

STATEMENT  
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FOR WESTERN HEMISPHERIC AFFAIRS

BEFORE  
THE SENATE ARMED SERVICE COMMITTEE

ON  
"THE SECURITY OF THE PANAMA CANAL"

Friday, October 22, 1999

Introduction

Mr Chairman, thank you for this opportunity to discuss the views of the Department of State on this important issue. Our interest in the security and smooth operation of the Panama Canal will not end on December 31, when it is transferred to full Panamanian authority. The Senate recognized this in 1978 during debate on the ratification of the Panama Canal Treaty. The record of that debate demonstrates that the Treaty negotiators and the Senate, exercising its obligation to provide advice and consent on the Treaty, contemplated the same issues we are discussing today. Since 1979, four administrations, two Republican and two Democrat, with bipartisan support from members of Congress, have worked with the Government of Panama to ensure that the provisions of the Treaty were fully observed in accordance with their terms and original intent. This administration takes very seriously the continued security of Panama and the Canal and its commercial importance to the U.S. and other countries in the hemisphere.

We have examined closely reports of threats to the Canal's security, such as those related to possible Chinese influence and the activities of armed bands from Colombia operating in eastern Panama. In all of these cases, we have determined that there are no imminent threats to the Canal's security.

That said, both we and the Government of Panama remain concerned about potential future threats to Canal security. For that reason, we have entered into high-level discussions on ways we might assist the Government of Panama to maintain its sovereignty over the Canal.

## Panama Canal and Chinese Influence

In 1996 the Government of Panama initiated a process to privatize the operations of ports at both ends of the Canal. U.S. firms believed that the bidding process which the Government of Panama adopted adversely affected their opportunity to win the concession to operate the ports. Despite vigorous attempts by the U.S. Ambassador to persuade the Government of Panama to reconsider, a concession was awarded to a division of the Hong Kong-based company Hutchison-Whampoa (H-W) to operate the ports at Balboa on the Pacific coast and Cristobal on the Atlantic coast. Other concessions to run a container port and a roll-on/roll-off port on the Atlantic coast were granted to the U.S. company Stevedoring Services of America and the Taiwan company Evergreen respectively. Later a consortium of Mobil Oil Company and Alireza petroleum of Saudi Arabia was granted a concession to use part of the former U.S. Rodman Naval Station.

Since that time, several official U.S. entities, including a Senate Foreign Relations Committee Staff delegation, the Federal Maritime Commission at the behest of six U.S. Senators, and other USG agencies have reviewed what transpired during the bidding process. These studies concluded that, though the bidding process for this concession was unorthodox, there did not appear to be discrimination against U.S. companies under U.S. law because U.S. companies won other port concessions in Panama.

As a result of concerns about the integrity of the bidding process, the U.S. Intelligence Community also explored alleged links between Hutchison Whampoa and the PRC and possible Chinese influence over the Canal. After reviewing the results of this study, we have concluded that the presence of Hutchison-Whampoa in Panama and the ports of Balboa and Cristobal does not represent a threat to Canal operations or other U.S. interests in Panama. For the most part, Hutchison's operations are limited to loading and unloading and storing cargo containers; they are also developing port facilities, with a view toward making Cristobal the hub of their operations in the Pacific Ocean - in much the same manner, I understand, that the Bahamas are their hub in the Atlantic.

We have also explored concerns that H-W is a front for the government of the People's Republic of China. We have found no information to substantiate that allegation. Hutchison-Whampoa is a multi-billion dollar enterprise that

has operated in Hong Kong for more than 150 years. It continues to operate there under the terms of the agreement that made Hong Kong an autonomous entity of the PRC. H-W is a publicly traded company listed on the Hong Kong and London indexes. Through publicly available information, we have been able to ascertain that neither Hutchison-Whampoa, nor its subsidiaries Hutchison Port Holdings (HPH) and the Panama Ports Company (PPC) have any significant investment from mainland China. Within the corporate structure, PPC is run out of Featherstone, England and not out of Hong Kong, and its senior management is made up of British, New Zealand and Australian nationals. Its work force in Panama is virtually 100% Panamanian; to the best of our knowledge, there are no Chinese nationals working for H-W in Panama. While it is true the company is involved in commercial joint ventures with Chinese companies, these appear to be commercial relationships only and the companies involved have no say in the operation of H-W or its subsidiaries.

