IBEROAMERICANA
NORDIC JOURNAL OF LATIN AMERICAN AND CARIBBEAN STUDIES

For a Fistful of Dollars: An Appropriate Compensation for the Exploitation of the Panama Canal

RESEARCH ARTICLE

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STOCKHOLM UNIVERSITY PRESS

ABSTRACT

This article examines the often-overlooked economic dimensions of the Panama Canal Treaties negotiations, focusing on Panama's prolonged struggle to secure fair compensation after decades of exclusion from the canal's revenues during US control. While much of the existing scholarship centers on issues of sovereignty and neutrality, this study argues that the financial settlement was a pivotal element of the 1977 Torrijos-Carter Treaties, significantly influencing the course and outcome of the negotiations. Drawing on newly declassified archival documents and underexplored sources, this article analyzes the dynamics of the economic discussions, the strategies employed by both nations, and the challenges of addressing Panama's demands for restitution. It highlights the role of specialized commissions and Panama's assertive diplomacy in reshaping the economic terms in its favor, despite facing power asymmetries and entrenched US interests. By shedding light on the economic aspects of the treaties, this study contributes to a deeper understanding of how financial negotiations can serve as a tool for smaller nations to assert agency in asymmetrical power relationships, offering broader insights into the complexities of international diplomacy and economic justice.

RESUMEN

El presente artículo analiza las dimensiones económicas de las negociaciones de los Tratados del Canal de Panamá, un aspecto frecuentemente relegado en la historiografía, y examina la prolongada lucha de Panamá por obtener una compensación equitativa relativa a décadas de exclusión a los ingresos generados por el canal bajo el control estadounidense. Aunque gran parte de los estudios existentes se han centrado en las cuestiones de soberanía y neutralidad, este trabajo sostiene que el acuerdo financiero constituyó un elemento central en los Tratados Torrijos-Carter de 1977, con un impacto determinante en el desarrollo y desenlace de las negociaciones. A partir del análisis de documentos de archivo recientemente desclasificados además de fuentes escasamente exploradas, este estudio examina la dinámica de las discusiones económicas, las estrategias desplegadas por ambos países y los desafíos que enfrentó Panamá en su demanda de restitución. Asimismo, destaca el papel de las comisiones especializadas y la diplomacia panameña en la

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KEYWORDS:
Panama Canal; Jimmy Carter; Omar Torrijos; Treaty Negotiations; Cold War; Decolonization

PALABRAS CLAVE:
Canal de Panamá; Jimmy Carter; Omar Torrijos; Negociaciones de Tratados; Guerra Fria; Descolonización

TO CITE THIS ARTICLE:
Della Sera, L. 2025. For a Fistful of Dollars: An Appropriate Compensation for the Exploitation of the Panama Canal. *Iberoamericana – Nordic Journal of Latin American and Caribbean Studies*, 54(1): 107–117. DOI: https://doi.org/10.16993/iberoamericana.694

redefinición de los términos económicos a su favor, pese a la persistente asimetría de poder y a la resistencia de intereses estadounidenses profundamente arraigados. Al poner en relieve la dimensión económica de los tratados, este artículo contribuye a una comprensión más amplia de la manera en que las negociaciones financieras pueden servir como un mecanismo para que países de menor tamaño afirmen sus derechos en relaciones con poderes desiguales, ofreciendo una perspectiva más profunda sobre la complejidad de la diplomacia internacional y la justicia económica.

The Panama Canal, widely regarded as one of the most important waterways in the world, has long been a symbol of both human achievement but also international tension. For the United States, the canal was a strategic and economic asset, while for Panama, it symbolized both opportunity and exploitation since its conception (Augelli 1985: 75). The small Caribbean country, despite hosting the waterway on its territory, was largely sidelined in the decision-making surrounding its operation and the resulting profits. For decades, Panama received minimal economic benefit, while the United States reaped substantial strategic and financial rewards. This arrangement fostered deep resentment among most Panamanians, who viewed the treaty as an affront to their national sovereignty and economic rights (Strong 1991: 269).

