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GAO Review of Economic Sanctions Imposed Against Panama

Statement of
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Before the
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Policy and Trade, and
Western Hemisphere Affairs,
Committee on Foreign Affairs,
House of Representatives

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Mr. Chairmen and Members of the Subcommittees:

We are pleased to be here today to discuss the results to date of our examination of U.S. economic sanctions against Panama. Our work was performed at the request of Representatives Sam Gejdenson and Bill Alexander and Senator John F. Kerry. Although we have not completed our evaluation, we are providing today information on U.S. policy objectives in Panama and the imposition of economic sanctions to achieve those objectives.

U.S. OBJECTIVES AND SANCTIONS

U.S. national security interests in Panama have traditionally centered on the security and effective operation of the Panama Canal and on U.S. military base rights in Panamanian territory. Over the last several years, however, Panama's role in international drug trafficking has become an important aspect of overall U.S. national security concerns.

U.S. interests have led successive administrations to work cooperatively with Panama's military dominated governments, which have been in power since 1968. However, in the summer of 1987 this traditional relationship began to change due to the gradual public disclosure of the activities of General Noriega and the Panamanian Defense Forces (PDF) regarding their relationship with the civilian government, drug trafficking, and corruption. These activities, coupled with public demonstrations in Panama against General Noriega and his regime, convinced the administration that action by the U.S. government needed to be taken. Despite the emerging problems with General Noriega and the PDF, cooperation of Panamanian officials in the operation of the Canal continued, as did unfettered use of military bases in Panama, and sources for intelligence information to the U.S. Drug Enforcement Administration and others. As a result, within the administration, opinions differed on what needed to be done.

Beginning in the summer of 1987, the administration articulated a series of U.S. policy objectives for Panama that included establishing civilian democratic rule by eliminating PDF control over the central government. Other stated objectives included restoring the constitutional liberties of freedom of the press, speech, and assembly; curtailing the alleged involvement of General Noriega and the PDF in drug trafficking and other corrupt activities; and diminishing PDF domination over traditional civilian authorities such as control of ports, aviation, immigration, customs, and all police functions. By February 1988, the indictment of General Noriega on drug trafficking and racketeering charges led U.S. objectives to become specifically identified with removing General Noriega from power.

The U.S. approach to resolving the Panamanian situation was largely unilateral until May 1989, when the United States sought the involvement of the Organization of American States. The United States has attempted to place severe budgetary pressures on the

Noriega regime by imposing economic sanctions without unduly hurting the economy and by April 8, 1988, it had

-- suspended all U.S. economic and military assistance to Panama;

-- taken action to effectively cut off all official loans from multilateral lending institutions to the Noriega regime;

-- suspended Panama's sugar quota and trade preferences available under the Caribbean Basin Initiative (CBI) and the Generalized System of Preferences (GSP);

-- assisted Panamanian President Delvalle in freezing Panamanian assets in the United States which ultimately led to the closure of domestic Panamanian banks in March 1988; and,

-- undertook to suspend all payments to the Noriega regime from the Panama Canal Commission, the trans-isthmus pipeline, and all direct and indirect payments by people and organizations in the United States and U.S. citizens and organizations in Panama.

EVENTS SURROUNDING THE IMPOSITION OF ECONOMIC SANCTIONS

U.S. economic pressures on Panama were triggered during the summer of 1987 in response to damages incurred during a June 30 riot at the U.S. Embassy in Panama City. The United States suspended all economic and military assistance to Panama until payment for the riot damage was made. Also during this time, political unrest in Panama was growing and as public demonstrations against the Panamanian government grew and were forcibly subdued, resumption of U.S. economic and military assistance became conditioned on the restoration of basic civil liberties and respect for human rights. U.S. economic and military assistance, worth $14 million in fiscal year 1987 and an estimated $32 million in fiscal year 1988, has not been resumed.

In December 1987, the Foreign Operations, Export Financing, and Related Programs Appropriations Act for 1988 (P.L. 100-202) enacted into law the termination of economic and military assistance, suspended Panama's sugar quota, and directed U.S. representatives to multilateral development banks to vote against any loans to Panama. Under this law, removal of the sanctions required that the President certify that (1) the government of Panama had demonstrated substantial progress to assure civilian control of the armed forces, (2) an impartial investigation into illegal actions by members of the PDF was being undertaken, (3) conditions for free and fair elections had been established, and (4) freedom of the press and other constitutional guarantees had been restored. The President has not yet certified that these conditions have been met and the sanctions have not been lifted.