I understand that there are some concerns about the involvement in H-W of Mr. Li Ka-shing. 49.0 percent of H-W's shares are held by Cheung Kong (CK) Holdings and 34.9 percent of CK's shares are held by Mr. Li, the world's 10<sup>th</sup> wealthiest man and a person with contacts not just in Beijing but in No. 10 Downing Street as well. We have seen absolutely no indication that Mr. Li has participated in H-W's strategic planning with regard to the Canal.

There also have been questions raised about Panamanian "Law 5," the so-called "contract with the nation" that governs activities in Panama of the Panama Ports Company. There is nothing secret about Law 5; it was published in the Panamanian *Gazeta Oficial* -- its Congressional Record -- and we have a copy. In studying the terms of the contract contained in Law 5, we have not been able to substantiate any of the allegations made about it. To wit, it does not give PPC any role in determining which ships will pass through the Canal or in which order they will travel; it does not give PPC any control over Canal pilots, and it does not supersede Panamanian constitutional or treaty law regarding the Panama Canal Treaty.

Law 5 does give PPC an option on the former Rodman Naval Station. However, that option expires in April 2000 and PPC is apparently not inclined to exercise it because of technical difficulties. Meanwhile, as I noted, a consortium of Mobil Oil and Alireza petroleum has moved in to part of the Rodman facility. It is also true that Law 5 allows PPC to modify roads in the port area. These provisions in no way affect U.S. security interests.

It also bears noting that the ports, while they are located at either end of the Canal, are not "gateways" to the Canal. Ships do not have to pass through the ports to enter the Canal. Port and Canal traffic can and does coexist without conflict.

Finally, I reiterate that the terms of the Neutrality Treaty bind both us and the Panamanians to guarantee that the Canal remains open to peaceful transit by vessels of all nations on an equal and neutral basis.

Moreover, the Panamanian National Constitution confers solely upon the Panama Canal Authority, an autonomous public entity, the function of operating and administering the Canal. Therefore, barring a constitutional amendment, responsibility for the operation of the Canal will continue to be vested in the Panama Canal Authority.

### **Threats Emanating from Colombia**

Regarding the activities of Colombian guerrillas, paramilitaries and drug traffickers in eastern Panama, specifically in the Darien and San Blas regions, we follow these activities closely. I would note that the presence of these groups is not new. They have operated in these areas for decades in spite of a strong U.S. military presence in Panama. That said, we share the Panamanian government's concern about the activity of these groups. President Moscoso raised the issue with President Clinton during their October 19 meeting. We already had begun planning for bilateral consultations with the government of Panama on a wide variety of concerns from social issues to the security of the Canal. Those consultations will begin in earnest in the coming month. Based on a strategy and a needs assessment from the Government of Panama, we plan to move forward with efforts to assist that government to manage the security issue.

On the other side of the border we are working with the government of President Pastrana on his "Plan Colombia" through which he hopes to gain the upper hand in Colombia's decades-long struggle with insurgency and criminal activity. To the extent that Colombia is able to subdue the drug traffickers and thereby cut funding to the guerrillas with whom they cooperate, we will be able to address any threats posed to the Canal from that source.

Mr Chairman, as I noted at the outset of this hearing, this administration is fully aware of the concerns the Congress has about the continued secure operation of the Panama Canal. We stand ready to keep you informed of all potential threats to that operation. We will remain vigilant. At this time, however, we do not see that any such threats exist.

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