violations in the early 1970's, he fled to Panama, established Panamanian citizenship, and embarked on a career of laundering illegal proceeds for U.S. based organized crime figures. Straub informed me of innumerable facts relative to the illegal activities he and others staged from Panama.

While in Panama, I dealt with a host of drug traffickers and money launderers. These individuals were involved with various Colombian based drug cartels, factions of the Russian mafia, individuals involved in the Italian mafia, U.S. based organized crime figures, illegal arms dealers, and money managers in control of fortunes stolen by corrupt world leaders. Virtually all of these individuals looked with great optimism toward the day when U.S. forces would be withdrawn from Panama, and a U.S. presence in Panama would be minimized.

I would like to highlight my undercover conversations with one particular individual that has a major influence in Panama, Jorge Krupnik. Although Mr. Krupnik's account of his integrating criminal conduct and legitimate business activities is astounding, it isn't that dissimilar to the activities of the majority of the contacts I made while working undercover in Panama.

Despite his indictment in the U.S. for drug money laundering offenses in 1994, Mr. Krupnik continues to be a very influential businessman in Panama. He is associated with political figures in Panama, government officials in Russia, government officials in Cuba, Colombian drug traffickers, as well as organized criminal groups in the United States. Because Mr. Krupnik is a Panamanian citizen, Panamanian law does not permit his extradition to the United States for offenses stemming from his laundering of drug proceeds. Like many individuals involved in significant criminal activity, he uses Panama as a safe haven, from which he injects illegal proceeds into legitimate businesses throughout the world.

I was introduced to Mr. Krupnik in 1993 when I visited him at his office in the Banco Exterior building in Panama. At the time, Mr. Krupnik was already well known to law enforcement agencies. By his own account, he was formerly a close associate of General Manuel Noriega. During the Noriega regime, Krupnik was in charge of the procurement of arms for the country of Panama and maintained exclusive rights to deal with certain arms dealers. A few days before Noriega was captured by U.S. troops, Noriega and his bodyguards used Krupnik's home as a place of refuge.

Mr. Krupnik was born in Russia. He previously resided in many countries, including the United States. Since establishing residence in Panama, he has become a significant member of the business and political community. When I knew him, he owned a construction company and a marine terminal. He charters ships and tankers; he sold commodities including food goods, cigarettes, emeralds, petroleum, and automobiles throughout the world. Basically, Mr. Krupnik finances investments worldwide. When I dealt with Mr. Krupnik, he maintained close business ties with individuals in Russia, Italy, Cuba, Switzerland, Colombia, Panama, the U.S., and other countries.

Like most of the criminal element in Panama with whom I dealt, Mr. Krupnik ardently awaited the diminished influence of the U.S. in Panama. Mr. Krupnik viewed U.S. withdrawal as an opportunity to assist interests in other parts of the world to increase their economic influence in Panama. In particular, Mr. Krupnik worked closely with unidentified "businessmen" in the Far East, with whom he hoped to build a Special Economic Zone in Panama. The construction cost of this zone was estimated at \$3 billion dollars. Among other features, this zone was proposed to include a commercial district, international finance center, hotels, a marina, housing, warehouses, industrial districts for light, heavy and high-tech industries, and the redevelopment of Port Balboa.

Aside from future projects, such as the Special Economic Zone, Mr. Krupnik spoke of his extensive involvement in the present day infrastructure of Panama. After gaining an understanding that I was involved in the laundering of tens of millions of dollars in drug proceeds for the Cali Cartel, Mr. Krupnik offered me unlimited access to aircraft, shipping facilities, and other equipment that operated in the ports and airports of Panama.

Among other proposals, Mr. Krupnik offered the following:

- The exchange of U.S. currency generated from drug trafficking for Colombian pesos, commercial goods, real estate or gold bars.
- The use of a money-laundering scheme that involved fictitious sales of emeralds
- The laundering of drug money through contacts in the New York City diamond district
- The illegal transportation of U.S. currency aboard commercial aircraft maintained in Panama
- The laundering of drug money through contacts in Las Vegas
- The laundering of drug proceeds through bank accounts in The Bahamas and Switzerland
- The exchange of U.S. currency in Panama for U.S. currency stockpiled in Colombia
- The investment of drug proceeds in business ventures in which Krupnik participated, including the automation of the port of Cristobal, and improvements to Panama's rail system. According to Krupnik, in exchange for investments in these projects, he would ensure that these facilities could be used by Colombian traffickers to transport drugs and money.

The facts outlined above are only a small sample of the type of criminal activity I regularly witnessed in Panama. The majority of my conversations with money launderers and drug traffickers in Panama were recorded, including my conversations with Mr. Krupnik. The Drug Enforcement Administration has maintained control of these recordings.

In light of the imminent withdrawal of U.S. troops from Panama and the likely reaction to this event by major organized crime groups throughout the world, I recommend that the U.S. attempt to assist the Panamanian government with the likely increased criminal activity that will plague their country. An enhanced understanding and partnership between U.S. and Panamanian authorities offers a strategic defense against the exploitation of Panama by outside criminal elements.

In my opinion, consideration should be given to increasing the budget and resources of the Drug Enforcement Administration and other U.S. law enforcement authorities that are hosted by the Panamanian government. Asking these agencies to find funding in their existing budgets to react to this threat would be a disservice to the many other priorities they must address and the importance of this issue. If the U.S. government is serious about helping their allies confront new threats imposed by the never-ending resources of organized criminal groups, their actions relative to Panama will serve as a primary example of whether their heart is in this fight.

I believe that, when the Panamanian people recognize that the U.S. respects the sovereignty of their nation and offers enhanced bi-lateral cooperation to address the threat posed by the increased insurgence of sophisticated criminal organizations, they will certainly respond favorably. The increased threats posed to Panama are not only important to the U.S. and Panama, but to the entire world. The exploitation of Panama's banking community by organized criminal groups can extend a financial lifeline to terrorism anywhere in the world.

In view of the increased threat imposed by sophisticated criminal groups to Panama and the international banking community, I would also consider the merits of initiating several long-term undercover operations, like those in which I was authorized to function in an undercover capacity. These special operations, which require Attorney General Exemptions and were initiated during 1986 and 1991, appear to have occurred with less frequency since the early 1990's.

While the granting of Attorney General Exemptions addressing global money laundering organizations may have diminished during the recent past, an unusual number of regulations have been contemplated and imposed upon the world banking community during this same period, in an effort to monitor transactions that might involve illegal proceeds. Although well intended, these regulations do not effect the more sophisticated money launderers. Providing resources to the relevant law enforcement agencies and empowering those resources through the issuance of Attorney General Exemptions addressing global money laundering organizations is the most effective deterrent to the Jorge Krupnik's of the world.

The views expressed herein are mine and do not necessarily represent those of the law enforcement agencies at which I was employed.

**BRIEF SYNOPSIS OF
PANAMA CONCESSION
SUMMER OF 1996**

In the early 1990's (1992-1993) Cooper/T. Smith was involved in negotiations with individuals/entities regarding the eventual Manzanillo International Terminal located on the Atlantic side of the Panama Canal. Although these relationships never materialized, Cooper did develop a strong interest in Panama and specifically IN the Port of Cristobal.

As a result of our interest, we began discussions with the Government of Panama on the possibility of obtaining a concession for the Port of Cristobal. These discussions took place during 1994 and 1995. Our interests were well received and we established a strong relationship with Dr. Hugo Torrejos, Director of Ports, as well as numerous other government officials.

In the summer of 1995, we were informed that the American Company, Bechtel Enterprises, had been retained by the Government of Panama to conduct a study on possible concessions for the Ports of Cristobal and Balboa (Pacific), as well as, the railroad crossing the Isthmus. We were further informed that at the conclusion of this study a public bid would be held with respect to the ports, and that we were one of the pre-qualified companies who would be allowed to bid.

As we awaited the completion of the study and the official announcement of the public bid, we were informed that Bechtel had been allowed to make a private bid encompassing both ports and the railroad. This was the spring of 1996. Shortly thereafter, we were informed by our local attorney in Panama that the Government of Panama was again interested in receiving our proposal. We were informed that Bechtel had presented such a low bid that the Government was insulted and the local labor unions were furious.

In April of 1996, the Government hired an independent consulting group, ICF Kaiser, to assist them in re-establishing the bidding process. In the meantime, we had begun discussions with International Transportation Services, Inc. ("ITS") regarding the possibility of joining forces on our bid proposal; thus, collectively bidding on both ports. ITS had been working together with a local Panamanian company, Pancanal Shipping Investment ("PSI") in negotiating with the Government of Panama on a private concession for the Port of Balboa. In fact, ITS and PSI had executed a Memorandum of Understanding with the Government with regard to the Port of Balboa.

In June of 1996, with ICF Kaiser's work complete, the Government called for an open bid. The bid was to encompass only with the two Ports, as the railroad concession had already been awarded. Our new consortium, Cooper/T. Smith/ITS/PSI, presented our bid on time and in the proper form as requested by the Government. Our bid was for both Ports, Cristobal and Balboa, as requested. With respect to the other bid packages received, there was a great deal of confusion as they were delivered at varying times and contained bids on specific areas within the two Ports. Due to the "inconsistency" in the bids, the Government decided to re-bid the concession. This "new" (2nd) bid was due on June 18, 1996, and in an attempt to resolve the previous "inconsistencies", the Government made clear the criteria and the deadline for which the "new" bid was due. Again, our consortium presented its bid in a timely fashion and consistent with the criteria requested by the Government.

We are uncertain as to who actually bid on time; however, we were informed that Hutchinson (HIT) presented their bid approximately two hours after the deadline. Further, once opened, the Hutchinson bid was also determined to be less favorable than the Cooper/T. Smith/ITS/PSI bid.

Soon thereafter, June 20, 1996, we were informed by our local attorney in Panama that the publication "El Panama America" on that day's edition ran an article stating the following: NOTE: ITS is an American subsidiary of Kawasaki Corporation. STET.

[Translated]

"The government determined last night in principal two projects...and in addition, awarded to the Japanese-North American group Kawasaki Cooper/T. Smith the operation of the Ports of Cristobal and Balboa.

...the minister, Francisco Sanches Cardenas, revealed that the [mandatorio] Ernesto Perez Balladares announced before members of the Democratic Revolutionary Party, the concession of the Ports of Cristobal and Balboa to the group Kawasaki Cooper/T. Smith.

Kawasaki offered the payment of an annual rent of \$10 million, 9% of the gross earning of container cargo, 7.5% of the bulk cargo, a participation share for the State of 10% without manifest compromise of acquiring the equipment of the National Port Authority (APN), without a concrete monetary offer for the indemnification of the public employees that participated of the service to be privatized and without establishing the amount of the immediate investment nor the total for the project.