U.S. Economic Pressures Intensified In 1988

In February 1988, U.S. relations with Panama worsened when federal grand juries in Florida indicted General Noriega, charging him with drug trafficking and racketeering. President Eric Arturo Delvalle's subsequent attempt to dismiss General Noriega failed, resulting in his own ouster by Noriega supporters in the Panamanian National Assembly. While in hiding, Delvalle initiated legal action to gain custody of an estimated $35 million to $40 million in Panamanian assets in the United States. The Department of State recognized Delvalle as the legitimate President of Panama and advised U.S. banks not to disburse funds to the Noriega regime. Based on the standing given Delvalle by the administration, U.S. courts then issued restraining orders that affected the freeze and gave the Delvalle government control over the funds.

On March 11, 1988, the President, in further response to the ouster of Delvalle and the selection of Manuel Solis Palma as acting President of Panama, announced a program to reduce the flow of U.S. dollars to Panama. This included requiring that all payments due to Panama from the operation of the Panama Canal Commission be deposited into an escrow account established at the Federal Reserve Bank of New York and announcing that CBI and GSP trade preferences would be suspended (actual suspension took effect on April 9, 1988). On March 31, 1988, the administration directed that all U.S. government payments due to Panama be placed in the Federal Reserve escrow account.

On April 8, 1988, additional sanctions were imposed by Executive Order 12635 under the authority of the International Emergency Economic Powers Act (IEEPA) and the National Emergencies Act. The IEEPA sanctions blocked all property and interests of the government of Panama in the United States and prohibited all direct and indirect payments to the Noriega regime by people and organizations in the United States and by U.S. citizens and organizations in Panama. The practical effect of these additional sanctions was to add U.S. firms to the total sanctions package. Tax and trade-related payments denied to the Noriega regime by U.S. firms were to be deposited into a separate Federal Reserve Bank escrow account.

Immediately after announcing the imposition of IEEPA sanctions, the administration began developing exceptions to them. Even before Treasury issued its June 3, 1988, regulations for implementing IEEPA sanctions, exceptions were announced and 46 were eventually granted. In addition, on January 3, 1989, Treasury amended its regulations so that U.S. firms operating in Panama were no longer required to deposit funds into the Federal Reserve escrow account but could choose to deposit them into a bank account of their own choosing or record them as unfunded liabilities on their books.

On April 6, 1989, President Bush extended the IEEPA sanctions and their accompanying exemptions. On May 11, after the Noriega regime's attempt to invalidate the national election, the President included the continuation of economic sanctions as part of a seven-part plan designed to support Panamanian democracy and protect U.S. citizens and U.S. interests in Panama. For the first time, the President called on the Organization of American States for support. Attachment I provides a chronology of events leading to the current status of U.S. actions in Panama.

EFFECTS OF ECONOMIC SANCTIONS

As of July 17, 1989, a total of $296.8 million in blocked property and assets were held in the United States--$150.7 million in cash deposited in the Federal Reserve Bank of New York, $79.8 million in other U.S. banks, about $0.2 million in military assets paid for but remaining at U.S. ports, and $66.1 million recorded on the books of U.S. companies as unfunded liabilities.

Three accounts at the Federal Reserve Bank of New York contain Panamanian assets and payments withheld from the Noriega regime by U.S. firms and government agencies. Account #1 was established to pay the operating expenses of the Delvalle government from funds obtained as a result of President Delvalle's March 1988 litigation--$10.2 million in Panamanian assets transferred from assets held in one commercial bank to this account. Account #1 currently contains approximately $936,000. Account #2 consists of payments withheld from the Noriega regime by U.S. firms operating in Panama. As of June 29, 1989, 52 U.S. firms had made 228 deposits totaling $7.2 million into Account #2. Account #3 at the Federal Reserve Bank contains the payments withheld by U.S. government agencies. As of June 29, 1989, nine U.S. agencies had made 204 deposits totaling $129.8 million into this account. The largest contributor to this account is the Panama Canal Commission, which has deposited over $117 million. Attachment II provides details on the status of these assets and accounts.

Authorized Retention of Funds By U.S. Businesses

As of January 3, 1989, U.S. businesses could deposit tax and other payments denied the Noriega regime into bank accounts of their choosing or record the payments as unfunded liabilities on their company books. (These are called Section 509 accounts because they are authorized by Section 565.509 of the regulations implementing the IEEPA sanctions.) However, if a firm chooses this latter approach, it does so with the understanding that Treasury can demand transfer of such funds, including those recorded as unfunded liabilities, into Account #2 at any time. The Section 509 authorization is silent on the conditions under which a "call" will be made; however, Treasury's Office of Foreign Asset Control (OFAC) advises us that this could occur if a firm is found to have violated IEEPA sanctions or if a negotiated settlement of the Panamanian situation is reached.

