

General PARKER. We will fill in some of the details I did not want to cover on the progress of these projects.

Although priority for use of a limited capacity canal ought to go to those willing to pay the higher tolls, the basis on which the tolls are paid—net tonnage, gross tonnage, flat rate, whatever—determines who can get the most economic benefit from the canal and be willing to pay higher tolls.

Consideration of a change in our tolls basis, such as our contemplation of UMS, will require a thorough examination of the resulting economic advantage or disadvantage for different ship types, and an evaluation of the objectives which the canal should pursue in making a selection.

I expect to discuss this with you when our study on adoption of UMS has been completed.

We have touched on a number of facets of canal management in recent years, and I would like to summarize our record since the Panama Canal Company was created by an act of Congress in 1951.

In a little over 20 years the tonnage through the Canal has tripled; the work force has decreased by approximately 23 percent; the average wage has increased by approximately 350 percent.

Two hundred million dollars have been plowed back into capital improvements to keep the canal ahead of traffic requirements.

Forty million dollars have been returned to the Treasury.

The Company, without using any appropriated funds, has paid its portion of the annuity to Panama over the years, interest on the investment in the canal (now about \$13 million annually), and the net cost of the Canal Zone Government every year (now about \$30 million).

The average ship goes through faster in spite of the traffic increase. And the price of a ship to transit has not been raised.

I think that the record speaks for itself.

Thank you.

Mr. LEGGETT. Thank you very much, Governor, for a very comprehensive statement.

It is a Friday afternoon, but business like this has to be transacted.

I have a number of questions I want to ask, but I do want to recognize at this time our very patient Representative from Maine, Mr. Peter Kyros, who is very interested in the canal operations.

I will direct that your full prepared statement appear in the record at this point.

[The full prepared statement follows:]

PREPARED STATEMENT OF GOVERNOR OF THE CANAL ZONE,
MAJ. GEN. DAVID S. PARKER

Mr. Chairman and members of the Committee, I appreciate your invitation to bring the Committee up to date on the operational activities of the Panama Canal. Your concern for operations cuts through to the Canal's main reason for existence, and I am happy to be able to address myself to that area.

I am accompanied today by Mr. Thomas M. Constant, Secretary of the Panama Canal Company; and Mr. Philip L. Steers, Jr., the Company's Comptroller.

For the record, I would like to point out that I am a career officer of the US Army Corps of Engineers, serving as Governor of the Canal Zone by appointment of the President, and ex officio as President of the Panama Canal Company. I assumed this position in March 1971.

Previously I had been assigned to Panama Canal duty on two other occasions, from 1952 to 1954 as Military Assistant to the Governor and during the period

1963 to 1965 as Lieutenant Governor, and Vice-President of the Company. It is from this background of associations with the Panama Canal operation over 20 years that I want to share with you some perspective on Canal operations.

I will use as a point of departure the last detailed presentation on Canal operations to this Committee, on April 22, 1970. That presentation was directed to the outlook or the 1970's regarding traffic, capacity, and tolls. This morning I will discuss those three topics in the light of Canal operating philosophy and the significant events of the intervening three years. Please feel free to interrupt me if any item needs clarification. I'll be using some colored slides which I can make available in black and white for inclusion in the record.

First, traffic. Traditionally, the measure of Panama Canal activity has been the annual number of transits. Over the years this figure has been an accurate barometer of the ups and downs of world commerce, with growth during the 20's, a dip as the depression took effect, and more or less steady growth since World War II.

Before going into details of current transits, let me make two comparisons. The first shows the change in vessel registry between 1952 and 1972. This reflects not only the trend toward flags of convenience—Liberia and Panama—but also the resurgence of Japan in the shipping world.

For the second set of comparisons, let's look at some other statistics. Total ocean-going commercial transits in 1952: 7,324. In 1972: 14,238. Now let's look at the work force for those years: 1952: 18,239; 1972: 14,985. There are several factors involved here: the Canal organization has given up some supporting activities as Panama has developed the capability to provide things, and technological improvements have eliminated some positions and made others more efficient. But equally important, Canal workers have met the rising workload with rising individual productivity. The increase in productivity has been enough to permit the Canal organization to absorb all of the very dramatic pay increases during this period without any increase in tolls.

I cannot appear before you on the subject of Canal operations without praising the skill and dedication of the thousands of workers, both Panamanian and U.S., who have given the Canal a 59-year reputation for dependability. You will see as my presentation unfolds that the Canal will be even more dependent upon them as traffic increases. We are training Panamanians on many levels to move up on this team, and our U.S. citizen employees are sharing their skills and their knowhow.

I am concerned about statements that have been made in the past about the attitudes of our U.S. citizen employees. It is unfair to judge them without considering first their dedication to the Canal operation. For them it is not just another job, but an engineering and management task of major importance to world trade, and they are determined to do it well. Further, they live in relatively modest circumstances in spite of occasional journalistic reports about luxurious living. And their hobbies and pursuits take them throughout Panama, in contrast to comments that they live in isolation. Many of the foremost reference books on the birds, gem collecting, molas, huacas, and other interesting features of Panama have been written by residents of the Canal Zone. You would have to hear the amount of Spanish our U.S. employees speak—though its quality might be somewhat dubious—to appreciate how much of an effort they make to be a part of their Isthmian environment. At the same time, they never forget why they are there; they feel that the Canal is too important to too many people in the world to be just another job.

To return to the matter of annual transits through the Canal, let us look at ocean-going commercial transits for fiscal years 1970 through 1972, and the projected traffic for the current year. We see last year's drop in traffic, resulting from strikes in both the U.S. and Japan, the Japanese recession, and the winding down of our involvement in Viet Nam. Now, for the first nine months of fiscal year 1973 we see recovery from the Japanese recession as well as the impact of the increase in grain movements to the Far East and a new movement of petroleum to the Atlantic from the recently opened Ecuadorian oil fields.

The tolls revenues associated with the transits show a different reaction:

	Fiscal year—			
	1970	1971	1972	1973 (estimate)
Ocean going commercial transits.....	13,658	14,020	13,766	14,020
Related tolls revenue (in millions).....	\$94.7	\$97.4	\$98.8	\$112.0

In spite of the dip in transits in 1972, tolls revenues went up. At the rate we are running for fiscal year 1973, transits will be back up to the 1971 level, but revenues will be almost \$15 million higher than that year.

What this reflects is the accelerating change taking place in world shipping, a shift toward bigger and more specialized ships, like the automobile carrier, *Dyvi Pacific*, designed to serve specific trade routes, and built big, *Dyvi Pacific*, *Gay Lussac*, *Kowloon Bay*, *Sankosun*, *Star Acadia*, and *San Juan Prospector*.

This new look in Canal traffic is such a profound change that we put out a special edition of the Panama Canal Review featuring the new ships. We have some with us today for you.

15. Let me elaborate on the specific effects of this trend in terms of the Panamax class vessel, the ship that was designed to utilize the maximum dimensions of the Panama Canal. The average laden toll for one of the giant container ships is \$40,000. It is estimated that one of these container ships can replace 3 to 5 of the old cargo ships depending on the specific trade route. For comparison, 5 average general cargo ships would pay a total of about \$28,000 in tolls.

16. This replacement (or displacement) of smaller ships by bigger ones is happening today. In FY 1971 the average toll paid by ocean-going commercial vessels was \$6,946; in FY 1972 it was \$7,175; and for the first nine months of FY 1973 it is \$7,960. With the average ship bigger, the Canal can put through a given volume of cargo in fewer transits. The impact of this is that even though cargo shipments increase as predicted, the Canal will see a slower rate of growth in number of transits than we predicted in 1970.

For the Panama Canal this is both good news and bad news. The good news concerns the Capacity Improvement study reported in 1970. That study set up a series of improvements that could be made to the Canal on a step-by-step basis to improve its capacity up to about 27,000 ships a year. You'll recall we are presently putting through about 14,000. These incremental improvements are keyed to increases in the number of transits so that the timing of capital outlays can be tied directly to demand. The good news is that as the bigger ships slow the rate of growth in numbers of transits, the longevity of each level of capacity is extended, generally stretching out the need for initiation of each improvement further into the future. This is particularly important for our water supply.

The bad news is that the bigger ships are harder to handle in the Canal, seriously increasing the potential for mishap. They need more tugs, more lock locomotives, and more care in the locks and in the Cut. They are not just a little more trouble.

There is an additional factor, a complexity factor, that increases the possibility of error in handling them.

At the same time the high density of traffic, and the urgent pace of world commerce leave less margin for error than at any time in the past. For example, the large container ships run on weekly schedules and time their arrivals at ports within hours to meet unloading facility schedules.