The President preferred the offer of Kawasaki-Cooper to that presented by Bechtel (which) proposed to operate integrally both ports and the railroad (Ferrocarril de Panama), while promising to implement an initial investment of \$11 million, 7.5% of the total gross earnings of entire project, promising to pay \$10 million for the equipment of APN, obligating themselves to \$30 million in order to indemnify the public employees and promised to make an immediate investment of \$110 million, \$155 million at five years and with a grand total investment into the project of \$560 million."

We were then contacted and requested by the government of Panama, through the office of Dr. Hugo Torrijos, to travel to Panama for the official announcement. Within a few days, Mr. Angus Cooper, II (Chief Executive Officer and Chairman of the Board of Cooper/T. Smith), Mr. Patrick Hall (Senior Vice President of Cooper/T. Smith) and Mr. J. F. Weston, Jr. (In-House Counsel for Cooper/T. Smith) traveled to Panama City, Panama.

We were accepted in the office of Dr. Torrejios along with employees of our partner ITS and were officially congratulated by Dr. Torrejios of our award for the concession. During the meeting, Dr. Torrijos received a telephone call requesting his presence at another meeting. He asked that we please wait for him in his office in order for us to continue our celebration. Upon his return (approximately one and one half hours later), we were informed that he would have to recant his previous congratulations. He explained that due to some "lack of transparency" there would have to be another bid. He further explained that all bidders would receive a new set of criteria for the, "now", (3rd bid.). Under extreme confusion as to the Governments actions, ITS submitted a "letter of protest" on behalf of the consortium clearly stating our discontent and concerns regarding the process in which the bidding took place. This letter was never answered. Further, we never received any new bid material and eventually resubmitted our June 18, 1996 bid package. This bid was delivered and opened on July 29, 1996.

Eventually HIT was awarded the concession. We were later informed that HIT merely doubled our June 18, 1996 bid as their offer on July 29, 1996. Further, we were informed that HIT was the only company to actually receive the promised new criteria for the (3rd) bid.

We have had little or no contact with Panama since this time.

APPENDIX

December 8, 1999

Statement of Representative Helen Chenoweth-Hage
Subcommittee on Domestic and International Monetary Policy
2128 Rayburn House Office Building
Regarding the Financial and Security Impact of the Transfer of the Panama Canal
December 8, 1999

I would like to thank Chairman Bachus for calling this hearing today, which marks the first investigative hearings in the 106th Congress held in the House on the effects of transferring the Panama Canal. I appreciate Chairman Bachus's attention to protecting our economic and security interests in this critical region.

Mr. Chairman, I strongly believe that the future will regard the Panama Canal transfer as the hallmark issue of the 106th Congress, not only because of the economic impact, but because of security concerns with Red China obtaining a strategic foothold so close to our nation.

Mr. Chairman, it might come as a shock to Members of this Committee that when asked recently about the role of the Chinese in the Panama Canal, President Clinton not only acknowledged that China would in fact be "running" the Canal, but that China would "bend over backwards" to be fair to the United States. How can we possibly believe that Communist China, in controlling the Canal, will protect our interests? China will not run the Canal with the United States or our allies interests in mind, but will protect and promote their own interests and agenda first! The President, either through incompetence or other more nefarious reasons, has shown an utter disregard for this fact -- choosing instead to completely look the other direction while China takes over a critical asset of the Western Hemisphere and one of the greatest American feats of the 20th Century.

Mr. Chairman, this indifference by this Administration is inexcusable. The American people are calling for action, for their protection, and we must respond. Again, I commend you for holding this hearing so that we can investigate and address these critical issues surrounding the Panama Canal transfer.

Mr. Chairman, I have also introduced legislation that addresses the Panama Canal situation. Although this bill, H.J. Res. 77 has not been referred to your Committee, I do want to bring it to the Committee's attention to think about as you are scoping this issue today.

Mr. Chairman, my legislation takes a more comprehensive and long-term approach toward the Panama Canal. H.J. Res. 77 refers back to the Carter-Torrijos treaties, and acknowledges several errors in the signing of this treaty which makes it null and void.

First, in their respective instruments of ratification, the United States and Panama did not agree to the same text of the treaties. The United States Senate included language known as the Deconcini Reservation, which states that either nation could take *unilateral* action to protect the neutrality of the Canal. When the treaty (with the Deconcini Reservation) went to Panama for ratification, the Panamanians viewed the Deconcini Reservation with distrust and proceeded to add a counter reservation. The counter reservation stated that it requires *mutual* consent by both parties before any action could be taken.

By adding the counter reservation, the Panamanians had effectively altered the most fundamental part of the text which the Senate added as a condition for final ratification. The most basic and universally accepted principles of international law concerning treaties holds that the parties must agree to the same written text, or there is no "meeting of the minds" and, thus no treaty. Article 20.2 of the 1969 Vienna Convention on the Law of Treaties states unequivocally that "a reservation requires acceptance by all the parties" and the "Restatement of the United States Foreign Relations Law" declares unambiguously that "If the other state has made a reservation ... the Senate ... will take it fully into account in acting on the treaty" and requires that "Senate consent to the acceptance of the reservation is required."

Second, President did not have the Constitutional authority to give away American property. Article 4, Section 3, Clause 2 of the Constitution states that "The Congress shall have Power to dispose of and make all needful Rules and Regulations respecting the Territory or other Property belonging to the United States." The clause clearly states that only Congress alone can dispose of American property.

Mr. Chairman, the question is, is the Panama Canal American property? The 1903 Hay-Bunau-Varilla Treaty between the United States and Panama grants the U.S. full sovereign rights over the Panama Canal and Canal Zone "in perpetuity", and the United States Supreme Court ruled in 1907 that the Canal Zone is indeed United States territory. The U.S. Constitution states that only native-born citizens may become President of the United States. Senator John McCain, a contender for the Presidency, was born in the Panama Canal Zone. There are no two ways about it; the Panama Canal is American property.

Third, again President Carter did not have the Constitutional authority to abrogate earlier treaties. The Constitution is explicit in saying that the President with the consent of the Senate may enter into treaties (Article 2, Section 2, Clause 2). Thomas Jefferson, the pen of the Constitution, later wrote in Jefferson's Manual that "Treaties being declared equally with the laws of the United States, to be the supreme law of the land, it is understood that an act of the legislature alone can declare them infringed and rescinded." Only the House and the Senate combined can amend earlier treaties.

Mr. Chairman, it is important to note that the writings contained in Jefferson's Manual served as the basis of our Constitutional system of government. Jefferson knew our form of representative government had little historical basis from which to draw precedence from, therefore he compiled the Manual to guide and further clarify the intent of the Constitution.

Fourth, under Article 46.1 of the Vienna Convention, a State may invoke as invalidating conditions that are "manifest and concerned a rule of its internal law of fundamental importance." Does President Carter not having the Constitutional authority to enter into treaties abrogating the 1903 Treaty and relinquishing control of the Canal rise to the level of fundamental importance? The answer is yes.

Mr. Chairman, by notifying Panama of the nullification of the Carter-Torrijos treaties, we will again assert our authority over the management and control of the Panama Canal. It will serve as a platform to address the economic and national security concerns you will be discussing today. Again, I thank you for holding this hearing and look forward to working with you and this committee on this issue.

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Excerpts from 'Unrestricted Warfare'

WAddmmhmmmy Beijing PLA Literature and Arts Publishing House Feb 99 pp 1-4, 1-5, 253-254, inside cover

[FBIS Translated Excerpt]"Unrestricted Warfare: Assumptions on War and Tactics in the Age of Globalization" by Qiao Liang and Wang Xiangsui (Beijing: PLA Literature and Arts Publishing House, 1 Feb 99)

(Ref: OW2807114599 beijing zhongguo qingnian bao in chinese 28 jun 99 p 5 -- two senior colonels on 'no-limit warfare')

[FBIS Editor's Note: The following selections are taken from "Unrestricted Warfare," a book published in China in February 1999 which proposes tactics for developing countries, in particular China, to compensate for their military inferiority vis-à-vis the United States during a high-tech war. The selections include the table of contents, preface, afterword, and biographical information about the authors printed on the cover. The book was written by two PLA senior colonels from the younger generation of Chinese military officers and was published by the PLA Literature and Arts Publishing House in Beijing, suggesting that its release was endorsed by at least some elements of the PLA leadership. This impression was reinforced by an interview with Qiao and laudatory review of the book carried by the party youth league's official daily Zhongguo Qingnian Bao on 28 June.

Published prior to the bombing of China's embassy in Belgrade, the book has recently drawn the attention of both the Chinese and Western press for its advocacy of a multitude of means, both military and particularly non-military, to strike at the United States during times of conflict. Hacking into websites, targeting financial institutions, terrorism, using the media, and conducting urban warfare are among the

this idea, he asserted that strong countries would not use the same approach against weak countries because "strong countries make the rules while rising ones break them and exploit loopholes . . . The United States breaks [UN rules] and makes new ones when these rules don't suit [its purposes], but it has to observe its own rules or the whole world will not trust it." (see FBIS translation of the interview, OW2807114599) (End FBIS Editor's Note)

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Preface

(pp 1-5)

[FBIS Translated Text] Everyone who has lived through the last decade of the 20th century will have a profound sense of the changes in the world. We don't believe that there is anyone who would claim that there has been any decade in history in which the changes have been greater than those of this decade. Naturally, the causes behind the enormous changes are too numerous to mention, but there are only a few reasons that people bring up repeatedly. One of those is the Gulf War.

One war changed the world. Linking such a conclusion to a war which occurred one time in a limited area and which only lasted 42 days seems like something of an exaggeration. However, that is indeed what the facts are, and there is no need to enumerate one by one all the new words that began to appear after 17 January 1991. It is only necessary to cite the former Soviet Union, Bosnia-Herzegovina, Kosovo, cloning, Microsoft, hackers, the Internet, the Southeast Asian financial crisis, the euro, as well as the world's final and only superpower -- the United States. These are sufficient. They pretty much constitute the main subjects on this planet for the past decade.

However, what we want to say is that all these are related to that war, either directly or indirectly. However, we definitely do not intend to mythicize war, particularly not a lopsided war in which there was such a great difference in the actual power of the opposing parties. Precisely the contrary. In our in-depth consideration of this war, which changed the entire world in merely half a month, we have also noted another fact, which is that war itself has now been changed. We discovered that, from those wars which could be described in glorious and dominating terms, to the aftermath of the acme of what it has been possible to achieve to date in the history of warfare, that war, which people originally felt was one of the more important roles to be played out on the world stage, has at one stroke taken the seat of a B actor.