Firms not choosing to establish Section 509 accounts must continue to place their funds into the Federal Reserve Bank escrow account. About $116 million, or 39 percent, of the assets being denied the Noriega regime by U.S. companies is recorded in Section 509 accounts.

The idea of using Section 509 accounts was suggested by the State Department because of concerns of U.S. companies who were refusing to make deposits in the Federal Reserve escrow account. The firms were concerned that the Congress or the administration might earmark or otherwise channel these funds into some other program, and that companies' tax liabilities to Panama would not ultimately be paid. The future government of Panama would then approach these firms for back taxes, resulting in double taxation. Since OFAC could not provide guarantees that this would not occur, firms were not disposed to deposit funds into Account #2.

OFAC, initially viewing Section 509 accounts as appearing to relax IEEPA sanctions and lessen U.S. resolve, has accepted the concept because reports required on Section 509 accounts provide more information than previously available on the amount of funds U.S. firms are withholding from the Noriega regime. In addition, OFAC stated that, by businesses reporting monthly on the cumulative levels of liabilities and certifying they have no other outstanding liabilities with the Noriega regime, they will be discouraged from making tax and other prohibited payments to the Noriega regime.

As of July 17, 1989, 52 firms had made payments into Account #2 of the Federal Reserve Bank and 30 had been granted approval to employ the Section 509 option. Twenty nine of these have recorded $66.1 million as unfunded liabilities on their books and the remaining company has made deposits of $50.2 million into a bank escrow account. OFAC does not know how many companies are not using Account #2 or Section 509 accounts.

Withdrawals from the Escrow Accounts

Since March 1988, a total of $12.8 million has been withdrawn from the three Federal Reserve Bank escrow accounts. The majority of withdrawals have been made from Account #1 for operating expenses incurred by the Delvalle government under the terms of a letter from State and Treasury to the Delvalle government to ensure that the latter would have sufficient funds to operate its Embassy in Washington and five consulates located throughout the United States. The initial $750,000 monthly disbursements to the Delvalle government was agreed upon based on an estimated operating expense budget, including salaries, rent, utilities, and legal fees, submitted by the Delvalle government in March 1988. Disbursements to the Delvalle government have recently decreased to a level of approximately $333,000 per month.

As of July 17 1989, $9.8 million had been withdrawn from this account. The administration has maintained records of all disbursements to the Delvalle government. Only one disbursement for $1 million appears to be outside the scope of the embassy budget support arrangement. OFAC advised us that it also questioned this disbursement but subsequently certified payment based on assurances by the then Assistant Secretary of State for Inter-American Affairs that the Department of State would assume responsibility for the decision. As of this time, State has not explained the nature and purpose of this disbursement.

We were told an accounting system was established to protect the Delvalle government from any accusations of misuse of funds. According to the State Department, it is not U.S. policy to provide U.S. government oversight over how the Delvalle government spends the money it receives from the United States. The Delvalle government retains a CPA firm to monitor the use of funds disbursed to it from Account #1. According to a representative of the CPA firm, no audit has been performed and neither State nor Treasury have asked for or received an audited statement of accounts. Although a representative of the State Department occasionally reviews the records maintained by the CPA firm, the official U.S. government position on monitoring how money is used is that it is the Delvalle government's money and not subject to U.S. government scrutiny.

Withdrawals totaling $3 million have been made from Accounts #2 and #3 to reimburse four U.S. companies and two U.S. government agencies for deposits made in error. Attachment III describes the extent to which money has been withdrawn and reimbursed from the three Panamanian accounts maintained at the Federal Reserve Bank in New York.

Exceptions to IEEPA Sanctions

In Panama, the United States is in a unique situation in that it has never imposed sanctions in a country where a substantial number of U.S. citizens continued to reside and where the sanctions' objectives did not include encouraging U.S. business interests to leave the country. Early on, the administration realized that exceptions would be necessary to minimize the impact of sanctions on the U.S. business community and thereby allow it to operate in Panama.

The amounts deposited by U.S. firms and U.S. government organizations into the escrow accounts would have been higher had it not been for the exceptions granted by the administration. Responding to hundreds of telephone calls and letters from the U.S. business communities in the United States and Panama, Treasury authorized 46 exceptions allowing certain types of payments to the Noriega regime. Although many of the exceptions entail small amounts, exceptions for utilities, social security, and import duty fees involved significant amounts of payments. (See attachment IV.)