In contrast, consider an event of 1915, a year after the Canal first opened. On September 18, 1915, the opposing banks at East Culebra and West Culebra slid into the Canal and blocked it. Most of the ships waiting for transit diverted immediately or in the next few days, some to go around the Horn. But there was a passenger and cargo steamship of the Salvador Railroad Line called the *Acajutla*. On December 20, 1915, when they had cleared enough of the slide to permit passage of working barges, the *Acajutla* was still waiting, so they squeezed her through. A two-month wait. In the light of today's pace, the story is almost unbelievable.

That 1915 slide kept the Canal closed to traffic nearly seven months until April 15, 1916. Since 1931, the Canal has not had an extended interruption for any cause, despite continued slide activity and increasing accident potential. For an operation this complicated, I think that that is an outstanding achievement. The dependability of the Canal is taken for granted. It is not realized that the Canal depends upon employee skills and sound engineering to avoid blockages, outages, overhauls, or tie-ups that would interrupt trade along the Canal route and result in a cut in Canal operating revenues that could never be made up. Because these dangers have multiplied with the advent of the bigger ships, the Canal organization has been implementing what for this presentation I might call a "Capacity Assurance Program", designed to reduce the possibility of error and blockage throughout the transit process.

The most vital element in the operation of the Canal is its workers. The Capacity Assurance Program has as its main thrust providing them with the necessary information, the necessary techniques, and the necessary skills to help them avoid errors that could slow down or interrupt traffic. Part of the effort is to use the old hands to train new ones in the special skills needed to run the Canal. To

retain these unique skills we give every bit of support we can, every incentive. As the size of ships increases, the flexibility and resourcefulness of the individual worker will become more and more important, and the Canal must attract and retain the best people available.

Some recent experiences will serve as perfect demonstrations of the constant danger of blockage, of the value of having people trained to react quickly, and of the necessity for having workers well grounded in their unique skills so we can recover quickly from mishaps. On December 6, 1970, the Nationalist Chinese ship *Sian Yung* struck the bank and started to sink in the channel. The Panama Canal pilot aboard and nearby tug responded instantly, and managed to get the ship out of the channel and grounded near the bank, leaving an effective channel of only 300 feet. You can see by how little we missed having the Canal blocked. We called in a salvage contractor to refloat it. After 22 months and 4 attempts, and after calling on our people for their expertise, resourcefulness, and hands-on help, they managed to get it refloated and the Panama Canal Company then towed it out to be sunk at sea. We refer to it as our longest transit.

An earlier incident was potentially even more serious. In February 1968 the Japanese bulk carrier *Shozan Maru*, 742' x 104', 55,000 DWT, struck the bank on a turn into the then 300' wide section of Gaillard Cut. The banks there are all rock, so the pilot could only keep her in the channel and try to make it through the Cut into Gatun Lake before she took on too much water, but she grounded in the Cut. That is to say, she sank; but when a ship has only 5 feet of water under her keel when she's afloat, she can't sink very far. She blocked the channel completely. The Panama Canal was closed. Within a couple of hours compressors were being moved into place to pump air into the bow of the ship to rise it off the bottom. 18 hours and 20 minutes after she went down with the hole in her bow you see in this picture, she was floated the last mile out of the Cut and traffic began moving again. By their quick action, Canal workers prevented the loss to shipping that would have resulted if ships had had to face a delay of several weeks.

Two sidelights on this: The project to widen the Cut from 300' to 500' was completed in August 1970, so that the fatal rock is no longer there. The rock cost the Canal nearly a million dollars, which was the amount of the claim sustained against the Panama Canal Company by the owners of the *Shozan Maru*. One of the Canal's best pilots was in command of the ship, a man of years of experience. But the *Shozan Maru* was one of the early big ships, and the complexity factor got ahead of the pilot. An error in judgment of seconds was all that it took.

I referred clear back to 1968 on that accident because I wanted to show you one that actually blocked the channel. We have ship accidents every year. In fact, in 1970 we had twenty-five of them serious enough to warrant convening an investigating board and taking testimony. In 1971 there were another twenty-five, and last year there were thirty-nine. We had one less than a month ago that could have been serious, but it turned out that the ship wasn't damaged at all. It plain got stuck in the mud. The Motorvessel *Cepehus*, 560' x 85', with a 34' draft, lost her steering on a turn in Gatun Lake, and continued to turn until she ran into the bank, almost perpendicular to the channel, but not affecting traffic.

Fortunately, there was no ship coming from the other direction at the moment the *Cepehus* crossed the lane. We sent tugs to her assistance immediately, but she was stuck fast. There was an obvious lump of mud under her port side so we sent in the dredge to reduce it, and then put four tugs and a crane boat on her to try to pull her off. She wouldn't budge. Her bulbous bow acted almost like a barbed arrowhead. We tried again the next day after dredging a trench forward along most of her port side, and used six tugs, but still no luck. Then we dredged a trench along her starboard side, used an anchor barge to carry her anchors out to give her some leverage, put five tugs and the crane boat to push and pull in various combinations, and revved up her engines first forward and then in reverse, and finally she came off the bank. We checked her out thoroughly and she had no major damage, so she continued on her way the next day. The master signed a release accepting responsibility for the steering failure and we'll be able to bill her for the direct costs of the rescue effort.

Information about ship handling characteristics can be vital to a pilot. Under the Capacity Assurance Program the Canal is putting the computer to work to supply the information requirements of the transit operation, as well as make reports to management. Dubbed the "Ship Data Bank", the computer-based system became operational on October 1, 1972. It will permanently store in computer memory and make available as needed 240 separate data items, including 145 items on ship characteristics such as beam, length, tonnage, operating peculiarities, and special

Canal requirements such as number of tugs needed. The other 95 items of information relate to each transit or Canal port call the ship makes, and include tolls paid, lockage times, and cargo information broken down into 26 ship types, 124 commodity classifications, and 150 possible places of origin and destination. The bank daily produces pocket-sized print-out cards on each ship arriving, for working use by pilots and boarding officers; also information in other formats for use by Canal admeasurers and ship schedulers, and for tolls billings.

In addition, the Ship Data Bank is accumulating a library of detailed information about traffic and cargo movements through the Canal. Analysis of this information assists us in forecasting traffic and planning operations. In 1970 we reported on the tolls study that was made to predict the probable effects of a tolls change on Canal traffic. That was run on the computer using traffic data collected manually on a one-time basis, covering 3,812 ships. The Ship Data Bank has already accumulated much more detailed information on 6,000 ships, and is adding new ones at a rate of 1,200 a year. The results of the tolls study as reported in 1970 appear to be still valid, but the new information will be used in our analysis of the possible effects of the adoption of the Universal Measurement System, which I will address more specifically later.

Further automated backup of operating personnel is under development. The Panama Canal exerts tighter control over the ships using the Canal, and necessarily so, than any other major waterway. We have our own pilots in command of the ships. They are in constant touch with the Marine Traffic Control center, which uses a manual system to match traffic and resources as well as is humanly possible. Two projects are under way to give them computer assistance: one to provide a working schedule as a starting point for the dynamic process of control and another to give traffic controllers instant information on the status of all ships and resources, and to permit rapid transmission of information to all elements interested in the transit activity.

No single continuous activity affects the effectiveness of Canal operations more than the Marine Traffic Control function. Economic utilization of pilots, deckhands, lock crews, tugs, launches, admeasures, dredges, and docks is dependent upon the ability of MTC personnel to schedule and coordinate the use of available resources.

Under the present manual system there is a lack of timely and accurate transit information; a lack of some tool to correlate existing data and perceive changes; and a lack of a way to rapidly disseminate decisions, information, and schedule changes. The new system, which has been described as minimally automated, will provide a computer-generated display for our marine traffic controllers, reflecting scheduled and actual times for all of the important elements of the transit process. The frequent and massive changes that come up even during normal operations will also be promptly communicated by the system to the locks and other field users. The system will also provide a display of the approximate position of ships in the Canal as identified by the order and direction of transit, such as 6-N for the sixth northbound ship of the day.

Both the Marine Traffic Control System and the Ship Scheduling System will utilize information from the Ship Data Bank. The scheduling system is expected to be in operation the latter part of calendar year 1974, and the traffic control system is scheduled for operation in mid-1975. With completion on the three interconnecting computer-based systems, the Canal will have made a major step toward maximum utilization of existing Canal resources and further reduction in the potential for accidents.

Sophisticated technology is also being used under the Capacity Assurance Program to eliminate physical hazards. For instance, radar is under study for use in the increasingly crowded conditions of the anchorages in which ships await their turn to transit, around the pier areas, and in the Cut under fog conditions. The Company is also studying and experimenting with various fog dispersion techniques to see if there is any way to avoid the restricted capacity during the hours of fog in Gaillard Cut.

Gaillard Cut gets a great deal of attention because it presents many possibilities for things to go wrong. Delicate measuring instruments are being used in a Bank Stability Surveillance Program, which will be fully implemented by June 1977, to detect the slightest movement of the banks toward the Canal. Ever since the Canal was under construction, slides have been a problem in the Cut. Just last month the instruments in the Cucaracha slide area detected a movement and the area was treated with lime. This will reduce the water content underground and will slow, or hopefully, stop the slide.