Throughout the 20th century, Panamanian leaders sought to renegotiate the terms of the 1903 Hay-Bunau-Varilla Treaty and, more broadly, to redefine their relationship with Washington (Strong 1991: 270–2). This diplomatic effort led to a series of revisions and new agreements that culminated in the Torrijos-Carter Treaties of 1977. These negotiations were a watershed moment in US-Latin American relations, because they not only addressed the issue of sovereignty by agreeing to transfer control of the canal to Panama by the year 2000, but negotiations also represented a significant step toward economic justice for the latter.

This article focuses on the economic dimensions of the Panama Canal negotiations, particularly concerning Panama's share of profits until the year 2000, and the complex process of securing compensation for the decades in which Panama had been excluded from relevant financial participation in the canal's revenues. While scholarship has extensively focused on such issues as the neutrality of the canal and the transfer of the Canal Zone properties to Panama it has conversely overlooked the financial aspects of the treaties. This article argues, however, that these financial considerations were far from peripheral. In fact, during the critical months of June and July 1977, the economic settlement and the agreement on what constituted "appropriate compensation" for decades of economic marginalization remained central matters in the negotiations.

This study benefits from an examination of formal and informal meeting records, memoranda, and correspondence – many of which have only recently been made available – that illuminate the intricate process of negotiating compromises surrounding the economic aspects. The only comprehensive study of the Panama Canal negotiations is Panamanian historian and negotiator Omar Jaén Suárez's *Las Negociaciones de los Tratados Torrijos-Carter 1970–1979*. While invaluable, it was published solely in Spanish in 2005 and lacks access to much documentation, such as the *Foreign Relations of the United States (FRUS), 1977–1980,* vol. 29, *Panama* series, which has since become available. Most other studies, published soon after the 1977 treaties, are limited in depth, relying heavily on US sources and focusing primarily on political-strategic analyses. One of the most comprehensive works from that time, *Panama Odyssey* by US Ambassador to Panama William J. Jorden, blends memoir with history but lacks scholarly rigor and is often criticized for its anecdotal approach.

By analyzing these negotiations on a near-daily basis, focusing on crucial events, the article captures the intricate dynamics involving Presidents, diplomats, and economists, illustrating how Panama strategically built a strong position at the economic negotiating tables. Finally, this work aims to shed light on the broader challenges smaller nations faced in the efforts to secure fair terms in international treaties, particularly when dealing with global superpowers such as the United States.

NEGOTIATING ON UNEQUAL TERMS

In January 1903, the Roosevelt Administration signed the Hay-Herrán Treaty with Colombia, which granted the United States the rights to build and operate a lock canal through the isthmus of Panama for 100 years. However, Colombia's Senate rejected the treaty, viewing it as too favorable to the United States (Mayor 1990: 644). This sparked discontent in Panama, where many saw the canal as a potential driver of economic growth, and further fueled resentment towards Bogotá's neglect of the region (Meditz, Hanratty 1989: 20–2). Sensing an opportunity, Washington backed Panama's independence movement, deploying naval forces to the isthmus. The day after US ships arrived, Panamanian nationalists declared independence from Colombia, and Roosevelt quickly recognized Panama's new provisional Government (USDS 1978: 63).

With Panama now independent, negotiations over the canal resumed. The Panamanian *junta* appointed Philippe Bunau-Varilla – a French engineer who gave substantial economic aid to the independentists – as their plenipotentiary to negotiate with the United States, despite having not lived in Panama for 17 years. Without the input of native Panamanian diplomats, he hastily signed the controversial Hay-Bunau-Varilla Treaty, which Panama accepted due to its reliance on US support for secession (Meditz, Hanratty 1989: 22–4). The agreement granted Washington significantly better terms than the earlier Colombian deal – under the new treaty, the United States gained perpetual control and near-sovereign authority over a 16-kilometer-wide Canal Zone, as well as the right to occupy additional land and waters necessary for the canal's operation. Washington also secured the right to intervene in Panama's internal affairs to maintain order (Lowenfeld n.d.). In exchange, Panama received $10 million upfront and $250,000 annually (equivalent to $350 million and $8.75 million in 2024), but Panama was excluded from any share of the canal's revenue (Lowenfeld n.d.; YLS n.d.).[1]