We do not know the amount of revenue these exceptions permitted. However, a May 1988 State Department estimate, made one month before the issuance of IEEPA guidelines and exceptions to these guidelines, indicated that about 25 percent of the funds that could potentially be denied to the Noriega regime from U.S. business interests, U.S. government operations, the Panama Canal operations, and the trans-isthmus pipeline would be allowed if the exceptions contemplated at that time were approved. Based on information contained in this study, later decisions to exempt social security payments, port fees, and import duties would raise the expected value of the exemptions to over 50 percent of the funds that could potentially be denied to the Noriega regime.

Enforcing IEEPA Sanctions

In issuing Executive Order 12635, the President imposed the IEEPA sanctions and authorized the Secretary of the Treasury "to take such actions, including the promulgation of rules and regulations, and to employ all powers granted to me ... as may be necessary to carry out the purposes of this order." The Secretary of the Treasury delegated these functions to the Director, Office of Foreign Asset Control. Penalties for willful violation of any license, order, or regulation issued under IEEPA include a fine of up to $50,000 and imprisonment for up to 10 years.

Prior to January 3, 1989, U.S. firms were required to withhold certain payments and deposit them into escrow account #2 at the Federal Reserve Bank of New York. It appears that little was done to ensure that U.S. firms' operating in Panama made the required escrow payments into Account #2.

From April 8, 1988 through December 31, 1988, U.S. firms in Panama deposited $30.8 million into Account #2 and one commercial bank account. According to a June 1988 study by the U.S. embassy in Panama, after exceptions U.S. firms would have been expected to withhold from the regime between $105 million and $114 million during April to December 1988. Based on this study, the administration would have had ample warning that small deposit levels into account #2 would not be consistent with sanction expectations. While we were unable to determine exactly how much should have been deposited into these accounts, it appears that much more should have been deposited to Account #2.

For example, in October 1988, Treasury queried 9 firms doing business in Panama and was advised that while they had withheld $33.6 million from the government of Panama, they would not deposit the funds into the Federal Reserve escrow account for reasons previously discussed. Also, information was available from the U.S. Embassy in Panama and other sources to OFAC describing schemes being employed in Panama to avoid the IEEPA sanctions. For example, Panama's Finance Minister issued an order in June 1988 to get U.S. firms not to negotiate Panamanian government-issued checks, and to consider the value of those checks as tax payments. Some U.S. firms reportedly bought such checks at less than face value and, by not cashing them, could claim the face value as tax payment. Companies complying with this alternative tax plan were given automatic extensions on tax payments due and the Finance Ministry waived late fees, fines, and interest payments. Another scheme involved the purchase of tax credits. In the past the government of Panama had issued tax credits to companies involved in non-traditional exports. Some of the companies receiving these credits, which could not use all they received, sold the credits on the open market. One U.S. company operating in Panama accumulated a large value of these tax credits and is reportedly holding them to offset its tax liability.

According to OFAC, enforcement should not be judged by amounts deposited into Account #2 but by the denial of cash to the Noriega regime. Based on the reported amounts held in escrow accounts and verbal assurances from U.S. firms in Panama, OFAC believes that revenues have been denied Noriega and that it has adequately enforced the sanction provisions. Furthermore, it is OFAC's position that actively pursuing U.S. firms' compliance with IEEPA provision would in effect make Treasury a tax collector for the Delvalle government. Staffing limitations (the one OFAC staff person available to handle sanction activities in Panama is also responsible for sanction activities imposed against Nicaragua) partially dictates OFAC's capacity for enforcement.

OFAC advises that it will investigate allegations brought to its attention and says it has conducted numerous inquiries. OFAC has further advised us that at least 16 complaints are under investigation at this time, but refused to discuss their status with us on the basis that they are open cases and have the potential to result in criminal charges.

The U.S. Customs Service shares enforcement duties with OFAC. In examining U.S. monthly trade data from the Department of Commerce, we found that since the announcement in March 1988 of the suspension of Generalized System of Preferences and the Caribbean Basin Initiative trade preferences, $3 million in products, primarily bananas, covered under the Caribbean Basin Initiative trade preference provisions of the sanctions entered the United States in 1988. This compares with $16.9 million imported under CBI and GSP in the first quarter of 1988. We have discussed this with U.S. Customs Service officials but have not yet determined why these products were allowed into the country. However, a preliminary inquiry by Customs indicates that a violation of the sanctions may have occurred.

Cash and Revenues Denied the Noriega Regime

As a result of an already declining economy and the direct and indirect effects of U.S. economic sanctions,[1] the central government's revenues in 1988 approximated $600 million, or about $480 million less than the 1987 revenues of $1.08 billion. Although it is impossible to determine the precise impact attributable to the sanctions, we estimate that about 26 percent, or $125.4 million, of this $480 million reduction was directly due to sanctions. This is represented by $112.9 million deposited into blocked accounts and an estimated $12.5 million reportedly withheld by 9 U.S. firms[2] in Panama as of December 31, 1988. This does not include $45.1 in Panamanian funds blocked by the United States and held in commercial banks at that time. The indirect effects of U.S. sanctions are difficult to determine, but economists in Panama working with State Department economists estimate that up to 40 percent of the economy's decline is due to the direct and indirect effects of U.S. sanctions.