In September 1972, before the surveillance program had been extended to the affected part of the Cut, the biggest slide in a decade suddenly moved into the Canal and restricted the 500-foot channel to a safe width of only 300 feet. I am happy to report that our employees came up with a new idea on the use of a derrick barge and they were able to clear the channel completely in less than a month, with no serious delays to Canal traffic.

As I indicated a few moments ago, in the latter part of 1970 we completed the major program for widening Gaillard Cut from three hundred to five hundred feet. With that job out of the way, we began looking toward deepening as a way of attacking the interrelated problems of draft and lockage water. You know that each complete lockage uses 52 million gallons of fresh water from the level of Gatun Lake. Near the end of the rainy season when there is plenty of water, we can permit a draft of 39'6".

During the Panamanian dry season, which usually lasts from mid-December through about the beginning of April, there is little or no rain, and though we augment the water in Gatun Lake with impounded water from Madden Lake, we still have to start drawing down the level of Gatun Lake. It becomes necessary to institute draft restrictions. That costs the big ships money. Two years ago when we began to review this situation and study the bottom contours, I realized that the channel had never been completed to what we call "project depth," which is the depth specified in the original design. Most of the channel was at or below project depth, but there were high spots up to two feet high here and there along the bottom, and they were the ones limiting the draft for the whole Canal. With more big ships there was a good reason to go after the extra two feet we could gain by just getting rid of the high spots. With the concurrence of the Panama Canal Board of Directors, we embarked on a deepening program to be carried out in connection with normal maintenance dredging. It was carefully structured to eliminate the high spots in the center 300' of the channel.

In these two years we have, by this method, dropped the limiting bottom down one foot, and expect to drop it the second foot by the end of this month. And not a moment too soon, either. When the rains stopped and the dry season began in December, both Madden and Gatun Lakes were less than completely filled, and this has been a long dry season. By virtue of the deepening, we expect to be able to hold the draft limitation at 37', instead of the 35' that would have been necessary.

For several years now, work has been in progress to eliminate a special kind of outage: the need to take a lane of locks completely out of service for overhaul of the gates, valves, and other machinery. When I first came to the Canal in 1952, the overhaul had to be done in the dry. This meant that the Canal lost the use of the whole lane of locks for about five weeks every year. The usable capacity of the Canal was far below its working capacity. Canal engineers have now minimized this limitation on capacity by the development of new techniques.

The technique for overhaul of the miter gates is that instead of working on the gates in the lock, the engineers take advantage of the fact that the designers of the Canal provided a second set of gates in most chambers. Using a big crane, they float a gate out of the lock and overhaul it in the drydock. Once the gate is ready and its new dimensions known to within a thousandth of an inch, the lock is dewatered for about five days to replace the wear parts where the gate is to be hung on the lock wall.

For the repair of valves, which are located in the culverts, the engineers devised a system to dewater the culverts without taking the lock out of service. Each lock is filled through lateral culverts in the lock floor from two main culverts, one in the center wall and one in the side wall. It is possible to isolate the center wall culvert and work the lock with water through only the side wall culvert, and vice versa. This is done by either plugging the ports in the lock floor or bulkheading the lateral culverts where they enter the main culvert, and then draining the main culvert. With sufficient parts and properly trained people, all the work for valves on that side of the lane can be done in six days. During that time the lock is operating, more slowly because the water is filling and emptying the chamber with only half the usual speed, but still operating.

Thus, the old five-week lane outages have been eliminated. Coupled with this, the engineers have also reduced the frequency of overhauls by the use of corrosion-resistant materials and by dramatically slowing corrosion with the use of cathodic protection devices. Wherever there is metal in water, and more especially so in salt water, the metal corrodes by an electrochemical reaction. In the lock gates, the engineers reverse the natural reaction by applying a low voltage electric current to the gates. The circuit runs around to some old locomotive wheels placed

on the bottom of the lock. The wheels give off ions into the water to complete the circuit, and the wheels corrode instead of the gates. Every once in a while the wheels have to be replaced, but the frequency of overhaul for the paint surfaces of the miter gates has been considerably lengthened. With similar protection for bearings and valves, and the new overhaul techniques, the engineers have freed up more than 50% additional capacity. The development of this concept of reducing maintenance time was of such significance that the team of Canal people who worked on it and other management improvement projects were officially recognized by President Nixon.

The piers at Balboa and Cristobal under Canal control are essential to the economy of the Republic of Panama, and it is my feeling that as long as we have control over these ports they should be administered to give Panama the fullest benefits that commerce can bring.

Under this operating philosophy we are negotiating for container handling facilities, presently with SeaLand and in the future with other companies. We have, during the past two years, made a somewhat more formal effort to be responsive to users of the Canal and the ports, meeting with local agents of shipping lines to exchange ideas. It is obvious that Panama has the location to be one of the great transshipment points in the growing container revolution, and for this reason the Panama Canal Company is taking these initial steps.

Now let me turn to the subject of tolls. To introduce the subject, I will quote from the 1970 presentation:

"Congress has established the legal basis for our toll rate in the following section of the Canal Zone Code: Tolls shall be prescribed at rates calculated to cover as nearly as practicable, all cost of maintaining and operating the Canal. * * * That is a pretty straightforward statement. The canal is required to run on a break-even basis. The law required us to raise tolls if, and only if, we are unable to meet expenses. * * * Under the formula, no toll increase has been necessary through the life of the canal."

In these days of inflation such price stability is as unique as the Canal itself. Actually, out of this toll rate the Canal has been able to finance its daily operations as well as the capital improvements that were necessary to increase capacity as traffic volume increased. I feel that as long as we make every effort to include all our operating costs in determining the toll rate, we are carrying out the Congress' intent in holding the line on tolls.

For the present budget year, fiscal year 1973, we foresee no need under the formula for a tolls increase. The management of the Company maintains a continuing study of toll rates. Should the balance between costs and revenue change to the extent that a toll rate change was called for under the formula, the Panama Canal Company would take all the steps necessary under the law.

The House Subcommittee on Department of Transportation and Related Agency Appropriations will review the Panama Canal Company/Canal Zone Government fiscal year 1974 budget this coming Monday in open hearing. To avoid repetition I do not propose to go into details of the financial operations of the Canal, but would like to request that my opening statement to that Subcommittee subsequently be included in the transcript of this hearing.

Related to the subject of tolls is the method of measurement for tolls purposes. Again I will quote from the 1970 presentation:

"The basis for tolls is stated in the Canal Zone Code: 'Tolls * * * shall be based on net-vessel tons of 100 cubic feet each of actual earning capacity * * *'."

"Simply, we charge tolls on the basis of the enclosed space which can be used to carry cargo and passengers. The unit of measurement is not the short ton, nor the long ton, nor the metric ton, but a measurement ton, the arbitrary assignment of the term 'ton' to a certain amount of space—in this case, 100 cubic feet. It is known as the Panama Canal ton."

"To determine the tonnage for tolls, the canal takes the total enclosed space, which is called gross tonnage, and deducts the space which, according to Panama Canal rules is used for working the ship, such as engine room, fuel tanks, and crew quarters, to arrive at the Panama Canal net tonnage. The ship then pays tolls on this tonnage—90 cents per Panama Canal ton if at all laden, even if carrying only a quarter load; 72 cents per Panama Canal ton if carrying absolutely no cargo or passengers, that is, in ballast. Nonmercantile ships, for example, warships, dredges, floating drydocks, pay 50 cents per displacement ton."

"The two ships shown on this slide are typical of those that transit the Panama Canal. You will note that the *Polarstern* has a Panama Canal gross tonnage of 6,924 tons and a Panama Canal net tonnage, after exclusions, of 4,492 tons, and pays laden tolls of \$4,043 . . . and ballast tolls of \$3,324. The *Har Meron* has a

Panama Canal gross tonnage of 30,603 tons, and a Panama Canal net tonnage, after exclusions, of 22,056 tons, and pays laden tolls of \$19,850 and ballast tolls of \$15,800."

In a matter related to tolls, there is a world-wide movement toward the adoption of the Universal Tonnage Measurement System (UMS) as a standard of ship measurement for purposes of charging port and canal fees.

As you probably know, the President's recommendation for ratification of the Universal Measurement System Convention was sent to the Congress in June 1972, with the proviso that acceptance be subject to the Department of State's recommendation that, and I quote, ". . . in the assessment of tolls for transit of the Canal the United States will continue to be free to apply the present Panama Canal tonnage system or to adopt any other basis . . ."