The sixty years that followed the establishment of the Canal Zone witnessed several disputes about the Hay-Bunau-Varilla Treaty as well as attempts to renegotiate it. The arguments concerned, on the one hand, issues relating to sovereignty and intervention and, on the other, the emerging awareness that the canal was not bringing appreciable benefits to the Panamanian population. However, until the 1950's Panama was more focused on obtaining a better economic treatment rather than renegotiating sovereignty over the Zone. An early instance occurred when local businesspeople protested against competition from rival commercial enterprises after Roosevelt issued an executive order establishing US customs houses in the Canal Zone. This led to a temporary resolution, the Taft Agreement, which allowed the Canal Zone to import materials considered essential for canal construction (Mott 1977: 9; UCA n.d.). A subsequent attempt to address economic grievances, the Kellogg-Alfaro Treaty of 1926, proposed mutual restrictions on private commercial operations in the Canal Zone, but failed to gain ratification in Panama (Mayor 1990: 646–7; Conniff 1990: 618–9).

Eventually, two major revisions the Hay-Bunau-Varilla treaty of 1903 took place in 1936 and 1955. The Hull-Alfaro Treaty, in the wake of Franklin D. Roosevelt's "Good Neighbor Policy," revised the terms concerning the US control over the canal. Among other provisions, the 1936 agreement increased the annuity to $430,000 (equivalent to $9.76 million) and changed the US guarantee of Panamanian independence into an agreement to consult for mutual defense (Conniff 1990: 617–20; Meditz, Hanratty 1989: 64). Still, after inflation adjustment, $430,000 in 1936 was almost the same as $250,000 in 1903.

In 1955, the" Remón-Eisenhauer Treaty, increased Panama's canal annuity even more to $1,930,000 (equivalent to $22.7 million), granted job and commercial equality between Panamanians and US workers in the Canal Zone, and removed US monopoly over a transisthmian railroad. Despite the overall positive outcome of these agreements, Egypt's nationalization of the Suez Canal to the detriment of such European colonial powers as the United Kingdom and France in 1956 diminished the significance of the recently obtained concessions from the United States in the eyes of the Panamanians. A complete reversal of the canal sovereignty was no longer a utopia (Conniff 1990: 629–31; "The Issue in Brief").

A new negotiation phase begun in December 1964 – US President Lyndon B. Johnson (1964a) was at first reluctant if not completely contrary to "giving in" to Panama's sovereignty and economic ambitions, but later changed his mind on the grounds of preventing Panama's alignment with Cuba and of the concrete "feasibility of [a new] sea level canal." Despite challenges, the negotiations ended in June 1967, with the signing of three international pacts (Johnson 1964b: 372; Jaén Suárez 2007: 12–4). A Sea Level Canal Treaty granted the United States the option to construct and co-administer a sea level canal for sixty years, a Defense Treaty required Panama and Washington to provide for mutual "defense, security, neutrality, and continuity of operation" of the waterway, and a Lock Canal Treaty would establish a "United States-Panama binational entity [...] [to] operate the Panama Canal and administer the [new] 'Canal Area'" (Sayre 1967: 934–6).

The third pact, furthermore, granted a share of tolls to Panama, providing equitable compensation for the nation's contributions to the canal's creation and upkeep, as well as its role in supporting global commerce. During its first year of operation, the new administration would pay Panama 17 cents per ton (equivalent to $1.60) "of commercial cargo transiting the [c]anal." Those tolls would increase by one cent every year until 22 cents (equivalent to $2.07). Finally, "[t]he Treaty would remain in force until December 31, 1999; however, it would be superseded [...] if [Washington] constructed a sea level canal" (Sayre 1967: 934–5). Nevertheless, approaching presidential elections in both countries delayed and eventually blocked the ratification – Omar Torrijos Herrera staged a successful coup in 1968 that cooled diplomatic relations with Washington, while Johnson did not even present the treaty to the Senate, sensing the impossibility of reaching the two-thirds majority of votes. (Long 2015: 80).