A war which changed the world ultimately changed war itself. This is truly fantastic, yet it also causes people to ponder deeply. No, what we are referring to are not changes in the instruments of war, the

technology of war, the modes of war, or the forms of war. What we are referring to is the function of warfare. Who could imagine that an insufferably arrogant actor, whose appearance has changed the entire plot, suddenly finds that he himself is actually the last person to play this unique role. Furthermore, without waiting for him to leave the stage, he has already been told that there is no great likelihood that he will again handle an A role, at least not a central role in which he alone occupies center stage. What kind of feeling would this be?

Perhaps those who feel this most deeply are the Americans, who probably should be counted as among the few who want to play all the roles, including savior, fireman, world policeman, and an emissary of peace, etc. In the aftermath of "Desert Storm," Uncle Sam has not been able to again achieve a commendable victory. Whether it was in Somalia or Bosnia-Herzegovina, this has invariably been the case. In particular, in the most recent action in which the United States and Britain teamed up to carry out air attacks on Iraq, it was the same stage, the same method, and the same actors, but there was no way to successfully perform the magnificent drama that had made such a profound impression eight years earlier. Faced with political, economic, cultural, diplomatic, ethnic, and religious issues, etc., that are more complex than they are in the minds of most of the military men in the world, the limitations of the military means, which had heretofore always been successful, suddenly became apparent. However, in the age of "might makes right" -- and most of the history of this century falls into this period -- these were issues which did not constitute a problem. The problem is that the U.S.-led multinational forces brought this period to a close in the desert region of Kuwait, thus beginning a new period.

At present it is still hard to see if this age will lead to the unemployment of large numbers of military personnel, nor will it cause war to vanish from this world. All these are still undetermined. The only point which is certain is that, from this point on, war will no longer be what it was originally. Which is to say that, if in the days to come mankind has no choice but to engage in war, it can no longer be carried out in the ways with which we are familiar.

It is impossible for us to deny the impact on human society and its soul of the new motivations represented by economic freedom, the concept of human rights, and the awareness of environmental protection, but it is certain that the metamorphosis of warfare will have a more complex backdrop. Otherwise, the immortal bird of warfare will not be able to attain nirvana when it is on the verge of decline: When people begin to lean toward and rejoice in the reduced use of military force to resolve conflicts, war will be reborn in another form and in another arena, becoming an instrument of enormous power in the hands of all those who harbor intentions of controlling other countries or regions. In this sense, there is reason for us to maintain that the financial attack by George Soros on East Asia, the terrorist attack on the U.S. embassy by Usama Bin Laden, the gas attack on the Tokyo subway by the disciples of the Aum Shinri Kyo, and the havoc wreaked by the likes of Morris Jr. on the internet, in which the degree of destruction is by no means second to that of a war, represent semi-warfare, quasi-warfare, and sub-warfare, that is, the embryonic form of another kind of warfare.

But whatever you call them, they cannot make us more optimistic than in the past. We have no reason for optimism. This is because the reduction of the functions of warfare in a pure sense does not mean at all that war has ended. Even in the so-called post-modern, post-industrial age, warfare will not be totally dismantled. It has only re-invaded human society in a more complex, more extensive, more concealed, and more subtle manner. It is as Byron said in his poem mourning Shelley, "Nothing has happened, he has only undergone a sea change." War which has undergone the changes of modern technology and the market system will be launched even more in atypical forms. In other words, while we are seeing a relative reduction in military violence, at the same time we definitely are seeing an increase in political, economic, and technological violence. However, regardless of the form the violence takes, war is war, and a change in the external appearance does not keep any war from abiding by the principles of war.

If we acknowledge that the new principles of war are no longer "using armed force to compel the enemy to submit to one's will," but rather are "using all means, including armed force or non-armed force, military and non-military, and lethal and non-lethal means to compel the enemy to accept one's interests."

This represents change. A change in war and a change in the mode of war occasioned by this. So, just what has led to the change? What kind of changes are they? Where are the changes headed? How does one face these changes? This is the topic that this book attempts to touch on and shed light on, and it is also our motivation in deciding to write this book.

[Written on 17 January 1999, the 8th anniversary of the outbreak of the Gulf War]

Afterword

[pp 253-254]

[FBIS Translated Text] The motives for writing this book originated from military maneuvers which caught the attention of the world. Three years ago, due to participation in the maneuvers, Xiangsui and I encountered each other in a small city in Fujian called Zhao An. At the time, the situation was becoming daily more tense on the Southeast coast, both sides of the straits were all set for a showdown, and even the task force of two American aircraft carriers rushed a long way to add to the trouble. At that time, the storm was brewing in the mountains and the military situation was pressing so that people were suddenly moved to "think up strategies when facing a situation." We therefore decided to write this book, a book which would be able to concentrate together the concerns and thoughts each of us had over the past several decades and especially during the last ten years concerning military issues.

There is no way of relating in detail how many telephone calls we made, how much mail was sent, and how many nights we stayed awake over the next three years, and the only thing which can serve as evidence for all of this is this small and thin book.

We must first apologize to readers for the fact that, even though we were very conscientious and toiled painstakingly in the writing of this book, yet after the written word reflecting ideas were set down much like shooting stars traveling across the sky and cooling into meteorites, all of you (including ourselves) will still be able to find many mistakes and places which are inappropriate. We shall not employ the apologetic words of "We request your kind solicitude" to seek forgiveness but shall rather only make corrections in the second edition (if there is one).

Upon the occasion of the publication of this book, we would like to here sincerely thank the Chief-of-Staff Cheng Butao and Assistant Chief-of-Staff Huang Guorong, of the PLA Literature and Arts Publishing House for their unswerving support whereupon this book was able to be so quickly published within such a short period of time. We would also like to thank Xiang Xiaomi, Director of the First Book Editing Department. She has carefully and rigorously proofread the entire book as she had done with the other four books which we have edited, and provided many very valuable recommendations. We do not know any better way of expressing our thanks aside from the deep gratitude which we feel.

Lastly, we would also like to thank our families for the sacrifices they made towards the completion of this book, and this is again something which cannot be expressed in words

The entire book was completed in manuscript form between March 2 and December 8 of 1998 in Gongzhufen - Baizhifang in Beijing.

Gongzhufen - Baizhifang in Beijing.

[Written on February 1, 1999]

AUTHORS' BACKGROUND

Qiao Liang [0829 5328], whose ancestors came from Hunan Province, was born in Xin [1823] County, Shanxi Province, to a military family in 1955. He is a member of the Chinese Writers' Union. Presently, he is assistant director of the production office of the air force's political department and holds the rank of senior colonel in the air force, along with being a grade one [yi ji 0001 4787] writer.

His most important works include Gate to the Final Epoch [Mori Zhi Men 2608 2480 0037 7024]; Spiritual Banner [Ling Qi 7227 4388]; and Great Glacial River [Da Bing He 1129 0393 3109]. He has repeatedly won national and military awards. In addition to his literary creations, he has applied himself over a long period of time to the research of military theory and joined with other writers to pen A Discussion of Military Officer Quality [Junguan Suzhi Lun 6511 1351 4790 6347 6158]; Viewing the Global Military Big Powers [Shijie Junshi Lieqiang Bolan 0013 3954 6511 0057 0441 1730 0590 6031], and A Listing of the Rankings of Global Military Powers [Quanqiu Junli Paihang Bang 0356 3808 6511 0500 2226 5887 2831].

Wang Xiangsui [3769 3276 4482] was born in Guangzhou to a military family in 1954. He joined the army at the end of 1970. He successively assumed the positions of political instructor, group political commissar, section deputy head, regiment political commissar, and division deputy political commissar. Presently, he works in the Guangzhou Military Region Air Force Political Unit and holds the rank of senior colonel.

He has cooperated with other authors to write the books A Discussion of Military Officer Quality; Viewing the Global Military Powers; and A Record of Previous Major Global Wars [Shijie Lici Dazhan Lu 0013 3954 2980 2945 1129 2069 6922].

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Unclassified

Congress of the United States
House of Representatives
Washington, DC 20515

November 10, 1999

VIA FACSIMILE AND REGULAR MAIL

The Honorable William J. Clinton
President of the United States
The White House
1600 Pennsylvania Avenue N.W.
Washington, D.C. 20500

Dear Mr. President:

In less than two months, the United States will take one of the most strategically significant actions in its history: transferring control of the Panama Canal to Panama. We are writing to express our very real concerns about the economic and military impact this will have on the United States and to urge your administration to negotiate, as quickly as possible, a continuation of the U.S. military presence in Panama.

In accordance with the 1977 Panama Canal Treaty, the withdrawal of U.S. Armed Forces from Panama is almost complete. Since the treaty was ratified, we have withdrawn 95 percent of our troops (9,500) and have transferred to Panama 90 percent of the acreage (84,098 acres) and 68 percent of the buildings (3,160) formerly occupied by U.S. forces. However, Panama's ability to maintain and provide adequate security for the canal is lacking. Panama disbanded its military in 1989 and Panama's national police force is ill equipped to protect the canal.

This is an urgent request. With each passing day, U.S. options in Panama are being narrowed. As you know, under the 1977 Panama Canal Treaty, the United States must totally withdraw from Panama by noon on December 31. However, the companion Treaty of Permanent Neutrality allows both countries to negotiate an agreement giving the U.S. the right to station troops in Panama and enjoy base rights there. In addition, the 1979 Panama Canal Act, which incorporated the treaty into U.S. law, includes a sense of the Congress resolution that the "best interests of the United States require that the President enter into negotiations with the Republic of Panama for the purpose of arranging for the stationing of United States military forces after the termination of the Panama Canal Treaty of 1977."

Without a U.S. military presence to safeguard the canal, we can anticipate the following will be adversely affected:

1. The ability to rapidly transfer U.S. Navy vessels between the oceans;
2. The ability to prevent an alien power, such as the People's Republic of China or

Colombian narco-terrorists, from politically, economically or militarily challenging for control of the isthmus;

3 The ability to defend the canal against terrorism or sabotage.

Our total withdrawal from the canal is creating a vacuum, and there are signs that potentially hostile forces are moving in to fill that vacuum. Already, key port facilities on the Atlantic and Pacific sides of the canal (Cristobal and Balboa) have been leased by Hutchison Whampoa. Through its chairman, Li Ka-Shing, Hutchison Whampoa is closely associated with the China Ocean Shipping Company (COSCO), a global corporation supervised by the PRC's People's Liberation Army. Li is a high level partner of COSCO, which has shipped Chinese missile technology and biological warfare components to North Korea, Pakistan, Iraq and Iran. COSCO ships have also served as carriers for smuggling operations around the world and in the United States - of weapons, drugs and illegal aliens.