The general conditions for ratification are that UMS will come into force 24 months after acceptance by 25 Government of States whose combined merchant fleets constitute not less than 65% of the gross tonnage of the world's merchant shipping. As of December 1972, the Convention had been ratified by 12 countries whose gross tonnage totals about 45% of the world total. There is a general consensus that ratification will occur within the next two years.

The Panama Canal Company recognizes the convenience of a universal system, and is faced with the administrative problem that the national gross tonnage from which Panama Canal gross and net are presently derived might cease to be calculated by shipyards once the UMS comes into force. This could possibly mean that the Canal would have to measure each new ship from scratch—a tremendous task. The 1970 presentation to this Subcommittee detailed the findings of our original study of the Universal Measurement System Convention. Very briefly, the Convention sets up the UMS as a universal standard designed to approximate, as nearly as possible, existing national tonnages. Therefore, in calculating UMS gross tonnage, which is an expression of the ship's overall size, the molded volume of the hull and superstructure is reduced by a coefficient to bring it down into the range of average national gross tonnage for that size ship. Similarly, in calculating UMS net tonnage, which is an expression of the ship's useful capacity, the volume of cargo spaces is reduced by a coefficient to bring it into line with average national net tonnage, then reduced by a factor that takes into account the position of its load line, and increased by a factor for passenger spaces.

The conclusions of the 1970 study were that the adoption by the Panama Canal of either UMS net or UMS gross as a basis for charging tolls would first of all substantially change the aggregate amount of tonnage available as a base for the assessment of tolls. This would require the Canal to adjust the present rates per ton so as to maintain the same level of revenue regardless of the tonnage used. Secondly, both UMS net and gross would result in tolls against individual ships significantly different from current tolls even after adjustment in rates to equalize Canal revenue. This impact, or a shift in tolls burden among ships, would be substantially greater if UMS net were used as an assessment base than if UMS gross were used.

Our tolls study has pointed out that Canal traffic does have alternatives to the use of the Canal of varying attractiveness to shippers. As that study pointed out, the maximum toll you can charge is limited by the cost of the shipper's cheapest alternatives. Keeping in mind that there is a limit to the amount of adverse shift in tolls burden that each individual Canal user will accept, we are now evaluating the possibility of Panama Canal use of UMS tonnages. First, we are trying to find some method of deriving Panama Canal net tonnages from UMS measures so that we can avoid a dislocating shift in the tolls burden, and yet still take advantage of the convenience of the new standard. In case we cannot find a way to use the advantages of both systems, the study will also weigh the administrative disadvantages of retaining our own nonstandard system against the economic disadvantages of changing the system and shifting the toll burden.

For the Canal, the principal disadvantage is the possibility of revenue loss as a result of more heavily burdened shippers diverting their cargos rather than paying more for tolls. Rates can be adjusted to compensate for such losses, but there are important economies for both world commerce and the Canal in the Canal's being able to spread its revenue needs over the broadest possible base of ships. The known and accepted present system has formed the basis for growth of both world commerce and the Canal. Our hope is that we can find a way to retain the advantages of this economic resonance between the Canal and shippers, while making maximum use of the advantages of the Universal system. If a change is feasible, legislation will be submitted to the Congress for the change. These studies will take several more months to complete.

I had the opportunity to prepare a presentation about the Canal for members of the UN Security Council when they visited Panama last month. In that talk we pointed out that the Canal was far from saturation, and explained some of the ways the Canal could expand capacity up to 27,000 ships a year. We also pointed out that should the Canal approach saturation and no alternative had materialized, such as the third locks or sea level Canal, it would be possible to reduce the level of traffic or demand by raising tolls and driving traffic away. I'd like to ask that that speech be entered as part of the record. It will fill in some of the details I haven't wanted to belabor you with now.

One additional thought about turning away excess traffic as the Canal reaches saturation. Although priority for use of a limited capacity canal ought to go to those willing to pay the higher tolls, the basis on which the tolls are paid—net tonnage, gross tonnage, flat rate, whatever—determines who can get the most economic benefit from the Canal and be willing to pay higher tolls. Consideration of a change in our tolls basis, such as our contemplation of UMS, will require a thorough examination of the resulting economic advantage or disadvantage for different ship types, and an evaluation of the objectives which the Canal should pursue in making a selection. I expect to discuss this with you when our study on adoption of UMS has been completed.

We have touched on a number of facets of Canal management in recent years, and I would like to summarize our record since the Panama Canal Company was created by an act of Congress in 1951. In a little over 20 years:

The tonnage through the Canal has tripled.

The workforce has decreased by approximately 23%.

The average wage has increased by approximately 350%.

\$200 million have been plowed back into capital improvements to keep the Canal ahead of traffic requirements.

\$40 million have been returned to the Treasury.

The Company, without using any appropriated funds, has paid its portion of the annuity to Panama over the years, interest on the investment in the Canal (now about \$13 million annually), and the net cost of the Canal Zone Government every year (now about \$30 million).

The average ship goes through faster in spite of the traffic increase.

And the price of a ship to transit has not been raised.

I think that the record speaks for itself.

Mr. KYROS. Thank you, Mr. Chairman.

I would like to ask Ambassador Ward a few questions, if I may.

Ambassador Ward, let me get this clear for the record.

Originally, what was our treaty with the Panama? Briefly and succinctly.

Mr. WARD. The treaty of 1903 gave us a 10-mile strip of land in which we were permitted to exercise all powers as if we were sovereign, and this is the basis on which we built the canal and are carrying on our operations.

Mr. KYROS. In perpetuity?

Mr. WARD. Yes.

Mr. KYROS. What would you say is the reason that the Panamanians are so dissatisfied with the current treaty?

Mr. WARD. Well, there are many reasons.

One of them is that they believe that they should exercise the full sovereign powers in the Canal Zone.

Another reason is they would like to have more financial benefits from the canal, more cash return, the right to have dominion over the zone lands, and they feel that the treaty in perpetuity is out of date and there should be a termination date in the treaty.

They would also want to limit our defense activities there.

Mr. KYROS. What do our defense activities consist of?

Mr. WARD. Well, we have a number of military installations there.

The principal function they perform is to be there on a contingency basis for the defense of the canal.

There are also some military schools there which are widely attended by officers from Latin American nations, including Panama, and various other military functions.

Mr. KYROS. You said on page 5 of your statement on virtually every major issue in discussions with the Panamanians, there are serious differences. Panama wants a much shorter treaty.

Do I understand they want a complete cessation within 5 years of the U.S. sovereignty in the canal?

Mr. WARD. Well, yes.

I would distinguish the carrying out of sovereign functions from the operations of the canal.

Their amount of time for the Canal Company is about 20 years, but they want to have all of our jurisdictional functions cease within 5 years.

Mr. KYROS. Well, between a demand for a 5-year cessation of our sovereignty and what we intend is our role in perpetuity is one hell of a difference, it seems to me.

What is our position? How are we trying to negotiate this?

Mr. WARD. We proposed a specific termination date for the treaty which is quite a bit further out than the 1994 date proposed by Panama. And we have also said that if these expansion programs could be agreed upon there would have to be some further time to amortize the investment from those expansion projects.

Mr. KYROS. Also, on page 5, you say they want financial benefits that would necessitate inordinately large toll increases.

What does that mean? What amounts are you talking about?

Mr. WARD. The exact amount desired has never been made clear.

We did not feel that a toll increase would conveniently cover a figure a great deal higher than \$25 million but, as I say, Panama has been talking about \$75 million or \$100 million. We do not think tolls could finance that kind of payment.

Mr. KYROS. You also say, sir, on page 6 of your statement that if Panama elects to return to the table and negotiate seriously and compromise, we might reach some sort of a solution.

Have they refused to discuss the matter further because we have not been able to meet their demands?

Mr. WARD. No, they have not refused.

They have made an interim reply to our statement of late February, but they have not notified us that they want to continue with the discussions at this time.

Mr. KYROS. Well, let me ask you this question.

Do you have any advice about coming back to the Congress and negotiating our rights to perpetuity?

Mr. WARD. It is not possible for the executive branch to negotiate away these rights.

The Congress has the last word on it.

The executive branch has tried to make the proposal and see if it can be accepted by Panama, and then the treaty has to be submitted to the Senate, and in Panama it would be submitted to a plebiscite.

Mr. KYROS. Without being chauvinistic on the side of the United States, what are the grounds on which we could possibly negotiate with the Panamanians if they are in such a seemingly intractable position that we must get out in 5 years or so?

Mr. WARD. They have said our Government function should stop within 5 years, and the operation could continue longer.

To answer your question more broadly, I think what we have been searching for on our side all along is some formula that is acceptable to them and to the Congress, but it has been very difficult for us because we have not been able to get under discussion with the Panamanian negotiators anything that appears to be more feasible and within range.

If we are able at some later time to reach some tentative agreements with the Panamanians, then we will have to come to Congress and see if Congress feels it could accept them.