A new rapprochement came in 1973, after Permanent Representative to the United Nations Aquilino E. Boyd's

(1972: 5–6) successful strategy to "internationalize" the canal issue by pressuring the United States through UN meetings (Long 2014: 440–3). The US National Security Advisor, Henry Kissinger, then urged Richard M. Nixon to rethink his strategy in Latin America and suggested a more *détente*-oriented approach (Long 2015: 91–2; Jaén Suárez 2007: 17–8). Ultimately, on February 7, 1974, Panama's Foreign Minister Juan Antonio Tack and Kissinger came to an agreement on eight principles that would serve as a basis for a new canal treaty. The document reaffirmed many provisions included in the failed Robles-Johnson Treaty, but, since it was an agreement in principles, it did not go into specifics nor quantify any point. For example, one principle concerning the financial aspects only stated that "Panama shall have a just and equitable share of the benefits derived from the operation of the canal in its territory" (Jorden 2014: 696). However, negotiations over the future of the Panama Canal continued to face obstacles. Following the resignation of US President Nixon in the wake of the Watergate scandal, his successor, Gerald R. Ford, was not able to consolidate these principles into a treaty, largely due to the opposition from the emerging Republican "New Right" and pressure from Zonian interest groups who were resistant to relinquishing the benefits of living under US administration (Clymer 2008: 14, 53).

The effort to secure a treaty with the Panamanians quickly emerged as a primary foreign policy objective for Jimmy Carter's Presidency, following a significant standstill prior to 1977. If a new agreement were reached, it would be a demonstration that Washington had truly abandoned outmoded colonialism and a possible accomplishment that would generate considerable goodwill, facilitating the resolution of other issues in Latin America. Carter's approach aimed to make the region a showcase for human-rights policies, prevent the proliferation of technology that could facilitate the production of nuclear weapons, and decrease the number of conventional arms transfers (Smith 1986: 109–10; Stuckey 2008: 70–1). A memo prepared by Cyrus Vance on October 24, 1976, before he had assumed the role of US Secretary of State, is particularly revealing:

> Panama is a very critical issue in terms of future relations with Latin American nations. What we do or do not do with respect to the negotiation of a new treaty will be watched very carefully throughout Latin America. From the standpoint of both security and continued smooth operation of the Canal, I believe it is necessary to work out a new treaty which is acceptable to the Panamanians. […] [W]e must make the effort to negotiate such a treaty if we are to develop proper relations with Latin America. (Vance 1983: 441–2)

A successful outcome that both safeguarded US national interests and addressed Panama's demands would accomplish more than simply resolving a source of tension and potential conflict but would also enhance the country's reputation "as a force for creative world leadership" (USDD, CIA 1977: 6). However, when the talks eventually resumed in February 1977, the issue of economic compensation was not initially a priority for either the US or Panamanian negotiating teams. It took over four months for this topic to be addressed, and the discussions may have begun under somewhat unconventional and arguably unprofessional circumstances.

¿UNA NOCHE DE LOCURA?

On May 28, after three intense weeks of negotiations informally known as the "May round," the Panamanian diplomatic team gathered informally to address the unresolved economic arrangements. The participants raised concerns about the financial losses suffered by their country over the years and emphasized the negligible benefits received in return. They even went back to 1903 and the Hay-Bunau-Varilla Treaty to calculate the loss. The discussion touched on the disparity between the deliberately low tolls in the canal, serving as a subsidy to US shippers, and Panama's lack of shared economic advantages. They made references to US military bases leased in Spain, Turkey, and the Philippines, highlighting the substantial benefits those countries received as opposed to Panama's minimal gains. The Panamanians were divided between what some thought was fair, and others thought was possible in terms of compensation. The "fair" amount was several billion dollars, while the "possible" amount was around $500 million (for reference and further calculations, the value of $1.00 in 1977 is approximately $5.20 in 2024). The debate ended with a compromise, settling on a lump-sum payment demand of $1 billion (Jorden 2014: 392–3). Panama's chief negotiator Rómulo Escobar Bethancourt then set an informal meeting with US negotiator Sol M. Linowitz for the following day.

Jaén Suárez highlights the professionalism of the discussion since, together with Escobar and Minister Aristides Royo, the participants also included Nicolás Ardito Barletta – a man of excellent economic skills and future Panamanian President (Long 2015: 118). Jorden on the other hand, asserts that the meeting was unplanned, and that the participants' consumption of numerous alcoholic beverages influenced the outcome of the debate, hence the reaching of such a high compensation sum. Furthermore, Escobar hinted, according to the author, at an additional sum of $20 million as a "pension fund" for him and the rest of the commission towards the end of the discussion. Barletta later confirmed the truthfulness of Jorden's anecdote in an interview with Jaén Suárez himself (2005: 862–3).