We cannot afford to be indifferent when a company with ties to the Chinese military gains control of the Panama Canal's entry and exit ports.

In addition, the lease held by Hutchison Whampoa raises concerns about violations of contract law. This corrupt process that granted Hutchison Whampoa the ports gives Li Ka-Shing the right of first refusal to additional properties on the canal, including former U.S. military bases. Additional provisions could allow Li's company to lease parts of these strategic facilities to anyone, even Iraq, Cuba or North Korea.

A recently published book written by two Chinese military officers increases our apprehension about the growing influence of the PRC in Panama at the same time we are withdrawing from the canal. In this book, *Unrestricted War*, the authors outline 24 options Chinese leaders could choose from to weaken and ultimately defeat the United States. These options range from terrorism and biological warfare to drug trafficking, environmental degradation and computer hacking. In an interview published on June 28, 1999 in a Beijing newspaper, the authors of *Unrestricted War* cite Panama as an ideal launching pad for a "no-limits" war against our nation. They state, "A small country like Panama would have a chance to exploit [the United States]. It could use a no-limits strike to cause America trouble...causing chaos to the U.S. financial system." Knowing that such options are under active consideration by military leaders of the PRC, and recognizing that the Panama Canal represents an unprecedented and unequalled platform from which to conduct such operations against the United States, should be cause enough for us to do everything possible to ensure a continued military presence to safeguard the canal.

In conclusion, a U.S. presence offers the best means of protecting the canal and ensuring its neutrality. In addition, keeping our forces in Panama promotes stable democracies throughout the region and helps support our critically important efforts to counter the flow of illegal drugs.

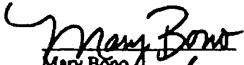
Continued involvement by our troops in Panama will afford us the best opportunity to protect our many interests in the region and stem the flow of illegal drugs into our country. We pledge to work with you and your administration toward this end

Sincerely,

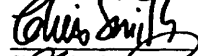

Spencer Bachus

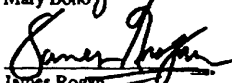

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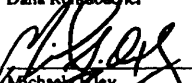

George Nethercutt

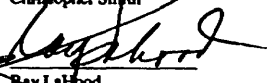

Mary Bono


Dana Rohrabacher

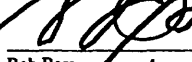

Christopher Smith


James Rogan


Michael Oxley

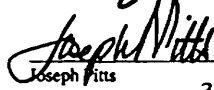

Ray LaHood

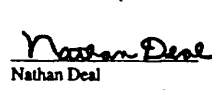

Michael Bilirakis


Bob Barr



Todd Tiahrt

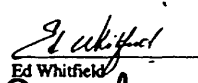

Pete Sessions

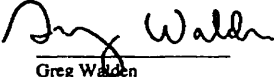

Joseph Pitts

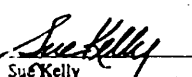

Nathan Deal



Donald Manzullo


Pat Danner


Ed Whitfield


Greg Walden


Sue Kelly


John Sweeney


Ron Packard


John McHugh


Cliff Stearns

FOR PRESENTATION TO U.S. OFFICIALS ONLY

Present Government officials have indicated grave concern over developments in the Darien. They recognize there is a threat to Panamanian sovereignty, stability and prosperity.

They intend to develop this Counter Narcotic effort.

They have a fervent desire for U.S. technical assistance, intelligence sharing, partnership and financial resources.

In the absence of U.S. assistance they may seek assistance from other nations (e.g., Spain, Canada, China etc.)

09/14/1999

MANAGEMENT
TECHNOLOGY MITSUBISHI

Overview

- Purpose
- Threat to U.S./Panamanian Interest
- Solution - Revitalize Current Strategy
- Requirement
- Current State of Military Communications Network
- Recommendation
- Conclusion

MANAGEMENT
TECHNOLOGY
CONSULTING

PURPOSE

Review rationale and feasibility of establishing a Panamanian/U.S. Cooperative Counter Drug Intelligence Fusion Infrastructure in Panama using reverted properties.

09/14/1999

**MANAGEMENT
TECHNOLOGY CENTER**

Threat to Panama

- Incursions into the Darien by well armed, organized and narco- financed Groups may destabilize the Darien and bordering provinces.
- The presence of these elements on Panamanian soil increases the probability of destabilized Governmental and private sector institutions through:
- Bribery
- Threatened physical harm to Governmental/Private sector officials and family members
- Actual Kidnapping and Murder directed against selected targets
- Decrease in ability and Will to combat the threat
- Increased manipulation of Panama's robust and vital banking industry by international criminal elements
- Increased use of the Panama Canal, Panama's excellent ports/Free Zone and growing number of airline connections by narcotics traffickers
- De facto Loss of Sovereignty to International criminal elements

09/14/1999

MANAGEMENT
TECHNOLOGY **LLP**

Threat to United States

- Contested control of the Darien and sections of bordering provinces state a setback to USA) Strategy
- Threat elements may use tested and proven tactics of bribery, extortion, kidnapping, murder to increase control over Panamanian institutions (Governmental, Press, Private Sector)... US National and US owned enterprises would not be immune
- Increased use of Ports, Free Zone, Panamanian Airway connections by International criminal elements to support narco trafficking and money laundering are a predictable result as are the increased flow of cocaine and heroin into the United States
- Manipulation of the canal may threaten "Priority Shipments"
- Increased manipulation of Banking Sector will facilitate money laundering and will increasingly involve corruption of banking interests in other countries
- Realized threat to Sovereignty by way of a direct threat to the USG vision of a free, democratic and completely sovereign Panamanian Republic post 2000
- Destabilization of Panama will be a clear loss to the prestige of the United States of America and will signal clear limits to its influence to both legitimate and criminal elements elsewhere.

09/14/1999

MANAGEMENT
TECHNOLOGIES

SOLUTION

- Revitalize strategy of Nation to Nation, Republic of Panama and U.S. Corporation against international criminal activity
- Rapidly pursue a combined RP/US Communications/Intelligence operation in reverted areas
- Facilitates collection by aerial platforms operated by US and PANAMA
- Facilitates infusion of HUMINT from RP elements in Darien and elsewhere
- Can be supported without compromising military withdrawal in accordance with the Carter/ Torrijos Treaty
- Leverage technical intelligence expertise and Panamanian HUMINT infrastructure to identify illegal elements in Panama
- Assist as necessary the training of selected Panamanian Police forces in Jungle Operations
- Provide Funding
- Ultimately deny sanctuary to Narcotic Traffickers /International criminal elements in Panama and use this combined effort between the Republic of Panama and the United States to renew our relationship during this historic period in time

Conclusion

The election and inauguration of a new Panamanian Government by the people of Panama and concern by the new government over the threat of international criminal activity within Panama, positive reaction to US compliance with the Panama Canal Treaty and US Presidential Directives to continue/intensify the counterdrug effort create renewed opportunities for Bilateral Cooperation between the two countries.

An effective technical infrastructure communications facilities can be constructed using existing U.S. owned networks in Panama and then upgrading them. Wide area networks can be re-established. Training or Applications will occur over another month. Full Operational Capacity can be implemented within six (6) to eleven (11) months depending upon the complexity of the infrastructure.

09/14/1999

MANAGEMENT
TECHNOLOGY
INTEGRATION

PANAMA CANAL HEARINGS

U.S. HOUSE OF REPRESENTATIVES
Committee on Banking and Financial Services
December 8, 1999

Capt. Kenneth P. Puckett
Panama Canal Pilot, Ret.
CWO, U.S. Army Ret.

Today, it is a privilege to provide you with some insight into the operation of the Panama Canal and share with you my concerns for the future. It is not often that a seaman on watch is called to the pilothouse to offer his opinion on the course of the ship.

As a retired Senior Panama Canal Pilot, I am frequently asked if I think Panama can operate the Panama Canal once they assume control on 31 December 1999. I have always answered in the affirmative. There are hundreds of men and women in Panama well qualified to manage and operate the Canal if given that opportunity. It came as a complete surprise when I learned that Panama had relinquished control of two major ports and the Trans-isthmian railroad to a private foreign company. While the strategic military issues are serious enough, consider for a moment the impact this move will have on the economic well being of the United States and the future of world commerce.

The Panama Canal is a very old industrial complex. The Panama Canal Commission, to their credit, has spent millions of dollars over the last two decades up-grading various components of the canal; for example, they have added high mast lighting to extend the hours of daylight, increased the size and horse power of tug boats, and they are currently widening the famous Gaillard Cut. However, the fact remains that the original concrete lock structures and 700-ton steel miter gates are over eighty-five years old. I believe it is the longevity of these components that will determine the viability of the Panama Canal in the 21st century.

The Panama Canal was originally designed and built to accommodate the World War I Battleships, Arizona and Pennsylvania. These vessels were 106 feet in beam, had 34-foot drafts and displacements of 34,000 tons. By comparison, during WW II, larger military vessels, battleships and aircraft carriers with beams of 108 feet, drafts of 38 feet and displacements of about 53,000 tons routinely transited the Canal. These larger WWII vessels barely fit between the 110-foot wide lock chambers with less than 12 inches between the ship's sides and the concrete lock walls. The successful transiting of these vessels set precedence for the passage of the larger commercial vessels of today. Known as Panamax, these vessels have displacements of over 70,000 tons which is more than double the size of the designed lock capacity. Panamax vessels now account for approximately 27 % of all vessel traffic on the Panama Canal.

What effect has the transiting of these larger vessels had on the locks and gates over the last fifty years? Basic physics principles remind us that water will not compress. It takes an enormous amount of energy to force the oversized Panamax vessel into a lock chamber. In order for a Pilot to get a Panamax into a lock chamber, the vessels' engines must be placed at full speed ahead and the electric locomotives operated at maximum towing capacity. In some cases tug boats are directed to assist with the lockage by pushing on the stern of the vessel. Each time a Panamax vessel is forced into a lock chamber, the whole structure begins to vibrate. It is these vibrations that concern me. Cracks can be observed in the concrete lock walls and the steel miter gates leak continuously. A major breach of the lock walls and internal culverts or a miter gate failure could close the Panama Canal for an indefinite period of time.