Mr. KYROS. But I have noticed in the papers here recently that the Foreign Minister or Prime Minister has been very hard on the United States.

Mr. WARD. Well, we do not feel that the gap could be closed right at this moment.

Mr. KYROS. Well, if the Panamanians began some kind of activity, militant operations against the canal, what are we going to do then?

Mr. WARD. I certainly do not expect them to do that. I think this Government has been very carefully avoiding anything like this.

Everything has been very orderly, and we do not expect it, but I assume we would have to take the appropriate measures if there were any disorders.

Mr. KYROS. The fact is that the current Panamanian Government has been very carefully organizing its people that, when the time comes, there will be trouble in the canal.

Let me ask you this.

Do we have a plan?

Mr. WARD. There are plans for maintaining civil order in the Canal Zone, and there are police and military forces there that have that responsibility.

Mr. KYROS. From the number of ships that transit the canal it appears that the canal is still of enormous strategic value to our country, is that not a fact?

Mr. WARD. We consider it very important.

Mr. KYROS. Is there not some way we can make a payment to the Panamanians so they will feel we are not exploiting them or taking advantage of an agreement many years ago when perhaps they were not in position to bargain in their best interests?

Mr. WARD. That is, of course, what we are trying to do.

We have made these proposals and we have made and will keep on trying to convince Panama that these are very satisfactory proposals and encourage them to accept.

Mr. KYROS. Thank you, sir, very much.

Thank you, Mr. Chairman.

Mr. LEGGETT. Thank you very much, Mr. Kyros, for your views which, I might say, are reflective of not necessarily all of Congress but a considerable segment of Congress who feel as you do. And I would not assess any percentage on that, but I would hope that everybody here would bear that in mind when they either talk to their governments or talk to whomever they talk to with respect to policy.

Now, we also have another new member of the committee who has been waiting to ask you some questions, Mr. John Breaux, the distinguished Representative from the State of Louisiana.

Mr. BREAUX. Thank you, Mr. Chairman.

Thank you, Mr. Ambassador, for your statement.

I would like to direct your attention to the last time negotiations were held with Panama. At the time we apparently figured they had turned down our last offer.

Did they turn it down by making a counteroffer or was it just a simple no?

Mr. WARD. Well, it was a counterproposal of sorts in that it did specify the terms broadly that Panama would accept for a new treaty. There were various gaps in it. There was not a comprehensive statement, but it did state various things like a termination date and this 5-year period for jurisdiction.

It did not say how much money. It was rather unclear about the expansion of the canal, but it was not simply a rejection, per se.

Mr. BREAUX. Do you consider our offer of negotiations and the proposals made in 1971 generous or more restrictive from our standpoint as opposed to what we did in 1967?

Mr. WARD. I think that the counterproposal—this may seem strange to you—but I consider it more favorable in various ways to both sides.

It is more favorable to the United States because it would stretch out the period in which we could have control over the conduct of canal operations.

On the other hand, it was desirable to Panama in that it would let them play at a much earlier time a big role in the local government of the zone and have more access to zone land for their own economic and other uses.

Mr. BREAUX. What concerned me in the 1967 proposal was that the Corporation proposed to run the canal was to be made up of some Panamanians and some U.S. citizens, is that correct? And in the 1971 proposal, it appears you are going to do it completely through an agency of the U.S. Government.

Mr. WARD. That is correct. That is, the operation would be carried out by the U.S. Government, but many of the governmental functions which would have been done by the Corporation under the 1967 agreement, would be done by Panama under our new proposal.

Mr. BREAUX. Just one other question.

It seems we're talking about a football game. You say it looks like the other team has the momentum.

Do they seem to have the momentum at this point?

Additionally, what do we do now, sit back and wait for things to cool down and then go back with a new proposal, or what is the philosophy behind our game plan?

Mr. WARD. We are waiting to hear from Panama in regard to this statement we delivered in February of this year.

I think we will just have to see if they want to go on with the negotiations and in what spirit they want to carry them on.

That will tell us where to go next, I think.

Mr. BREAUX. Thank you.

It sounds like we are playing defensive ball here.

Mr. WARD. It takes two parties to negotiate, and we are ready if they are ready. And then we will go ahead.

Mr. BREAUX. What effect do you foresee from the construction of huge supertankers on the operation of the canal?

As I understand it, they are now drawing water so deep that they will not be able to pass through the Canal.

General PARKER. There are 800 or 900 already built in the bulk carrier/super-tanker field that cannot go through the Canal.

There are about another 1,200 to 1,500 that have to go through only partially laden because the draft is not enough to take care of them.

By and large, these ships are built for special routes. If the Canal were free and open, they would not come through anyway. Many go from the Persian Gulf around Africa. They are running on special routes.

The Canal itself is not as dependent on the movement of petroleum as, for example, Suez, which is essentially an oil canal.

Each year, more and more traffic will bypass the Canal in the bulk bulk carrier and petroleum field, and to some extent, this lessens the utility of the present Canal.

However, allowing for the bypass traffic, the forecasts are that there will still be a number of ships that the Canal will play a major role in transportation routes well past the end of this century.

The key question for the United States in the utility of the Canal is not so much to the oil tanker, the bulk carrier as it is to the container ship.

The container ship now is not built bigger than one that will go through the Canal. They have designed the container ship specifically for the Canal operation.

We continue to talk to shippers to see what they have next on the drawing board, and they all say, at the present time at least, that they do not, none of them, feel that they are ready to consider a larger type of container ship for a number of practical reasons not related to the canal.

That, then, makes us feel the utility of the canal, that is the present canal, still has a good many years left in it.

Mr. BREAU. Thank you.

Mr. LEGGETT. Thank you very much, Mr. Breau.

Before I let counsel ask questions, I would like to make a few comments and ask a few questions myself.

To begin with, Governor, I want to commend you on your management of the canal and your efficiency of operation there.

Having been down there as your house guest a month ago, I did gain some first hand knowledge somewhat of what is going on down there.

I think sometimes that we have a difficult time presenting the position of the United States, particularly down in the zone, since we do not engage in verbal defense of our positions and actions.

It appears that we publish an in-house newspaper which is essentially a paper that addresses itself to the business of the canal rather than the politics of the canal. And for that restraint, I certainly want to commend you.

But it does place us at a considerable disadvantage as far as putting forth the position of the Panama Canal Co., a wholly owned United States corporation, before the world's press. And we have some of that press here today. I am sorry to see that the representative from the Los Angeles Times left; but he did.

Is it not a fact that the United States should be rather proud of both the construction and the operation of the canal, and also of its flexi-

bility in modifying almost unilaterally the terms of the 1903 treaty a great number of times?

General PARKER. Yes, sir, I think both of those are correct.

Mr. LEGGETT. And particularly under the 1903 treaty we had the powers to, I guess, reform the Government of Panama. We could intervene in the affairs of the Government of Panama. We had power, I guess, of eminent domain virtually at every point where we wanted it, and a considerable number of these rights we have unilaterally forsaken because of good neighborly or perhaps of just good business, both in the Roosevelt administration, and I think, the Truman and Eisenhower administrations; is that not correct?

General PARKER. It is correct we have made a number of adjustments.

However, I think the other side of the coin, it is only fair to say that each one of these cases have come about at a time also on pressure of Panama.

We had not offered them without some suggestions from Panama that these changes were, in fact, due.

Mr. LEGGETT. I understand there has been a squeaking wheel down there, and I did not mean to classify General Torrijos as a squeaking wheel. He is the administrator of a very important country of the world and has certainly done a considerable number of positive things for his people and his country.

But the United States to date has not been concrete on the 1903 treaty, and we have indicated considerable additional flexibility.

Now, let me ask you this.

Have we ever discriminated against any country, any of the Balkan countries during the Korean or Vietnamese Wars with respect to entry into the canal, or discriminated with respect to rates for those vessels?

General PARKER. With respect to rates, there is only one area of discrimination, and that is in favor of Panama and Colombia since their government ships are permitted to transit the canal toll free. That is a minor concession in the treaty arrangements during the construction of the canal.

But, generally, and with respect to all other countries, all ships of the world, whatever country using the canal, pay the same tolls and the same measurement rules.

With respect to the use of the canal itself and the ability to transit the canal as far as I am aware, the canal has never denied transit to any vessel of any nation with one exception, and that was just prior to World War II when there were a few Japanese ships in the Atlantic who were interested in transiting the canal, and their transit was delayed for a few days while the authorities attempted to obtain instructions from Washington as to what was desired.

The Japanese ships, on their own volition, hoisted anchor and sailed, and their transit was not encouraged. But that is the only case I know of of any ships being denied use of the canal except for such obvious reasons as being overdrafted or some problem in arranging for toll payments, but not because of nationality or place of origin.

Mr. LEGGETT. As a practical matter, I do not suspect there were any German battleships that were trying to make a transit during World War II.