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[1] Direct effects are measured by the revenues withheld from the Noriega regime by the sanctions. Indirect effects stem from the reduced government expenditures on goods and services and the resulting reduction in business activity and employment.

[2] The Department of the Treasury told us that a mid-October 1988 survey of 9 U.S. companies revealed that $33.6 million in taxes and trade-related payments were being withheld from the Noriega regime. These funds were being retained by the firms and not deposited into the escrow account at the Federal Reserve Bank. Of this amount, we were advised that the government of Panama had directly offset $21.1 million in debts it owed these firms for previously provided goods and services. This results in a total of $12.5 million in purchasing power being denied to that government.

A major step taken by the Noriega regime to compensate for reduced revenues was to drastically reduce its spending by more than 50 percent in 1988, to $800 million. Specifically, the regime ceased making payments on its foreign debt, thus avoiding interest expenses of $250 million (figures on principal payments avoided are not available). In addition, the regime reduced investment expenditures by 79 percent by avoiding such things as infrastructure improvements and repairs. However, it continued to pay the salaries of the Panamanian Defense Forces and government workers.

Still, the government was operating at a $200-million deficit in 1988 and it took an additional series of actions. It issued small denomination, semi-negotiable checks to supplement cash salary payments to the PDF and civil servants. These checks could be used for only such limited purposes as tax and utility payments and, as a result, they began to circulate as a form of money, often traded at discounted rates. In essence, the regime developed a parallel monetary system. Additionally, to circumvent the sanction against U.S. firm's paying the regime the income taxes withheld from their employees' pay, in May 1988 the Noriega regime required the firms to pay employees their gross wages. The Panamanian employees would then be able to pay income taxes directly to the government.

The regime also was able to extract an indeterminable amount of payments from U.S. firms; for example, the regime would offset its financial obligations to U.S. firms for goods and services it received by applying payments to the tax debt owed by the U.S. firms to the regime. It would also send PDF officials to collect sales and other taxes directly from selected U.S. firms or from suppliers to those firms. OFAC considers these activities as a circumvention of the IEEPA sanctions. According to OFAC, some firms have changed their tax withholding processes in violation of the sanctions and are under investigation.

It is difficult to determine the extent to which these activities restored the Noriega regime's purchasing power. We are not aware of any recent studies by the administration or others addressing this issue.

<u>How did the economy and U.S. businesses fare?</u>

The Panamanian economy is in a major depression, having declined by 20 percent in 1988 with a doubling of unemployment to 23 percent. All sectors of the economy have been affected. Compared with 1987, new construction is down by 78 percent, electricity consumption by 21 percent, tourism by 35 percent, imports by 44 percent, exports by 17 percent, and industrial production by 23 percent. The public's pessimism and lack of confidence are reflected by the capital flight of more than $1.5 billion between June 1987 and

September 1988, the liquidity crisis and depositor run on the banks, continuing restrictions on cash withdrawals from savings accounts, and a 93 percent reduction in private sector investment. Based on U.S. embassy data, the State Department advises that private economists in Panama have predicted that a continuation of the current political and economic crisis will cause a further 4 to 8 percent drop in gross domestic product in 1989.

Officials of the State Department's Panama bureau believe Panama's economic depression is a direct consequence of the continuing political crisis and precedes the imposition of sanctions. It believes that U.S. economic sanctions have exacerbated the depression and may be directly responsible for about one-fifth of the 20 percent decline in the Panamanian economy. We were told by a State Department economist, however, that if the indirect multiplier effects of the sanctions were included, the amount of the decline attributed to the sanctions could be as high as 40 percent.

U.S. business interests in Panama in 1988 did not escape the effects of the sanctions. According to an American Chamber of Commerce survey, employment in U.S. firms declined by 17 percent and sales by 26 percent in 1988. This poor performance of U.S. firms appears to be due to the general decline in economic activity, partially driven by the indirect effects of sanctions, rather than to the direct effects of the sanctions. However, the potential impact on business was lessened by the numerous exceptions granted which allowed firms to continue operations.