Vital to the continuous 24-hour-a-day, 7 days-a-week operation of the Panama Canal is a reliable source of electricity and an abundance of fresh water. Currently, the Panama Canal Commission operates it's own electric power generating plant. Today, Panama is experiencing an unprecedented increase in population growth and commercial expansion. These factors have resulted in an ever-increasing demand

for electrical power. As a result, power outages in Panama are not uncommon. After Panama assumes control of the Canal, will there continue to be a dedicated electrical power source for Canal operations?

Fresh water is the other resource that is vital to the operation of the Panama Canal. Each time a vessel passes through the Canal, it uses 52 million gallons of fresh water. That is, over 1.5 billion gallons of water to move an average of thirty-two (32) vessels through the Canal each day. This water comes from the abundant 130 inches of rain that annually falls in Panama's rain forest. Historically, wherever there has been an increase in commercial development in a tropical environment such as Panama, there has been a corresponding reduction and loss of valuable rain forest watersheds. No where else in the world does a rain forest have such collateral importance as it does in Panama. Without the rain forest, greater water run-off will occur during the rainy season. Consequently, there may not be enough fresh water held in the watershed to operate the Canal during the dry season. Will current plans to safeguard this vital Canal resource be honored and enforced? Once a rain forest is depleted, it takes decades to recover.

A major concern expressed to me by Ship Captains regarded vessel scheduling and pilot assignments. Their concerns become more significant in view of the fact that a private company now operates the ports of Balboa and Cristobal at the entrances to the Panama Canal. Current U.S. Federal Regulations dictate that vessels transiting the Canal be scheduled primarily on a first-come, first-serve basis. Transit fees are based on vessel tonnage and paid in advance. Priority scheduling is available for a (10) ten percent surcharge. Pilots are assigned in accordance with strict guidelines based on duty rotation and qualifications.

Under Panama Law Number 5, the control of shipping, berthing and pilot assignments in the Ports of Panama will be granted to a private contractor. This contractor is the Hutchinson Port Company, a Hong Kong based Chinese conglomerate. Consider for a moment this statement taken from an interview with President Dong of the Chinese shipping company Cosco as reported in the Journal of Commerce in August of 1998. In Mr. Dong's own words, "In order to satisfy our customers needs, remain competitive, and preserve market share, Cosco must offer confidential contracts." If the Hutchinson Port Company controls vessel scheduling and pilot assignments in the Ports of Panama, it stands to reason that they will give preferential service and insure priority transit scheduling to their customers. Remember that time is money, and there are a limited number of vessels that the Canal can accommodate on a daily basis. Any preferred scheduling practice will foster a bidding war among shipping agents, shipping companies, vessel owners and even countries, for that matter. Under such circumstances, how long will it be before the maritime industry worldwide loses confidence in the operations at the Panama Canal? What effect will all of this have on the strategic requirements of the U. S. military? Will our warships continue to be given priority transit scheduling or will they be required to wait in line just like any commercial vessel?

The U.S. Code of Federal Regulations dictates that a Panama Canal Pilot is in complete navigational control of a vessel in Canal waters. The purpose of the regulation is to enhance safety, eliminate confusion on the bridge of a ship, and maintain efficient traffic flow. To insure enforcement of the regulation under international maritime law, the Panama Canal Commission accepts full responsibility and liability for any damages to a vessel as a result of the actions of pilots or other canal employees. Vessel Owners, insurance companies, Captains and Panama Canal Pilots have supported this regulation for over seven decades.

The channel entrances to the locks at the Panama Canal are unlike any other waters in the world. Different water currents flowing in different directions at different depths at different stages of the tide effect the vessel as it approaches the locks. Panama Canal Pilots are specifically trained and qualified to pilot a vessel under such unique conditions. Apprentice pilots are selected from a pool of experienced mariners. Under the tutelage of experienced pilots, apprentices are put through an extensive three-year basic pilot training program. This program includes over 200 day and night transits of the canal, simulator training, evaluations and examinations. After successful completion of the program, they are qualified as a Panama Canal Pilot. However the training does not end there. Every year the pilot's performance is evaluated and if satisfactory; then, and only then, is he permitted to pilot larger vessels. A total of eight years successful experience on the Canal is required before a pilot is considered fully qualified to assume control of a Panamax vessel. Ship Captains look forward to having a Panama Canal Pilot board their vessel and assume navigational control.

Effective 31 December 1999, The Panama Canal Commission and its successor, the Panama Canal Authority, have agreed to change the regulation that outlines the damage liabilities on the Panama Canal. The new regulation will state that the Panama Canal Pilot will remain in navigation control of the vessel, but a significant portion of the liability for damages will shift from the Panama Canal to vessel owners. In other words, vessel owners will be required to assume liability for damages caused by Canal Pilots and other Canal employees. This major change in operating procedures creates anxiety in the maritime industry and fosters an atmosphere of distrust between ship captains and Canal pilots. Desiring to protect his ship, the Captain will insist on participating in the navigation control of his vessel while in Canal waters. The ensuing conflict of navigation control will lead to an over-all slow down in vessel traffic and an increase in accidents. Imagine for a moment the chaos in the cockpit of a 747 jumbo jet with two pilots fighting for control of the aircraft during a landing?

Each year, over 190 millions tons of cargo pass through the Panama Canal. West Virginia coal goes directly to Korea, thus avoiding the extra five thousand miles around the tip of South America. Grain from America's heartland destined for the Far East account for 23 % of all canal traffic. From my home state of Florida, over 100 million dollars worth of fruit and citrus is annually shipped through the Canal directly to Japan. Some 67% of Ecuador's maritime traffic, 43% of Peru's, 28% of Chili's, 70% of El Salvador's and 75% of Nicaragua's ocean commerce depend on the on the Canal. How would the U.S. and these countries get their products to market if the Panama Canal were to shut down tomorrow?

Are the harbors, ports, railroads, highways, and trucking systems of the United States capable of handling such a massive increase of cargo across our continent? Think about it. What would happen if only just a fraction of the 190 million tons of Canal cargo was suddenly infused into our current transportation system. The gridlock could virtually shut down our ports, railroads and highways.

The Panama Canal is an important link in the world's transportation system and should be viewed as a world utility. Whoever operates the Panama Canal controls this Utility and holds the switch that ultimately regulates world commerce. The big question is, after the 31 December 1999, who will assume the responsibility to insure the switch remains open?

Bear with me a minute while I share some history with you.

In 1970, the United States began the process of returning the Islands of Okinawa to the Japanese government. The Army was in charge of port operations. I was ordered to Okinawa to access the situation, supplement the American Civilian Pilot force, assist with the turnover and begin a confidential dialogue with the Japanese and Okinawa pilots. I attribute our success in this transition to two important factors. First, the U. S. had begun re-negotiating the Status of Forces Agreement well before the turnover was to take place. Consequently, all parties to the reversion knew exactly what to expect before, during and after the turnover. Second and more importantly, we had the Rule of Law. Treaties are considered the law of the land in both countries.

Then, in 1975, I was Chief of Port Services in Pusan, Korea. The summer of that year the Korean Harbor Pilots purchased several new tugboats. Shortly there after, they arbitrarily began refusing Army tugboats to assist with docking U. S. military and civilian vessels. We reminded the Korean Pilots that the Status of Forces Agreement and supplemental articles specifically stated that anytime there was a problem effecting strategic military operations in Korea, the U. S. Army could utilize their own Army Tugs and Pilots. When the Korean Pilots still refused to use Army tugboats, we invoked the agreement. We were able to maintain normal port operation for several months and eventually negotiated a settlement with the Pilots. Once again a Status of Forces Agreement coupled with the Rule of Law protected the national interests of both countries.

I offer these experiences as examples of how the U.S. has handled treaty situations in the past. The Panama Canal Treaties are vague in defining specific circumstances justifying any U.S. intervention in canal operations. What is our recourse if the Canal shuts down for any reason? Point of fact: it is not against Panamanian law for anyone to strike - not even government employees. A status of Canal Agreement establishing verifiable, practical, and operational guidelines would fill the void.

From Carter to Clinton, six presidents and their administrations have had over twenty-two (22) years to prepare for the turnover of the Panama Canal. We are now at a crossroads in Panama and left with few options. Meanwhile, the Panama Canal facilities continue to age. I believe the United States should once again take the lead by calling for an International Convention on alternative modes of transporting cargo across Central America. This would send a message to the world that the United States is not abandoning our commitment to free world trade and commerce. The practical, political and economic importance of the transfer of the Panama Canal can not be denied. I applaud the efforts of this committee in holding these hearings.

Testimony

As always, it is a privilege to be able to present my views to this distinguished Committee on a matter of great national importance. As we are all aware, the turnover of the Panama Canal is imminent and there are a number of critical issues facing both Panama and the United States. First and foremost is the security and continued operation of the Canal. But closely related to this problem is the economic well-being of Panama, which has been called into question a number of times over the past twenty years since the signing of the Carter-Torrijos Treaties. As a matter of fact, the money laundering problems associated with the regime of Tony Noriega was one of the triggering events leading up to the invasion of Panama by the United States in the operation "Just Cause". During this period, there were over one hundred banks operating in Panama and one had to go down the list to number 15 before one found a Panamanian bank guilty of money laundering. The top fifteen included a number of United States banks, which were subsequently indicted when all the records were made available. A number of senior managers were incarcerated. The intimate involvement of the Panamanian Government and the private sector in money laundering for the various drug cartels, as well as other illegal activities, is a matter of public record and is a matter of serious concern to the governments of this hemisphere and of Europe.

Following "Just Cause", the United States, in a clumsy ham-handed manner, forced the Panamanian Government led by President Endara to sign the MLAT Treaty in order to clean up the money laundering problem. My Panamanian friends tell me that new technologies and half-hearted enforcement by both the United States and Panama have largely negated the intended effect of the treaty. I was in Panama at the time, attempting to make a commercial success out of what had been Noriega's airline, Air Panama. Air Panama was recapitalized and named Panama Air with both American and Panamanian investors and management. It was at this time that I first became aware of the extent and depth of the corruption in both the public and the private sector. A fact sheet outlining the Panama Air problem is attached. I would request that this be made a part of my testimony.

In my opinion, we are witnessing the workings of the "overworld" as so aptly described by Ambassador David Jordan in his brilliant book, "Drug Politics". The Panamanian infrastructure, including the banking system, has been used to connect with the "underworld". One of the questions raised concerns the financial operation of the Canal. Will the rates be raised? If so, how much. As 40% of all the grain produced in this country transits the Canal, this is a critical question. As 15% of everything produced in the United States goes through the Canal, the stakes are even higher. Now consider that in addition to these numbers, the "dry canal" does not have the available capacity to take up the slack should the Canal be closed for whatever reason. The United States Congress has every reason to be concerned. It is obvious that the Clinton Administration is not interested in these "politically incorrect" questions.