General PARKER. No; I do not think they would be interested during World War II. And that has not been put to a practical test.

I might say that the German ships did come to the canal in World War I, however. We had apparently different rulings on engagement in those days, and the large floating crane that we used was built in Germany and brought to the canal in World War I.

Mr. LEGGETT. You have also indicated that personnel employed by the canal have decreased from an 18,000-man level down to the current 15,000 man level in a period of some 20 years of canal operations.

Can you tell us something about the complex or the nationality of that work force during that period of time?

General PARKER. I cannot give you the exact figures.

Generally speaking, the work force today is roughly 75 percent non-United States, principally Panamanian, and 25 percent United States.

We have about 4,000 United States employees and about 11,000 non-United States and Panamanian employees.

Of the reduction in work force during that period of time, the majority of the reduction in force has been in non-U.S. citizens as far as total amounts are concerned.

A number of the activities that we have eliminated, particularly in the early 1950's, such as some of our activities in ship repair, did result in U.S. personnel being displaced from their jobs.

Over that period of time, we have picked up some areas such as school teachers, which we have a great many more of than in 1952, to offset that. I would have to say as far as total employment is concerned, most of the reduction in force has occurred in total numbers among non-U.S. citizens.

The activities in which they were involved did not disappear. For many, the activity was picked up by the private activity in Panama—drycleaning, ship repair, garbage collection in Panama itself.

We used to do that and also take care of the water system. Activities of that sort presumably have resulted in increased employment in Panama for their people.

Mr. LEGGETT. How about with respect to payment of wages to Panamanian and United States personnel in the zone?

How has that evolved through the years?

General PARKER. Our U.S. wages, the wages paid to the U.S. citizens, has been keyed to wage rates in the United States, and they have risen in accordance with those increases in wages. And there have been marked increases, as you know.

Now, with respect to Panamanians, two things have happened, and this is generally not realized and appreciated in Panama.

One is that today a great many more Panamanians occupy positions on what we call the United States wage base; that is, they are paid at essentially the same rate as United States employees.

I have the exact figures on this in the item that I made a matter of record in connection with our United Nations presentation.

We have seen a major movement upward of wage scales for Panamanians due to their going into skills that were previously reserved for United States employees. I do not think Panama realizes this.

The other aspect has to do with the minimum wage. We were paying a premium wage, that is more than wages in Panama in 1952, and we generally did that somewhat ahead of local rates through the 1950's.

But, beginning in the early 1960's before the minimum wage was even applied to the Canal Zone, the administration, under the direction of the Secretary of the Army, initiated a program to bring all wage rates up to the same level as the minimum wage in the United States.

This resulted in practically doubling the rate of pay at the bottom of the scale.

In 1966, by legislation of the Congress, we were brought under the minimum wage and were already embarked on meeting it when that came in.

Mr. LEGGETT. As I recall, of the \$110 million paid in wages in the zone at the present time, I think Panamanians get about \$60 million and the United States personnel get what?

General PARKER. The U.S. citizens get \$50 million.

The exact figures are in the item put into the record.

Mr. LEGGETT. And, of course, that considers that there are considerably fewer United States citizens than Panamanians working, which indicates the United States citizens are making more per capita than the Panamanians.

The President, yesterday in the newspaper, recommended a new minimum wage, escalating it, I think, to \$2.30 an hour, which I suspect is a little better than the Democratic proposals in the Congress. And I do not believe he recommended any exceptions for the Panama Canal Zone.

What effect would the enactment of the minimum wage bill recommended by the President have in the canal and in the spread between Panamanian wages and United States wages?

General PARKER. Well, if the minimum wage were increased to \$2.30 an hour, it would probably increase our cost by about \$6 million.

Very roughly, for every 10-cent increase at the bottom of the scale adds another \$1 million to our payrolls.

Mr. Chairman, this may be too much or too little, depending on how you adjust the wage scales above the minimum.

It could be possibly \$8 million or \$9 million, or possibly be as low as \$5 million.

In addition to my own organization, that would have a very serious effect upon the activities of the Armed Forces, particularly in the nonappropriated fund areas such as with post exchange and service centers where they rely upon local labor to keep some of these activities going.

I cannot give you exact figures, Mr. Chairman, but it would have a very serious impact on it.

There are several other areas where it would have a serious impact in the years ahead.

One is, of course, we feel a number of activities that the Panama Canal Company is involved in should eventually be transferred to Panama.

We would like to work out some sort of arrangement to do this today. If they are taken over by Panama and the jurisdiction is not changed within the current rules, whoever works in the Canal Zone has to pay the minimum wage. If they have to pay the minimum wage, they cannot take these activities over and run them competitively.

We think it would make it rather difficult to get the Government out of business in the Canal Zone. And if we come to a major treaty change that affects jurisdiction, then there is no jurisdiction over

private enterprise, there is going to be such a sharp difference between wages that would be paid by the Panamanian business that takes it over that it would have a marked impact, I believe, on the morale of those people who are involved in it.

There are side issues to this that we think are not desirable.

I feel very strongly that the Panama Canal Company in Panama should pay a premium wage. We should pay more than the local market, but we should not pay two, three, or four times above it.

Mr. Chairman, we are paying common labor—and I do not mean to criticize the common labor—but the lowest skilled employee we have is getting a pay scale today that is equivalent to the competent schoolteacher in Panama.

Mr. LEGGETT. What minimum wage is in effect down there today?

General PARKER. In the Republic of Panama?

Mr. LEGGETT. No. The Canal Zone.

General PARKER. It is \$1.60, but we have very few people at that \$1.60, because they are in the third step of it, and an attempt to be around \$1.68 or \$1.70, and we only have several hundred at the bottom scale.

Our average wage would be about \$2.35 or \$2.40 an hour.

Mr. LEGGETT. If we increased the minimum wage in the zone, the net benefits would go primarily to the Panamanian people?

General PARKER. Almost entirely.

We do not encourage U.S. employees to qualify for those jobs. We prefer to get them locally, and this would result in increased salaries which would be essentially for Panamanians.

Mr. LEGGETT. Has the Panamanian Government taken any position with respect to application of minimum wage rates in the zone?

General PARKER. As far as I know, not in recent years.

In the middle 1960's, I believe the Foreign Minister did submit a letter recommending that we go to the minimum wage. I do not remember if that was the State Department or the Governor. There was some correspondence on it.

There has been no official position that I am aware of.

Mr. LEGGETT. Let me ask you this.

What is your relationship with the Panamanian Government?

How is your contact made and how frequent are your contacts with General Torrijos, and the President, and the other personnel there?

General PARKER. Are you speaking of my organization or me personally?

Mr. LEGGETT. Yes, both.

General PARKER. Well, the organization at the technical levels has daily contact, particularly in the field of utilities, electric power, water supply, in the medical field and some other areas, and in our police activities, what I would call working levels of the organization.

These contacts are on a daily basis and generally the relations are good.

We have had particularly good cooperation, I might say, from the organization that is handling the electrical generation for the Panamanian Government. The cooperation has been outstanding.

At the top levels of government between ourself and General Torrijos and the President, official contacts have been at a minimum.

As a matter of procedure, the United States Ambassador to Panama is the spokesman in Panama for matters involving policy toward Panama, and the contact is made with the Ambassador.

Other actions involving the Canal Zone Government routine items which are not directly foreign policy, one might expect that either I or my principal subordinates would be involved directly with senior officials of the Republic of Panama.

However, this Government has chosen to assume that the Canal Zone Government does not really exist and prefers to operate completely through the Ambassador, or to ignore the existence of our organization.

However, it has not affected items at the working level.

Mr. LEGGETT. Has that created a problem as far as relations with the Canal Zone and the Republic of Panama are concerned; sort of exacerbated the lack of understanding?

General PARKER. Well, I am not aware of a serious overriding problem it has caused.

Mr. LEGGETT. This obviously makes it more difficult for you to conduct your business if you have to go through the Ambassador to effect every single top level contact with the Panamanian Government, is that not correct?

General PARKER. Yes.

But I think many times going through the Ambassador is appropriate.

However, there are occasions, and I am not suggesting this, but there are occasions when it would be helpful if it were facilitated through the Ambassador for me to occasionally meet officially with some of the more senior officials.

I might add that we do occasionally have some informal contacts.

Mr. LEGGETT. Now, you have indicated that there are a number of activities that the canal and the zone are involved in with Panama.

General PARKER. If I may illustrate one type of problem that occurs, this is not with me personally, but the Panamanian Government has taken it to the extreme that they have directed their utility people not to sign a power contract with us because the name Panama Canal Company appears in the contract, and they do not want to recognize an agency of the U.S. Government can operate in the Canal Zone. So I have no contract with the utility in Panama.

Mr. LEGGETT. Now, you obviously are familiar with a number of the treaty modification recommendations that have been made and, of course, I understand that is not your province of negotiation, but let me ask you this.