American firms have complained that the impact on business is greatly disproportionate to the amount of revenues these sanctions can deny the Noriega regime. They warn that many U.S. private sector interests in Panama are reaching the point of closing down operations. They believe that the longer the sanctions remain in effect, the greater the chance that U.S. firms in Panama will fail. We are unaware of bankruptcies or closures due to these sanctions, but U.S. business sources advised us that up to three major U.S. firms have moved their central distribution centers out of Panama.

THE COST OF RECONSTRUCTION

Mr. Gejdenson, you asked that we comment on the cost of reconstruction. It is difficult to estimate the cost, because any reconstruction program will include clearing external arrearages with official lenders and commercial banks, restoring private sector confidence and investment, public investment in infrastructure, and reducing high levels of unemployment.

The magnitude of Panama's current arrearages suggests that recovery will take several years. At the end of 1988, total arrearages to multilateral and commercial banks were $1.5 billion, with a projection of $2.4 billion at the end of 1989. There is the potential of rescheduling the majority of the arrearages with commercial banks. However, about $650 million in direct payments will be required to place Panama in a position to generate new money from the multilateral sources. Panama will need substantial new credits from these sources to finance recovery, investment, and growth. A recovery of public and private investment and the rebuilding of domestic financial institutions may require a restoration of these traditional sources of external finance.

Mr. Chairmen, this concludes my written testimony.

Attachment I

Summary of Key Events in U.S. - Panamanian Relations

6/07/87 Col. Roberto Diaz-Herrera accuses General Noriega of stealing the 1984 elections and directing the murder of a political opponent.

6/26/87 Senate passes S. Res. 239 expressing the "Sense of the Senate" concerning support for human rights and the evolution of genuine democracy in Panama. S. Res. 239 was never approved by the House or enacted.

6/29/87 Supporters of Noriega attack the U.S. embassy.

7/01/87 The government of Panama is informed that future U.S. assistance will be held up until riot damages are paid.

7/10/87 Opposition demonstration is put down with what the United States views as excessive force.

7/22/87 The United States freezes aid to the government of Panama pending the payment of $106,000 for riot damages.

7/26/87 Media censorship is imposed as three opposition newspapers are closed and other media are censured.

7/29/87 Panama presents a check in payment for the riot damages.

8/04/87 The <u>Miami Herald</u> reports that General Noriega has become the focus of a grand jury investigation of drug trafficking.

8/06/87 S. 1614 is introduced. This bill would stop all U.S. assistance to Panama until a civilian government is established and human rights are restored. S. 1614 was modified and incorporated as Section 570 of P.L. 100-202.

8/06/87 The United States announces it has no plans to lift the suspension of aid to Panama.

9/24/87 The Senate adopts a "Sense of the Congress" amendment to the DOD Authorization Act that the United States should restrict aid to Panama, a non-binding version of S. 1614. This was modified and incorporated as Section 1403 of P.L. 100-180.

 Attachment I

12/01/87 The government of Panama orders the closure of the AID mission in Panama.

12/04/87 P.L. 100-180 (National Defense Authorization Act, Fiscal Years 1988 and 1989) is enacted. This includes a Sense of the Congress statement that the United States should restrict assistance, suspend shipments of military equipment, and consider terminating the sugar quota for Panama.

12/22/87 P.L. 100-202 (Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1988) is enacted. This suspends U.S. assistance, prohibits funding of joint military exercises, suspends Panama's sugar quota, and instructs U.S. representatives to multilateral development banks to vote against loans to Panama.

12/30/87 Panama's National Assembly passes legislation to restore press freedoms.

2/04/88 Grand juries in Tampa and Miami indict General Noriega and others on charges of racketeering, conspiracy, and drug trafficking.

2/25/88 President Delvalle attempts to dismiss General Noriega as PDF commander.

2/26/88 Panama's National Assembly dismisses President Delvalle.

2/29/88 S.J. Res. 267 is introduced. This recognizes Delvalle as the democratic President of Panama, urges economic sanctions to further democracy, and the restoration of civilian rule in Panama. S.J. Res. 267 was neither approved by the Senate nor enacted.

3/01/88 President Delvalle issues a proclamation which calls for the freezing of all Panamanian assets outside of the country and the boycott of all payments to the government of Panama. He initiates legal action for custody of Panamanian assets in the United States.

3/01/88 The administration does not certify Panama as "fully cooperating" in the war on drugs, but it stops short of imposing the discretionary sanctions of the Anti-Drug Abuse Act of 1986.

3/02/88 The State Department announces that the United States regards Delvalle as the legitimate President of Panama and advises U.S. banks not to disburse funds to the Solis Palma government.

3/03/88 Temporary restraining orders are issued against four U.S. banks to prevent the transfer of funds to the Noriega regime. Additional orders are later issued against New York and Miami banks.