The performance of the Pérez-Balardera government requires some examination. That government has a less than glowing track record when it comes to fiduciary and management responsibility. As a matter of fact, the obvious corruption and failure to act responsibly resulted in the Panamanian electorate turning down "Toro's" attempt to change the constitution so that he could have another term at the "trough". His shabby handling of the properties that the United States had turned over to Panama, the pecking of the Panama Canal Commission with his family and cronies, as well as the granting of visas to Chinese Mainland nationals has been a matter of daily scandal in Panama. Unfortunately, the mainstream media in the United States has opted to "spike" these stories so that the American people remain largely uninformed.

There has been some hope expressed by many in the United States that the new government of Mireya Moscoso will be able to correct this situation. There are some facts that should be recognized as we examine this critical national security issue. First of all is the domestic political situation in Panama. Moscoso is operating from a very narrow political base, with the PRD very much in control of much of the legislative and judicial apparatus. Second is the fact that the private sector is very much involved in activities that mitigate against a "crusade" to clean up related drug and illegal activities surrounding the free zone at Colon. How much the President will be able to do, assuming that there is the will, is a major question. As they say in Spanish, "Vamos a ver". We'll see.

F A C T S H E E T

PANAMA AIR INTERNATIONAL (PAI)

April 1990: Following *Just Cause* and the capture/ouster of Manuel Noriega, a group of United States investors led by General Gordon Sumner, former Ambassador at Large for Latin America, traveled to Panama to explore opportunities to privatize various government owned entities. While in Panama the group was hosted at a breakfast meeting of *ANDE*, a business development group chaired by J.J. Vallarino Jr., a leading Panamanian businessman who is CEO of *Banco Disa*, *Coça Cola* and *Panama Beer*. Señor Vallarino arranged for the U.S. group to be hosted by another business group at a cocktail party. He also arranged a series of meetings with prominent government officials, including Vice President Billy Ford. Vice President Ford commented to the group that now that all the crooks were out of government, this was the time to invest in Panama.

After looking over a citrus company, a cement company, a ceramics company, the telephone company, the electric company and the national airline, *Air Panama*, the U.S. group decided to join together with a like group of Panamanians and bid for *Air Panama's* assets and routes. Prominent in the Panamanian investors' group was J.J. Vallarino Jr.; his son, J.J. Vallarino III, who was to become the major stockholder as well as president and CEO of the *Panama Air* venture, his daughter, Susan; and another son, Miguel.

Summer 1990: The *Government of Panama (GOP)* puts out bids for the privatization of *Air Panama*.

General Sumner recruits Rollin King, founder of *Southwest Airlines*, and *Sunet, Hellison & Eickner (SH&E)*, the airline consultant company, to examine the potential of *Air Panama* and develop a feasibility study and a proposal for the *GOP*.

Panama's Comptroller, Dr. Rubén (Chinchoro) Carles, a former Director of *Banco Disa*, is appointed as the responsible cabinet member for privatization.

Fall 1990: The Americans and Panamanians submit a proposal (bid) to the *GOP*. Three other competitors also submit bids. *COPA*, the only Panamanian airline controlled by the Motta family, is one of the bidders.

1990-1991: *PAI* wins the bid, but the *GOP* rebids the proposal four times. *PAI* wins each successive bid.

November 7, 1991: The *GOP* finally signs a contract with *PAI*. The contract states that the *GOP* must pay debts, clear creditors and clear the routes once held by the old airline, *Air Panama*. *PAI* names the new airline *Panama Air International*. The airline is renamed because it is a completely separate entity from *Air Panama*. *PAI* is designated the national airline of Panama.

Panama Air International

Spring 1992: *PAI* settles debts with *Air Panama* employees. This was a major problem for the *GOP*, and *PAI* undertook this even though it was the responsibility of the *GOP*. *PAI* Board felt we would be able to start flying sooner if we could help the *GOP* clear up some of the problems it faced in privatizing *Air Panama*.

1992-1993: *PAI* opens offices in Panama City and Bogota, Colombia. It opens a counter at the Panama City (Tocumen) airport.

1992-1993: *GOP* fails to clear routes or turn over assets to *PAI*. This leaves *PAI* unable to operate since it was to be given the routes held in the name of *Air Panama*.

1992-1993: At this point, *PAI* had completed all of the actions required of it under the contract. *PAI* could not fly until the government had cleared all of the routes. The *GOP* failed to even initiate any action to clear the routes to the United States. These routes are critical to the success of the airline because of the revenue these routes generate.

1992-1993: *GOP* gives *PAI* routes for Lima, Peru, and Santiago, Chile, to the Costa Rican airline, *LACSA*, even though these routes were included in the contract between the *GOP* and *PAI*. They were paid for by the investors in *PAI* and were routes belonging to the national airline of Panama. *LACSA* is a part of the *TACA* group formed by five Central American airlines. *COPA* is part of that group.

1992-1993: Repeated conferences with Rubén Carles, the Controller, and Mario Galindo, Minister of Hacienda y Tesoro attempting to get the *GOP* to perform on the contract. Mario Galindo's law firm represents the Motta family, controllers of the *COPA* airline.

February-March 1993: *COPA* initiates a public campaign to discredit *PAI*.

1993: *GOP* clears some of the routes contractually given to *PAI*. The Director of Civil Aviation, Zóximo Guardia, refuses to grant permits for the routes to *PAI*.

1993: Comptroller Rubén Carles and Vice-Minister Fábrega send a letter to *PAI* stating that the *GOP* has not performed on its contract with *PAI*. *PAI* has still been unable to fly because of the *GOP*'s failure to clear the routes.

1993: *PAI* initiates joint venture operations with *AVENSA* and *Mexicana* airlines in an attempt to start flying routes where permits to *PAI* have not been acquired by the *GOP*. These joint ventures are approved by the *GOP*.

Spring 1993: Zóximo Guardia, with four hired hands, physically terminates joint venture operations at Tocumen without justification. They forcibly:

- Closed the *PAI* counter at Tocumen
- Boarded the *PAI/AVENSA* aircraft bound for Caracas, Venezuela
- Tore up the passengers' tickets
- Removed the passengers from our aircraft and put them on a *COPA* flight to Bogota

Neither *AVENSA* nor *Mexicana* are part of the TACA group.

April 1993: A summit meeting between *GOP* ministers and *PAI* Board of Directors (including General Sumner). *GOP* approves an amendment to *PAI*'s contract. The amendment was written because *PAI* could not perform on the contract since the *GOP* had not cleared the routes, paid creditors in several countries, or turned over the assets of the old airline to *PAI*. A tape recording was made of the meeting by Ruben Carles.

Spring 1993: The President and the Cabinet of the *GOP* approve the amendment to the contract.

May 1993: Minutes of a subsequent meeting are sent to *PAI*. The minutes, signed by Carles' assistants, state that Carles proposes to cancel the contract and pay off the investors. Carles will not release the tape recordings of the previous meeting to *PAI*. *PAI* wants to fly, not to be paid off.

June 1993: Although everyone else in the Cabinet has approved the amendment to the original contract, Carles refuses to sign and insists that the contract be terminated and *PAI* investors be paid for their investment. (However, investors realize that chances are slim that they will ever be paid. They also realize, since Carles so stated, that they would never be paid for a good portion of the money invested.)

July 1993: Carles publicly states that the *PAI* investors will not be paid off in entirety. He falsely claims that the Board of Directors are requesting an honorarium of \$1,000,000. This is completely false but is being spread around the country, to the American Ambassador as well as to influential Panamanians.

June 1993: *GOP* audit of *PAI* accounts takes place. Carles asks for this and *PAI* gladly opens its books. The audit is taking place because Carles wants the *GOP* to cancel the *PAI* contract. *PAI* wants to fly.

July 1993: The *GOP* decides to give *PAI*'s Bogota route to *COPA* before the government decides whether or not to terminate the contract with *PAI*.

July 1993: Zózimo Guardia goes against the decision of the Ministers and declares through the media in Panama that he has decided to give *PAI*'s Bogota route to *COPA* before the Panamanian government has settled with *PAI*. He states that it is in the interest of the country to do this.

July 1-7, 1993: General Sumner and his wife, Frances Fernandes, go to Panama for a *PAI* Board meeting and attempt to sort out the facts in the situation. It becomes clear that Panama has no conflict-of-interest controls; and that many in the government are tied to businesses and people who may be attempting to stop *PAI*.

The Mottas have interests in practically all facets of the Panamanian economy. They are in electronics, free-zone shops based in Colon, airlines, etc. People in the airport free-zone

shopping area at Tocumen say that the Mottas are even attempting to squeeze out the existing shops there so that they can place their own shops in the airport. They are also allegedly heavily involved with the Cubans and other illegal activities.

July 2, 1993: *LaPrensa* publishes an article stating that *Taca* signed an agreement with the Italian airline, *Alitalia*. It states that the Italians want to gain greater access to the United States market. The article makes it clear that *Taca* is an airline formed by five Central American airlines. *COPA* is one of those airlines.

July 6, 1993: *PAI* Board meeting. Board does not want to be paid off. *PAI* wants to fly.

December 1993: Although reports have been published in the Panamanian newspapers stating that the *PAI* contract will be invalidated and approximately \$3.5M will be reimbursed to its investors, no action has taken place as yet. It also seems clear that investors will receive only a portion of the money invested and nothing for the time, effort, and cost of attempting to do business.

Dr. Carles, after successfully terminating *PAI's* efforts to privatize *Air Panama*, returns to *Banco Disa* to supposedly begin his campaign for the presidency.

According to information from a member of the press, a large rally and fund raiser is given for Dr. Carles; prominent in the audience are several members of the Motta clan and J.J. Vallarino, Jr.

March 1994: The Government of Panama refunded a substantial portion of the investment made after the contract was signed. The precise percentage of that refund is unknown at present. Investments made before the contract was signed were not refunded.

BOTTOM LINE

The U.S. investors were romanced, encouraged, and joined in their efforts by Panama's business community elite who enjoyed excellent relations and access all the way to the President of the country.

In summary, the U.S. (and Panamanian) investors had their interests/property illegally expropriated. In addition, they lost a golden business opportunity that would have netted millions through the chicanery of supposedly honest and trustworthy Panamanian officials and private citizens.

This public abortion of a very important privatization effort serves notice to all investors and potential investors that corruption in both the public and private sector is still rampant. CAVEAT EMPTOR.