Are there a number of items that have been suggested in that treaty that are compatible, as you see it, with the effective operation of the Panama Canal as an international waterway?

General PARKER. Yes, sir, I think there are.

Mr. LEGGETT. Let me ask you this. Obviously, there are different friction points between people in the Republic of Panama and the authority in the Panama Canal Zone.

Are we modifying any of those friction points unilaterally at the present time, or are we using them all as bargaining chips to be resolved only at the time of the negotiation of a treaty or executive agreement?

General PARKER. Well, if I understand your question, last summer or fall we were involved in some rather informal discussions with the

Panamanian officials attempting to go over some problem areas to see if adjustments could be made.

We started down one or two adjustments which I think, in terms of jurisdictional concern of the committee here, are relatively minor, but would be relatively helpful to Panama.

These discussions have not continued since late November, and with the difficulties in the treaty negotiations and the Security Council we have not been following a program directed at specifically finding problems of this sort you are talking about.

However, from time to time we do have an incident that comes up that involves a sore point, and when the incident arises we do, of course, attempt to find some way to work it out.

This occurred in connection with the use of old France Field for commercial aviation on the part of Panama. We had some difficulties on this several months ago, and we worked out an arrangement which I think will be satisfactory.

Mr. LEGGETT. I know the Republic of Panama is interested in expanding its commercial activity at or near Cristobal and Colon.

Is there anything taking place to help them in that respect, or is that waiting the negotiation of the new treaty?

General PARKER. There is nothing active on this at the present time.

Again, we are getting into actions that the administration would want to consider as a package. There is nothing I am aware of that would prohibit some assistance in some areas.

This item I referred to, of old France Field, is a very small piece of that, but we are not actively working at anything on that at this time. There is nothing to suggest we would not work on it if the Panamanians brought it up.

Mr. WARD. That is accurate. We are receptive, but it takes two sides to make an agreement of that sort.

Mr. LEGGETT. Well, let me ask you this, Ambassador Ward. It has been suggested that perhaps the tensions between the Republic of Panama and the United States might be measurably lessened were a considerable number of steps taken perhaps bilaterally and perhaps some for consideration, and some otherwise that might be helpful in adjusting the relationship between the parties.

Has the administration taken any view on that, as to whether they want to keep everything in concrete until a total agreement is negotiated, or are they prepared to interact with the Government of Panama pending the negotiation of a treaty, or do you care not to answer that?

Mr. WARD. No, I will answer that, Mr. Chairman.

I think if Panama indicated that it had something in mind in that direction, we would certainly look at it very seriously, give it a lot of thought.

Mr. LEGGETT. If the problem of a road across a portion of the jungle that is in the Panama Canal Zone were a problem, would that be something that the administration would be prepared to talk about irrespective of a negotiation of a totally new treaty?

Mr. WARD. Well, we have talked about that on various occasions, and at different times.

I think we ought to be willing to consider any kind of arrangement like that, and see what we can work out.

Mr. LEGGETT. Governor, we know that all over Latin America we have zealous nationalism which is certainly a spirit that kind of gets us out of traction, and which many people admire, and many find confounding. Outside of this zealous nationalist spirit we find all over Latin America, what would you say would be the major friction points in the Canal Zone, three major friction points between the Zone Government and the Republic of Panama?

General PARKER. Well, I think there is one that is overriding everything else, dwarfs everything else, and it is the matter of jurisdiction within the Canal Zone.

The Panamanians, of course, feel they should have the criminal jurisdiction over their own nationals, and it is understandable that they should feel that way.

They would also like to have it over U.S. nationals and, of course, they would like to have jurisdiction over private business in the Canal Zone.

They feel they are elements of sovereignty which they should exercise, and it is understandable why they would be interested in those, but I would say those override everything else, particularly the first one, the fact that a Panamanian cannot go from the city of Panama up to the town of Arriajan without passing through U.S. jurisdiction is something they do not like.

Mr. LEGGETT. You have indicated that if a number of businesses now operated in the Canal Zone were under the jurisdiction of the Panamanian Government they could be run at a more efficient, effective level.

General PARKER. I am afraid I do not understand.

Mr. LEGGETT. You indicated before there were a number of activities that the Canal Zone is relying upon that are somewhat confounded by the high wage rates the Canal Zone Government is required to pay.

In that respect, were some of those businesses operated by Panamanians, or non-Canal Zone personnel, it would be more to the advantage of both interests, would it not?

General PARKER. Yes, I think so. A fine example is a restaurant in downtown Balboa. We have no desire to run a restaurant, but there is no one else to run it. The Panamanian enterprise cannot run it because it is a new business, and this is waived by Panama, not a business in existence in 1936.

The Panamanians asked themselves not to have any more private business in the Canal Zone. They wanted it outside the Canal Zone borders.

I would much rather have a Panamanian running a restaurant than myself, but in order to run it successfully, not only would that limitation on private business have to be waived by the Government of Panama, but they would have to run it at something other than a minimum wage, or they could not make it competitive.

Mr. LEGGETT. You have indicated there is a problem concerning jurisdiction over Panamanian nationals in the Canal Zone.

Would it be a major threat to the operations of the canal were a Panamanian guard allowed to exercise some traffic controls or possibly control portions of the Canal Zone?

General PARKER. Well, we are getting into rather sensitive areas here.

Mr. LEGGETT. I will withdraw it.

General PARKER. I would say that I think that some changes can be made in jurisdictional responsibilities without hampering the operation of the Canal, but I prefer not to specify in open session.

Mr. LEGGETT. Now, are there activities that you believe should be taking place in the canal with respect to construction and perhaps dredging or improvement, things of that nature that are required for efficient operation of the canal at the present time that you are not undertaking because of the tensions between the two governments?

General PARKER. No, sir; absolutely nothing at this time.

Mr. LEGGETT. Now, there is some indication that one of the long-term solutions for the canal lies in the completion of the project we started during World War II, or the \$80 million-plus we spent on the third locks project.

Do you have any informal views on that, on the third locks project?

General PARKER. Well, I would, of course. My organization participated to some extent in the studies which were submitted to the President in 1970.

Mr. LEGGETT. That is the \$23 million study?

General PARKER. Yes, sir, so I think we were not involved in the main conclusions, and I think I would generally support the conclusions of that study.

The third locks project offers some interesting features in that it would permit you to increase the traffic by about 10,000 ships a year, which would extend the life of the canal for 25 or 30 years, and offers somewhat easier method of navigation.

Most of the people think that a sea level canal is simple because you just ditch and go through it. The initial sea level construction would be a fairly narrow canal with narrow current in it.

However, any lock type canal is extremely vulnerable, and if one is going to make a heavy investment in something like \$1 billion, or \$1.5 billion in another canal, it would not be prudent to put one in that is not vulnerable, and the economic demand is rather difficult to justify.

Barring an economic justification for it, one would say if you are looking at the defense point of view, it is not particularly helpful. The carriers still would not be able to use it.

Weighing all of these factors, it would not appear that as an alternative that it is as attractive as a sea level canal. It does have the advantage of limited possibility of danger to the ecology except that a third locks canal would require additional water supply, and the water supply required for the canal would be so large you would either have to make some very, very expensive impoundments of the magnitude that are not quite clear to me, or we would have to pump sea water back into the lake, which would not have a happy effect on the ecology of Gatun Lake.

Mr. LEGGETT. I suspect that under the laws enacted by Congress, at least as interpreted by Mr. Dingell, the environmental protection standards and the impact statements would apply all over the world for action by the United States.

General PARKER. Yes, sir, we submit those with all our projects.

Mr. LEGGETT. And to get a positive environmental impact statement, pumping sea water into Gatun Lake would not be desirable.

General PARKER. It might cause some problems.

Mr. LEGGETT. Otherwise, considering a sea level canal, an environmental impact statement might be quite a problem there, too. You have already indicated that.

General PARKER. That would provide a great deal of excitement for the scientific community during the period of this discussion as to whether one should build one.

Mr. LEGGETT. So we know what we are talking about. Let me see—the third locks project has generally been costed out, I believe, on a 5 or 10 years aggregate at perhaps \$3 billion. Is that the ballpark figure?

General PARKER. No, sir, that is the sea level project. In 1970 the estimate was \$3 million.

The cost of the third locks project recommended to the President was more nearly \$1 billion or \$1.5 billion. You could get it closer down to that \$1 billion if you forego some of—well, you are talking somewhere in the range of \$1 billion or \$1.5 billion, depending upon exactly what figures you opted for there and the size of the locks.

Mr. LEGGETT. Very good. I think maybe I am going to let Mr. Rountree ask some questions at this point.

You have questions, Mr. Rountree?

Mr. ROUNTREE. One or two very brief ones.