According to Jorden (2014: 394) and Linowitz (1985: 165), Escobar opened the meeting with the US negotiator acting almost like a victim, setting out a series of premises to expose all the "bad things" occuring in the Panama Canal Zone in the previous decades. He then talked about the small sums that Washington had paid to his country during all those years of canal operations and for the military bases leased, compared to what other US allies had gained. The intent behind all this rhetoric was, of course, to mitigate the impact before introducing the onerous economic requests (Jaén Suárez 2024). Escobar pointed out that he could have demanded a payment of $6 billion of compensation for almost eighty years during which the United States had occupied the territory of the Zone, but – in the spirit of being conciliatory to reach a treaty soon and not upset Carter – immediately reduced his demands to "only" $1.02 billion as initial compensation plus $300 million annuities (Jaén Suárez 2005: 603; Carter 1982: 158).

Linowitz (1985: 165) was shocked as he could not imagine that the Panamanian would raise a matter of this magnitude out of the blue, and immediately told his guest that he could not consent to a figure this high. In fact, until then the two countries had only spoken of annual payments and not such a one-time sum. In the end, the two negotiators decided to postpone the discussion on this issue to the next round of talks in June (Jorden 2014: 394–5). However, the final touches to the Neutrality Treaty draft, the major success of the "May round," monopolized the entire negotiating process that month.

These extra weeks gave a Panamanian economic committee *ad hoc* headed by Nicolás Ardito Barletta enough time to work on a detailed document to present to the US Ambassadors for the next session of meetings. Jaén Suárez argues that Escobar – lacking significant preparation in economic matters – underestimated the potential consequences of proposing such a substantial lump sum. While Escobar anticipated that the amount would likely be halved during negotiations, he failed to fully grasp the risks associated with a possible leak of this figure to opponents of the treaty (Jaén Suárez 2005: 603). Simultaneously, National Security Advisor Zbigniew Brzezinski (1977a) expressed some concerns to Carter whether the House would approve property transfers in a new treaty. More critically, he highlighted the negotiations surrounding the payments to Panama under the proposed treaty, with an understanding that such sum should not exceed profits generated by canal operations. Those payments were the issue that the US main negotiators – Linowitz and Ellsworth F. Bunker – had to address sooner or later.

On the other hand, Torrijos continued to raise the canal matter at the United Nations, directing the Permanent Representative to emphasize the importance of the economic issues that were intricately linked to political stances (Illeuca 1977). This had been the *jefe's* strategic approach since 1972 – exert pressure on the United States through international platforms, exposing the issue to other nations, particularly nonaligned and potentially pro-Western countries (Brown 2024: 78). A notable example of this internationalist strategy, with a focus on financial aspects, was Ambassador Carlos A. López Guevara's speech at the Pan American Society of San Francisco. In his address, the Ambassador highlighted the stark disparity between US benefits and the minimal advantages afforded to Panama:

> Panama is paid only $2,320,000 per annum in comparison with the political and strategic advantages that the control of the Canal Zone and the Canal represents for the United States. […] Panama does not receive a single penny for the use of its soil to establish [US] military compounds while in other countries the United States pays hundreds of millions of dollars. (López Guevara 1977: 3)

The impasse stemmed from the fact that the US Congress could not appropriate the necessary funds and that the annuity for Panama should result from the canal's revenue. This financial constraint eventually contributed to the breakdown of the meetings on June 18 and 19. Ultimately, Panama's Ambassador to Washington Gabriel Lewis Galindo proposed to form a high-level group of economic specialists from both countries to discuss financial matters. He, eventually, did not mention that the Panamanian economic team had already been working alone on the matter for at least two weeks (Jorden 2014: 405–8).