Testimony submitted for the record as if read by
Admiral Thomas Moorer, USN (Ret.)
 For the U.S. Senate Armed Services Committee
 Hearing of October 22, 1999

**"Will the United States simply fade away from the Panama Canal
 without even a protest?"**

Mr. Chairman, and distinguished members of the Senate Armed Services Committee, Ladies and Gentlemen, I am indeed honored today and grateful to you for this opportunity to testify before your important committee on behalf of the defense of our great country.

I have testified several times before several Congressional Committees and I am very gratified to be allowed once more. I am hopeful that today's hearings will begin at last, to develop specifics as to why the developments at the Panama Canal, and in particular the U.S. policy towards Panama, deserve more attention from Congress. I am hopeful that today's work will persuade Senators to consider a change in U.S. policy.

In 1978, I testified before this Committee concerning the ill advised Canal Treaty. I stated:

"The defense and use of the Panama Canal is wrapped inextricably with the overall global strategy of the United States and the security of the free world. I stated that if the United States opts to turn over full responsibility for the maintenance and operation of such an important waterway to a small, resource-poor, and unstable country as Panama and then withdraws all US presence, a vacuum will be quickly filled by proxy or directly by the Soviet Union, as is their practice in every opportunity."

However, not the Soviet Union but the Chinese Communists have filled this vacuum. The Chinese have negotiated with the Balladares government of Panama what has become known as Panama Law No. 5 passed on January 16, 1997.

I strongly concur with noted constitutional law scholar Bruce Fein, Esq., who has submitted testimony to the Committee demonstrating how and why Panama Law #5 constitutes a gross violation of the 1977 Treaty agreement between our two countries. Panama has reneged on their agreement with the United States, and has allowed a hostile outside country to assert control of vital defense sites inside Panama, contrary to the promises made to the United States.

But I do not think you need to be a constitutional law scholar like Mr. Fein, to see in plain English the contradiction between the "priority operations" of the entrance/exit ports of the Panama Canal given to the Communist China surrogate Hutchison-Whampoa by Panama Law #5, versus the "head of the line" and "expeditious treatment" promised to U.S. warships in the 1977 treaty.

Further, Panama Law #5 gives Red China's surrogate company control of the pilots - without which a ship cannot transit the Panama Canal.

Clearly, US interests and rights are not protected in Panama Law #5, which violates a pre-existing agreement between Panama and the U.S. Senate. I would think this is a matter, which should be examined very carefully by Senators, since it is a treaty passed on by this body, which is being tampered with.

We are told by the Administration, that the Treaty gives us the right to protect the Canal. Does it really? Does the United States have the unilateral right to defend the canal? I happen to agree with Captain G. Russell Evans, USCG (Ret.), who extensively documents in his books, including Death Knell of the Panama Canal? that perhaps this is not true, after all.

Captain Evans documents very carefully, how Panama's counter reservation to the U.S. Senate passed DeConcini Condition, contradicts what this body stipulated in allowing the treaties of 1977 to pass, namely, it requires the "Cooperation" of Panama for the U.S. to exercise force. This change or counter-reservation, was never reviewed, debated and approved by Senators. This resulted in two versions of the treaty. To be legal both treaties must be identical. It is all spelled out in Captain Evans book and in the testimony I understand he will be submitting for your consideration.

The Administration and the main line media are misleading and incorrect when they say that everything is just fine and the canal is doing well.

I still believe to this day, that the Carter Treaty, which fixed the date of US departure as December 31, 1999, was a severe blow to our national security. Now the Cox Commission has confirmed what I warned about, the Chinese Communists are busily infiltrating our hemisphere through various means, including the use of corporate front groups.

I feel that U.S. policy must force Panama into compliance with the Carter Treaty. China's corporate front, should be expelled from defense sites and as "Gatekeeper" of our Canal. China's presence at the Panama Canal is a hostile act against our country.

The Panama Canal is vital to the United States. I urge Senators to change U.S. policy so that a hostile foreign power does not control it. We built it, we paid for it, and we should be able to use it.

Permit me to review with the committee some of the history of the United States at the Panama Canal, and why I feel the current U.S. policy at Panama, jeopardizes the national security interests and safety of our country.

I realize that some of the Committee members may think I was born before the start of the century. They are close enough, but listen to Henry L. Stimson, who actually was born before this century began; this Secretary of War said, in 1913:

"The control of the Panama Canal is far more important to our national security than is the control of the Kiel Canal to that of Germany; or the Suez Canal to that of Great Britain. Its protection is more essential than the protection of any part of our coast or any of our seaports, however important because it is the key to the protection of many seaports and thousands of miles of coast-line."

If the Congress, as a co-equal branch of government with the Chief Executive, does not use its power to force a change in the current U.S. policy towards Panama, then after the last day of this year, Communist China will become the de-facto new owners and rulers of the Panama Canal.

Now some Senators may dispute that statement, and I can respect that, while disputing it. But I have very little patience or understanding for those who cannot see that there is a clear and present danger to leaving Communist China in a commanding position at this vital and strategic chokepoint so very essential to our nation's security, economy and safety.

It boggles this old warrior's mind to consider that the mistake being made in U.S. policy today at Panama is a mistake that will need to be rectified with the blood of brave young soldiers, sailors and marines, some day in the future. It bothers me a great deal, that policymakers can leave untouched, a policy that will cause brave servicemen to die unnecessarily, when we can avert what I feel is the certainty of a future military confrontation with Communist China at the Panama Canal, with a new and different U.S. policy towards Panama today.

What is it I am so concerned about? This so-called Peoples Republic of China, is the same Red China which has been so heavily involved in massive espionage efforts to steal our satellite, missile, and nuclear weapons technology; the same totalitarian regime that massacred thousands of students at Tiananmen Square, yet still denies this atrocity; the same Red China that is supplying terrorist regimes such as Iran, Syria, Libya and North Korea with missiles and weapons of mass destruction; the same Beijing thugs who are threatening Taiwan, Japan and the Philippines, who are helping Pakistan's nuclear weapons program, and who call the United States their "number one enemy"; the same Red China that has so thoroughly penetrated our government and our military research laboratories during the Clinton Administration.

As injurious as the many Chinagate treacheries have been to our nation's security, the impending surrender of our Panama Canal is more serious still.

Tragically, Americans have come to take the Canal and its myriad benefits for granted. One of the great engineering marvels of the world, the Canal is not only a tribute to the genius, vision, determination, and political will of an earlier generation of Americans, but a crucially important artery and choke point for our Navy and merchant marine vessels. Its value far exceeds the \$32 billion we have invested in it over the years, though that price tag alone is reason enough to question the sanity of those who are so determined to relinquish this valuable property.

Over 13,000 commercial vessels transit the Panama Canal every year with some 190 million long tons of cargo. In the past year our Naval vessels used the Canal countless times. This 51-mile waterway cuts 8,000 miles off the trip around the southern tip of South America, saving as much as two weeks of transport time. In warfare, time means lives, and that much time can mean the difference between defeat and victory. The Panama Canal has played a crucial role in World Wars I and II, the Korean War, Vietnam, Desert Storm, and many other conflicts.

This tremendous asset was bought at such a cost in gold, lives, sweat and labor at the beginning of this century. It is still so necessary to our nation's safety. Yet current U.S. policy is to leave the forces of a company controlled by an adversary, in command of the entrance and exit ports of this vital Panama Canal.

I must contrast this current U.S. policy, with the past, in the words of President Rutherford B. Hayes, addressing this same body:

"The policy of this country is a canal under American control. The United States cannot consent to the surrender of this control to any European power or to any combination of European powers... An inter-oceanic canal across the American Isthmus would essentially change the geographical relations between the Atlantic and Pacific coasts of the United States and between the United States and the rest of the world. It would be the great ocean thoroughfare between our Atlantic and Pacific shores and virtually a part of

the coastline of the United States... No other great power would, under similar circumstances, fail to assert a rightful control over a work so colossal and vitally affecting its interest and welfare."

As bad as the U.S. retreat from the Panama Canal may be, allowing an opponent to entrench their forces at a point where they know you must surely commit to an attack in a future conflict is far, far worse. Surely the likelihood of a future disaster for U.S. forces at the Panama Canal, is not something capable of understanding only by those who wear the uniform of our country?

I again ask Senators to focus on history, and listen, from the year 1881, to Secretary of State James G. Blaine:

"If a hostile movement should at any time be made against the Pacific coast, threatening danger to its people and destruction to its property, the Government of the United States would feel it had been unfaithful to its duty and neglectful toward its own citizens if it permitted itself to be bound by a treaty which gave the same right through the canal to a warship bound on an errand of destruction that is reserved to its own navy sailing for the defense of our coast and the protection of the lives of our people."

Do we live in such a safer world for Americans, than a century ago when Secretary Blaine made that observation? Is our government not being "unfaithful to its duty and neglectful towards its own citizens" by its continued insistence on walking away from this vital lifeline through the fraudulent Carter-Torrijos Treaties, and leaving Communist China in command of the heights, in command of the future bottleneck through which brave Americans in uniform will likely be sent?

Senators, this is a point I will return to again and again and again: once an American President has been forced to expend those American lives in pursuit of legitimate policy at the Panama Canal, it will be too late except for recriminations. On that day the bugle calls and the Commander-in-chief summons them, I will refrain from my criticism, for it will then, that day, do no good whatsoever for those in uniform who will be obedient to the dictates of their country, and who will pay the price of today's ill-thought policy.

When I testified on the Panama Canal and United States interests before the Senate Foreign Relations Committee on June 16, 1998, I stated that our military readiness was at an all-time low as regards our ability to defend our country, and at an all-time high as regards the threat to our national security, especially in our own hemisphere.

I noted that although we had engaged in more so-called "contingency" military operations than under any previous administration in the history of our nation, our military forces had suffered 14 consecutive cuts in the defense budget, invalidating the long-standing policy of our country to be able to win in two major regional contingencies simultaneously. The United States Marine Corps, by its own admission, is prepared and trained to fight one - not two, but one - major contingency at the present time.

According to Representative Floyd Spence (R-SC), chairman of the House National Security Committee, it is doubtful that we could win even one major contingency at this point. This is a particularly grave assessment coming from Chairman Spence, who, as one of our top elected civilian officials in Congress, is charged with overseeing our military preparedness and regularly

receives detailed updates and evaluations from all the branches of our Armed Forces. Unfortunately, I see no reason to contradict this alarming appraisal.