3/03/88 S. 2143 is introduced. This calls for a complete trade embargo against Panamanian imports and exports, prohibits U.S. banks from transferring funds to Panama, and calls for other economic and financial sanctions as long as Noriega remains in power. S. 2143 was neither approved by the Senate nor enacted.

3/04/88 Panama's banking commission closes banks for 9 weeks because of a cash shortage.

3/09/88 H.R. 4126 is introduced. This calls for escrowing the upcoming $7.0 million Panama Canal Commission payment due Panama. H.R. 4126 was neither approved by the House nor enacted.

3/10/88 H. Res. 399 is passed by the House. This recognizes Delvalle as President and calls upon the administration to consider future economic and political sanctions to encourage the re-establishment of civilian rule. H. Res. 399 was neither approved by the Senate nor enacted.

3/11/88 The administration announces that it will impose a package of economic sanctions against Panama. While the sanctions package is being developed, President Reagan directs that Panama Canal Commission payments due to the government of Panama be placed into an escrow account.

3/16/88 Unsuccessful coup attempt against General Noriega.

3/18/88 The United States begins negotiations with General Noriega.

3/18/88 The United States begins sending 600 military reinforcements to Panama.

Attachment I

3/21/88	During negotiations, Noriega offers to resign before the May 1989 elections. This is rejected by the United States.
3/23/88	The President formally rescinds Panama's preferential trade privileges.
3/25/88	The Senate passes S. Con. Res. 108. This recognizes Delvalle as President of Panama, urges General Noriega to step aside, and urges U.S. economic sanctions if Noriega remains. S. Con. Res. 108 was neither approved by the House nor enacted.
3/31/88	Reports surface that after consulting with the State Department, three U.S. firms make over $3 million in cash tax payments to the Noriega regime.
3/31/88	Corporate taxes, based upon last years earnings, are due in Panama.
3/31/88	The Senate passes S. Res. 403. This urges the use of powers contained in the International Emergency Economic Powers Act (P.L. 95-223) against Panama. S. Res. 403 was neither approved by the House nor enacted.
3/31/88	The administration announces a plan to stem the flow of U.S. Dollars to Panama. This plan -- places all U.S. government monies owed Panama into an account at the Federal Reserve Bank and -- urges individuals and corporations to make payments to similar accounts.
4/01/88	The Pentagon announces that another 1,300 troops will be sent to safeguard the Canal.

 Attachment I

4/08/88 The President issues Executive Order 12635 and imposes the IEEPA sanctions. Major points include

1. blocking all property and interests in payments of the government of Panama that are in the United States,

2. prohibiting all direct and indirect payments by all people and organizations in the United States to the Noriega/Solis government, and

3. prohibiting all direct and indirect payments by all U.S. citizens and organizations in Panama, including U.S. branches and subsidiaries.

4/15/88 U.S. Chamber of Commerce in Panama informs Treasury that U.S. businesses are paralyzed or closing down because of the sanctions.

4/29/88 The White House announces a number of exemptions to the IEEPA sanctions. The United States will now permit certain payments to the Solis Palma government.

5/17/88 The Senate approves amendments to the fiscal year 1989 DOD Authorization Bill which (1) bans U.S. aid to the PDF until Noriega has been removed as its commander and (2) expresses a sense of the Congress that no deal should be made with General Noriega which involves dropping the drug indictments. This was enacted as Section 1302 of P.L. 100-456.

5/25/88 Negotiations with General Noriega are terminated.

6/03/88 Treasury issues rules and regulations for implementing Executive Order 12635.

6/10/88 The President announces that Panamanians carrying out the policies of the Noriega/Solis government will be barred from the United States.

6/23/88 Treasury amends rules of June 3, 1988, to allow the payment of social security taxes to the Noriega/Solis government.

8/24/88 Treasury further amends rules of June 3, 1988, to allow the payment of additional business-related fees.

 Attachment I

9/27/88	President Solis Palma condemns U.S. "aggression" against Panama in speech at the United Nations.
9/29/88	P.L. 100-456 (National Defense Authorization Act, Fiscal Year 1989) is enacted. This (1) bans U.S. aid to the PDF until Noriega has been removed as its commander and (2) expresses a "Sense of the Congress" that no deal should be made with General Noriega which involves dropping the drug indictments.
10/01/88	P.L. 100-461 (Foreign Operations, Export Financing and Related Programs Appropriations Act, 1989) is enacted. This continues the foreign aid restrictions imposed by P.L. 100-202 for fiscal year 1988.
1/03/89	Treasury further amends rules of June 3, 1988, to authorize a substitute procedure for payment to the Federal Reserve Bank escrow accounts.
3/01/89	The administration does not certify Panama as "fully cooperating" in the war on drugs.
4/06/89	The President extends the IEEPA sanctions.
4/07/89	Panama announces the arrest of a U.S. citizen, Kurt Frederick Muse, and accuses him of operating a clandestine anti-government radio and television network.
5/07/89	Panamanian national elections are held and result in charges of fraud by the opposition.
5/09/89	The President declares the elections fraudulent and calls for international pressure for Noriega's resignation.
5/10/89	Massive demonstrations and violence in Panama. Opposition candidates are beaten before TV cameras.
5/10/89	Citing international interference, the government of Panama election tribunal invalidates the May 7 elections.
5/11/89	The President announces that an additional 1,881 U.S. troops will be sent to Panama to protect U.S. citizens and property.