Governor Parker, I am wondering in relation to internal drug control measures, exactly what is your level of funding for, say, fiscal year 1973? Do you consider it sufficient, or are you asking for additional funds, or will that be borne out of your general operating revenues?

General PARKER. Are you speaking of the activity for the control of international narcotics?

Mr. ROUNTREE. Yes, sir.

General PARKER. We do not have, because of the time of budget preparation, we do not have any line items either in our 1973 budget or fiscal 1974 budget for this activity.

We have met the requirements in 1973 by diverting funds from other sources, and we had hoped to find some additional method of financing these funds, particularly out of special funds made available to the President for this program, but so far we have been unsuccessful.

We have not given up on this, but we will be seeking relief in fiscal 1974, and will be discussing this with the Appropriations Committee on Monday.

Mr. ROUNTREE. Fine. I wish you luck.

Did the Canal Zone bear, or assume any of the costs attributable to the United States in relation to the UN Security Council meeting there, and if so, what amount was it, and for what purpose?

General PARKER. We contributed nothing to the expenses in Panama itself.

Of course, the operation in the Canal Zone did involve additional expenditures on our part.

There was a visit to the canal in connection with the people from the Security Council who required additional security, and we had some additional personnel cost.

I do not consider it a significant amount.

Mr. ROUNTREE. But presumably this would not be a cost item, in other words, passed on from the Canal Zone Government directly to the Department of State.

General PARKER. No; nothing of that sort we would attempt to pass on.

We set up a special account to accumulate our cost, but not a large amount of money.

Mr. ROUNTREE. Thank you.

Mr. LEGGETT. Very good. It is too bad with all of us here, including you, Mr. Ambassador, that we cannot sit around here in a businesslike conference with Ambassador Ward and the Governor and resolve what is obviously a very serious matter for the people of the Republic of Panama.

As you can tell from the attendance here today, this is not the most critical issue pending in the United States at the present time. Even so, it is a matter that I think needs to be resolved, and I would hope that we could move forward in a meaningful way with these negotiations.

We heard about the sporting theory of negotiations when Mr. Breaux was talking. Of course, the United States apparently owns the ballpark the way things are right now, but really we are making money off the concessions, and selling the hot dogs and peanuts and the rest of the things, so it appears. I would say, generally, time is on the side of the United States, but I would hope that we would not have to face the things that have happened in the past to move these negotiations along.

I might say I think it is to the mutual advantage of the United States and Panama to forthrightly address ourselves in a meaningful way to a resolution of this conflict.

I would hope that everybody would keep in mind that not only do we have the new spirit in Panama to be concerned with, a new spirit all over Latin America, but we have a very strong gregarious group in the United States that feels very strongly about the treaty of 1903 which I am sure everybody is aware of.

We have a great number of views to desynthesize into some kind of agreement unless we are going to let the law of the jungle operate in this general area, which I do not think is to anybody's advantage.

My own view is that we have done an outstanding job in this century in the construction of the canal. And I take great pride in the operations and management of the canal, and the movement that we have made toward equal opportunity in that project.

Unfortunately, the move has not paralleled the aspirations of the people of Latin America. I do not think it helps us to attempt to resolve the problems of the Canal Zone in conjunction with those of recognition of Cuba or the actions of the international congresses in Chile, or the rights of many countries to copper and oil, or for that matter, certain fishing rights. These are all problems that need to be resolved. They all can be resolved, but they need to be resolved separately, and I think the problems of the Canal Zone are best solved piecemeal, rather than in one omnibus majestic package that may come down the road.

Additionally, I would certainly want to express my formal apprehensions to the State Department that they be very conscious of the

Panama Canal attitudes that are prevalent in the United States at the present time.

I think those attitudes have somewhat changed over the past 10 or 15 years. Ten or 15 years ago we had a great lofty objective where we thought we could redevelop the world and develop a workable alliance for progress in South America, and unfortunately, we end up, as Senator Dirksen said many years ago, with no alliance and no progress, and that is a fact of life.

We have tried to create countries in the image of the United States, and it has not worked out.

I think that many countries seem to work more effectively without all the checks and balances that we have in the United States. A legislature with certain controls over a President and even a right to override sometimes does not work very efficiently around here.

I can well understand the actions of many countries, both in Asia and Latin America, which have taken the steps they have in picking themselves up by the seat of their pants and doing something, and I think there are many well intended people in the United States that want progress both for Latin America and the United States.

They understand the natural forces that take their course; big American corporations and big capability and big technology and expertise do result in a degree of domination which has been tolerated and supported by the laws of many nations for a great many years.

Now, it appears that many people do not like those actions, and they say there may be some policy reversal to take place in the future.

I would hope, Ambassador Ward, if you could maybe take some action with Ambassador Anderson; of course, this is strictly within the province of the Executive; but whatever you do, you are going to have to come back to Congress, and I know you are going to have to come to this committee, and you have a lot of laws that you have to modify and repeal in the event you are going to be successful, and unless you both look behind you and look ahead of you, you are going to make a real mistake.

When and if the Panamanian Government decides to act, over which this committee has absolutely no control, they could make a mistake. I think the State Department must necessarily understand that they have equally as large problems with the United States Senate and with this House as they do with our President, General Torrijos and the Panamanian people and the Zonians who are concerned with the resolution of this problem.

With that very brief lecture I want to thank everybody for coming here today, and I would hope that we did open up lines of communication.

I think one of the things that is bad is that the Panamanian and U.S. efforts to assert mutual exclusive sovereignty over the Canal Zone has led to a certain deterioration of communications between the Republic of Panama and the United States.

I think it has led to a very great degree of vitriolic expression in some of the Latin American newspapers, and although a squeaking wheel sometimes gets greased, sometimes if it squeaks too loud and too consistently, it can lead to diminishing returns for both sides.

I think that is really one of the risks of the Security Council meeting that was recently held down in Panama. I do not see any great Communist influence down there. I do not see any evidence pointing to future Communist domination.

I see polarization of some countries down there, and I think there is a backlash that has been created in the Congress which is going to be felt sooner or later as a result of that Security Council meeting.

Let me say that I hope the negotiations will proceed in a manner that will compensate for whatever loss we have suffered as a result of that meeting, and we can move for a proper resolution of this conflict.

Governor and Ambassador Ward, I want to thank you for coming up here today, and I hope we can move forward toward solution of your problems. I thank you Directors of the Canal Company for coming and regret that there is no procedure in our rules of committee for allowing you to have expressed yourselves or to ask questions.

I am sure the Ambassador from Panama would probably like to ask some questions. As I believe you know, you are about as close to the leadership in the Congress as you are going to get, and I will welcome discussion with you after adjournment. Again I want to thank you all for coming, and I would hope we can all communicate over the weekend and promote hemispheric relations in that respect.

With that, the meeting is adjourned. Thank you very much.

(The following was submitted for inclusion in the printed record.)

APRIL 16, 1973.

HON. LEONOR K. SULLIVAN,
*Chairman, Committee on Merchant Marine and Fisheries, House of Representatives,
Washington, D.C.*

DEAR MRS. SULLIVAN: I would like to amplify my remarks of last Friday as to the position we have taken on United States Government operation of the canal. By the term "operation" I refer to the function involved in operating and maintaining the canal itself and related things such as dams, power supply, etc., as distinguished from governmental functions—courts, policies, and the like.

Although there has been some discussion of liaison and of arrangements whereby matters of concern to Panama may be worked out, it has been our position that a United States Government agency will carry on the operation and maintenance of the canal much as it does today. We have not contemplated that the treaty would specify the exact nature of this agency.

Congress would have the same relationship to the agency operating under the new treaty as it now has to the Panama Canal Company and so would the President. Thus, the President would have executive authority over the activities of the agency and Congress would have legislative powers in regard to it.

There will be a difference between the canal agency and an ordinary domestic federal agency because the canal agency would operate with a list of powers specifically set forth in the treaty and neither Congress nor the President could enlarge these powers. We will have to make sure they are adequate. As I said in my testimony on Friday, the agency "would function in Panama with the treaty rights it needed to do the job." This is the situation under the present treaty too, although the present grant of powers is much more sweeping. It is Panama's contention that a more specific grant of powers would be sufficient to allow us the operating flexibility we need, and, up to a point, we consider this to be true. It is of course not possible to pass judgment on the adequacy of the powers until the exact list of powers has been worked out.

As to the question of nationalization, Panama is at present precluded from taking over the canal operation because that would be inconsistent with our treaty rights. Under the United States treaty proposals the canal operation would continue to be a United States Government enterprise and any attempt to "nationalize" it would continue to be inconsistent with United States treaty rights. As you know, our position is that our military forces will have to remain in the vicinity of the canal.

Please let me know if there is any way I can be helpful to you and your Committee in explaining the nature of our proposals.

With best regards.

Sincerely,

DAVID H. WARD, *Ambassador.*

[Whereupon, at 5:30 p.m., the committee was adjourned.]



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