I further pointed out in my testimony before the Senate committee last year the actual approximate figures on specific cuts, which greatly endanger our nation:

*The Army was cut 14.2 percent, from \$743.3 billion in 1993 to \$63.8 billion in 1999; the Department of the Navy, which includes the Marine Corps, suffered a similar cut of 14.1 percent, down from \$94.7 billion in 1993 to \$81.3 billion in 1999; and the Air Force is weathering a 14.4 percent cut, down from \$89.5 billion in 1993 to \$76.6 billion in 1999.

*In overall manpower, active duty military personnel suffered a 17.8 percent cut, down from 1,776,000 in 1993 to 1,459,000, despite the many so-called military contingencies and peacekeeping operations around the globe.

Since I delivered that testimony, our armed forces have been involved, of course, in the newest major "contingency" known as Kosovo. We are accepting military commitments, one after another, under the aegis of the UN or NATO, while simultaneously disarming America. Meanwhile, we have seen an alarming increase in tensions between North and South Korea, where we have tens of thousands of American soldiers at risk, without adequate naval and air support, because of our force commitments to Bosnia, Iraq, Kosovo, and elsewhere.

Since 1812 no war has been fought against a foreign enemy on American soil. This is a very long time ago. I am an old sailor now, but I know trouble when I see it, and I see big trouble in Panama, trouble that could evolve quickly into a conflict in our own hemisphere with worldwide implications.

As I stated earlier, the impending transfer of the Panama Canal to the Panamanian government, under the circumstances which now exist, amounts to handing over control of the Canal to Red China, an aggressive, brutal, expansionist, totalitarian regime that has shown, by word and deed, that it is our enemy.

Senators may question whether in fact, it is Red China, or simply a private business concern, which is the "Gatekeeper" today of the Panama Canal.

This is what we know. An entity calling itself the Panama Ports Company in Panama, is actually a front corporation for Hutchison-Whampoa Limited, whose principal stockholder is Hong Kong billionaire Li Ka-shing. Li's business empire has long been intertwined with enterprises that front for the Communist military and intelligence arms of the People's Republic of China for many years.

Ten percent of his Panama Ports Company is owned by China Resources, the commercial arm of China's Ministry of Trade and Economic Cooperation.

Two years ago, on July 16, 1997, Senator Fred Thompson (R-TN) was quoted in the *South China Morning Post* as stating that China Resources was "an agent of espionage - economic, military, and political - for China." Shen Jueren, the Communist official who heads China Resources, and Li Ka-shing are both partners in the Riady family's Hong Kong Chinese Bank.

Li is also a principal in the PRC's huge China Telecom, and the China International Trust and Investment Corporation (CITIC), a ministry-level conglomerate with global assets of \$21 billion run by Chinese "princeling" Wang Jun. As chairman of Ply Group, Wang Jun also serves as the PRC's main arms dealer to Communist regimes, terrorists and rogue states. Nevertheless, Shen Jueren and Wang Jun, like many other notorious Red Chinese agents bearing campaign gifts, were welcome guests at the Clinton-Gore White House.

Li Ka-shing's Hutchison-Whampoa is a partner with the China Ocean Shipping Company (COSCO), the merchant marine arm of the People's Liberation Army (PLA). Hutchison-Whampoa also controls countless ports around the world. Because of its relationship to the PRC and the potential impact this implies for our global maritime interests, this should be of major concern to the United States.

I recommend to the Committee, the testimony of Richard Delgaudio, who has done extensive work to document the connection of Li Ka-shing and his company to Communist China. His Peril in Panama book contains excellent references for Senators about Li Ka-shing. Richard found press reports saying that the U.S. Central Intelligence Agency has known all along about the Li Ka-shing connection to Communist China - even before passage of Panama Law #5. But a Freedom of Information Act request was turned down, as well as another request to the CIA Appeal Board. I suggest Senators look into this question strenuously.

My specific concern is that Beijing, operating through this company, has virtually achieved, without a single shot being fired, not just a beachhead but a stronghold at the Panama Canal, something, which took our country so many years and such tremendous effort to accomplish.

How has this come about? At the same time that China's Communist leaders were buying their way into the Clinton White House, they were also directing large sums of cash into Panama's political process. Panama is a small and relatively poor country, and China, a major power with \$45 billion in cash reserves, has had a fairly easy time getting its way with bribery.

As Congressman Leopoldo Bennedetti, a member of Panama's Legislative Assembly, put it in an interview with El Siglo, "Buckets loads of money from Asian contractors are pouring in." President Ernesto Balladares and members of his administration and the legislature have been very cozy with Hutchison-Whampoa and the PRC, as well as with Fidel Castro and the drug lords of Colombia. They rigged the bidding process to guarantee that Hutchison would get the bid. Hutchison's \$22 million per year bid, was only the winning bid after five repeat bids and after the government of Panama strong-armed some competing bidders to drop out of the contest. And, to this day no one knows how much additional money changed hands "under the table."

How can this have all happened right under the nose of the United States? Perhaps Senators on the Armed Services Committee may want to ask another witness you are hearing from in today's hearings, the Panamanian administrator of the Panama Canal Commission, Alberto Aleman Zubieta.

Let me tell you something about Mr. Zubieta, which may not appear in his official biography. He is also the owner of a private company, CUSA, which has been awarded multi-million dollar contracts to tear down facilities at the strategic Amador military base. Is the fox guarding the henhouse? Are Senators completely satisfied about the checks and balances that exist in Panama, the independent judiciary, the free press, all of which are no doubt

in play guaranteeing that Mr. Zubieta is nothing but an honest broker in his work?

Then there is Balladares' Foreign Minister, Jorge Ritter, who has purposely torpedoed base talks in Panama, even though polls have shown that 80 percent of Panamanians want the US to stay. Previously, Ritter served as Panama's ambassador to Colombia during the time that dictator Manuel Noriega was servicing Colombia's drug cartels. In truth, Ritter was Noriega's "point man" to the cartels and has been noted in the press for his many connections to the most notorious and violent of the drug capos.

On January 28th of this year, Fidel Castro's Radio Havana reported, "Cuba and Panama signed at the Panamanian capital an agreement for the promotion and protection of investments in the two countries, as well as a basic cooperation agreement between the two governments. The documents were signed by Cuban Foreign Investment and Economic Cooperation Minister Ibrahim Ferradaz and Panamanian Foreign Minister Jorge Eduardo Ritter. Following the signing of the two documents, Ibrahim Ferradaz emphasized the importance of this event, "which strengthens Cuban-Panamanian ties..." Yes, this is the same Jorge Ritter.

In 1978, I testified before the Senate Armed Services Committee concerning the Panama Canal. I stated:

"The defense and use of the Panama Canal is wrapped inextricably with the overall global strategy of the United States and the security of the free world. I submit that if the United States opts to turn over full responsibility for the maintenance and operation of such an important waterway to a small, resource-poor, and unstable country as Panama and then withdraws all United States presence, a vacuum will be created which will be quickly filled by proxy or directly by the Soviet Union, as is their practice in every opportunity."

The Soviet Union's thinking and conclusions about the Canal, and its approach to gain control of this important, strategically situated waterway, were not lost on the Chinese Communists. They have replicated the Soviet Union's intent to the letter - quickly, silently, and successfully. Simultaneously, they are establishing bases on Tarawa in the Spratly Islands near the Philippines, with the obvious intent of controlling another key maritime choke point, the Malacca Strait, through which much oil and other strategically important trade commodities are transported. The Chinese have shown repeatedly that this is a favorite tactic, to get behind their enemies' lines of supply and interrupt their access to vitally needed goods. There can be no doubt that their intent is inimical to our national interests.

Yet Senators are being told today, that there is no problem with the current policy, there is no need of strong oversight by Senators, there is no reason to be dissatisfied, and perish the thought of any challenge by Senators to the current policy of President Bill Clinton.

I urge Senators to press on and investigate what is afoot in Panama. I urge Senators to devote substantial resources to investigating what is a substantial problem for the United States at the Panama Canal.

I have never heard, except from some foolish souls disconnected from reality, that the best defense for our country, is to completely abandon and walk away from vital chokepoints. Yet that is the policy of the United States at Panama.

It is not a policy that the people of Panama want, not a policy that guarantees more freedom, economic prosperity, higher employment, or a better national security, for the people of Panama. The current policy hurts the people of Panama, it certainly hurts the thousands of unemployed workers who did a good job working at U.S. military bases and who today, add to that country's very high unemployment rate. If Senators press for U.S. military bases in Panama, they will not only be advancing the legitimate interests of the people of the United States, but they can do this in a way that also advances the interests of the people of Panama.

On the other hand, if the Congress acquiesces in the Clinton plan to abandon the Panama Canal and walk away, as currently planned, then China will take our place on the commanding heights, at the bottleneck.

This is no longer idle speculation, but a matter of fact. China through its surrogate has command of the strategic chokepoint. Will there be any rearward U.S. military bases? Will there be any presence whatsoever, any challenge whatsoever, or will the United States simply fade away from the Panama Canal without even a protest?

Senators, I believe we are thus setting ourselves up for inevitable conflict. We will be forced, as a matter of national survival, at some not too distant point in the future to go to Panama and win back militarily what we have bought and built, and what is rightfully ours. When that happens, we will have to pay a high price in blood and treasure - because the alternative will be far worse.

Perhaps the biggest surprise is not that President Bill Clinton has not been very energetic to challenge China's emerging command of the Panama Canal. Those familiar with other Clinton Administration "policy" initiatives towards China - if we can use that word policy - will understand what is happening.

The surprise is not the Clinton Administration's policy towards Communist China, nor the fact that this Committee has witnesses from the Administration to tell you how wonderful everything is at Panama, and fear not.

For me, and for many others who have been highly dissatisfied with the U.S. policy towards Panama, the surprise and the disappointment has been the utter failure, so far, of the co-equal branch of government, the Congress, to demand answers to the questions being raised today, to demand accountability, and to assert its status as a partner in the creation of U.S. policy.

Perhaps that is now going to change, with today's Armed Services Committee. Chairman Warner and Senators, I hope and pray this is the beginning of a change in U.S. policy. I hope and pray that you see fit to devote substantial investigative resources to this matter. I hope and pray that you see fit to question and then to change, U.S. policy towards Panama. Thank you for hearing me out.

Admiral Thomas H. Moorer, USN, (Ret.) has served as Commander-in-Chief of the Pacific Fleet; Commander-in-Chief, Atlantic and Atlantic Fleet; Chief of Naval Operations (CNO), and Chairman of the Joint Chiefs of Staff of the United States. In recent years, he has spoken out on issues relating to the national defense of the United States, including service as the Honorary Chairman of the 80 members of the Retired Military Officers Advisory Board of the National Security Center.