Attachment I

5/17/89 OAS Foreign Ministers meet and adopt a resolution condemning General Noriega and, in effect, asking him to step down. A three-man mission will visit Panama and report back by June 6, 1989.

5/24/89 OAS mission meets with General Noriega.

6/06/89 OAS agrees to extend deadline for negotiations with General Noriega to July 19, 1989.

6/30/89 P.L. 101-45 (Supplemental Appropriations for the Department of Veterans Affairs, Fiscal Year 1989) is enacted. Section 405 is a "Sense of the Senate" that the President should not appoint a new Panama Canal Commission Administrator until he certifies that a democratically elected government is in place in Panama.

7/20/89 After two days of meetings, the OAS instructs its negotiators to help the Panamanian factions negotiate "a transfer of power by September 1 and the holding of free elections as soon as possible."

Attachment II

Summary of Frozen Panamanian Assets and Accounts
(as of July 19, 1989)

Federal Reserve Bank of New York:		
Account # 1 (Government of Panama)	$ 935,797.35	
Account # 2 (U.S. Companies)	7,260,266.20	
Account # 3 (U.S. Government)	142,521,601.37	
		$150,717,664.92
Blocked and Frozen Government of Panama Deposits (as of 6/30/88)		29,619,082.78
Blocked Tangible Property		183,000.00
Self-Escrowing Companies (Section 509):		
Book Accounts (29)	$ 66,092,075.29	
Bank Accounts (1)	50,206,483.65	
		116,298,558.94
TOTAL		$ 296,818,306.64

Attachment III

Summary of Activity Within the Panamanian Accounts
at the Federal Reserve Bank of New York
(as of June 29, 1989)[3]

Account #1:

Deposits (6)	$10,243,734.52
(+) Interest Earned	521,218.49
Amount Available	$10,764,953.01
(-) Withdrawals (15)	9,832,226.13
(-) Reimbursements	--
BALANCE	$ 932,726.88

Account #2:

Deposits (228)	$ 7,416,561.34
(+) Interest Earned	433,302.24
Amount Available	$ 7,849,863.58
(-) Withdrawals	--
(-) Reimbursements (1/5)	658,912.90
BALANCE	$ 7,190,950.68

Account #3:

Deposits (204)	$ 129,836,870.94
(+) Interest Earned	7,525,719.14
Amount Available	$ 137,362,590.08
(-) Withdrawals	--
(-) Reimbursements (2/2)	2,350,959.58
BALANCE	$ 135,011,630.50

[3]This represents the latest transaction specific data available from OFAC and may not coincide with the July 17, 1989 data totals presented in Appendix II.

Attachment IV

Exceptions Granted by Treasury to the IEEPA Sanctions

1. commercial license fees
2. communications purchase and sale
3. corporate registration fees and taxes
4. court pleading fees
5. creation of rights fees
6. copyright fees and taxes
7. custodial fees and services
8. document processing fees
9. escrow accounts (Section 509)
10. fiscal stamps
11. health certificates
12. immigration fees
13. import duties and import related expenses
14. indirect taxes (e.g., excise and sales taxes)
15. inspection services
16. international banking licenses
17. landing fees
18. legal fees
19. licencing fees
20. litigation costs
21. mineral extraction fees
22. municipal taxes
23. new product fees
24. notaries' fees
25. occupational risk insurance fees
26. parking meters
27. passport fees
28. patent fees and taxes
29. payments by individuals, all except income taxes
30. plant inspection fee
31. port fees
32. quarantine fees
33. radio and television registration fees
34. recordation fees
35. social security payments by corporations
36. stamp taxes
37. telecommunications and mail fees
38. towage fee
39. transportation tolls
40. trademark fees and taxes
41. travel related payments
    (a) departure and ticket fees, and
    (b) landing and fuel fees
42. utility payments
43. vehicle registration fees

Attachment IV

44. visa fees
45. warehouse storage fees
46. work permits

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