Brzezinski (1977b) regarded the initial informal Panamanian demand as a bluff, anticipating that they would likely reduce their request by half if Washington maintained a firm stance. Still, even a reduced figure of half a billion dollars upfront plus $150 million annually far exceeded what Congress would ever accept. In response to this strategy, Linowitz (1977: 168–74) articulated the official position on compensation in a memo for the negotiating team – an aid program should involve collaboration between the United States and international agencies to assemble a package of appropriate size and content, meeting the necessary criteria of the Agency for International Development (AID), international institutions, and, eventually, the private sector. He also suggested that Carter should contact Torrijos to convey the Washington's eagerness to meet Panama's economic requirements, while emphasizing the limitations on including financial arrangements within the treaty framework.

GENEROUS, FAIR, AND APPROPRIATE

The next formal meeting session began on June 23 in Washington, but the discussion about the issue of compensation was postponed to the following day. Barletta joined the negotiators and presented Panama's position on economic arrangements, highlighting that modernization was Panama's primary goal, but it should also be important to the United States. (Jorden 2014: 409–12). By emphasizing, once again, the stark contrast in how the United States addressed issues based on the relative size and power of the nations involved, the Panamanian delegation strategically placed increasing pressure on Washington. The Torrijos Administration, aware of Carter's dedication to human rights and his stated commitment to improving relations with Latin America, sought to probe the limits of his resolve and the extent to which these principles would influence US policy decisions.[2] While Escobar (1981: 158) describes Torrijos' stance merely as a tactical strategy aimed at testing the US negotiators to determine how far Panama could push to secure the maximum possible concessions, Carter (1982: 158) interprets it as an aggressive approach that occasionally delivered "fatal blow[s]" to the negotiations. The US negotiators had in fact emphasized the limitations within the treaty and suggested to separate additional discussions with a high-level US economic team, but Barletta insisted on parallel financial agreements, expressing concerns about public perception in Panama. (Jorden 2014: 413–4).

What ended up being a major turning point happened on June 29, when the Venezuelan President Carlos Andrés Pérez visited Washington for a "breakfast meeting" with the two US ambassadors. The main topics of the conversation were Panama's financial arrangements. In fact, the canal issue had taken on inter-American significance, particularly after the Organization of American States became involved in ensuring adherence to the neutrality treaty (Bunker, Linowitz 1977a: 6). As a result, a favorable resolution to the treaties became a matter of critical importance for many Latin American countries, especially those directly benefiting from the canal's operations. This included not only countries bordering the Pacific Ocean but also those with substantial economic ties to the western United States. Venezuela, the region's largest oil exporter, was among those countries.

Pérez provided his hosts with some insights into Torrijos' tactics, practically acting as a mediator. For example, he reported that Torrijos was facing challenges in justifying the treaty to the Panamanian people due to economic concerns. Torrijos – aware of the internal criticism surrounding the handling of the Canal negotiations – sought a treaty-based solution that could also enhance Panama's standard of living. However, Pérez claimed that the Panamanians found it impossible to accept an outcome without a fair settlement, as they referred to US negotiations with the Philippines by way of comparison (USDS 1977a: 175–6).

Pérez was aware that Panamanians were holding up a treaty to get as much money as possible. While sympathetic to Panama, he thought it was a serious mistake on Torrijos' part (Jorden 2014: 415). He advised Linowitz to sign a treaty first and only after some time – preferably between signing and ratification – Washington would work on an economic development program for Panama that should be the real compensation. By adopting this strategy, they would have had an economically inexpensive treaty, ultimately "saving money" for a development program. Obviously, the two aspects could not be officially linked. Basically, the Venezuelan President advised the Ambassadors to deceive the Senate. (USDS 1977a: 177–80, 185).

The two teams met informally again on July 1 in the light of Carter's (1977a: 1202) wishful statement "I hope that we'll have a successful conclusion this summer. We've been encouraged so far." Escobar informed the hosts that they had spoken with Pérez too but rejected the "counter proposal" the Venezuelan President had made on behalf of the United States, i.e. a funding formula involving an initial amount of $30 to $40 million which would serve as leverage for a larger loan contingent on the treaty's success. Royo said frankly that while for Washington defending the treaty only meant explaining the pros to Congress, to the press, and to a segment of domestic public opinion, in Panama, the task required a more direct approach, as it was the most important issue the country had ever dealt with (USDS 1977b: 193–5).

Linowitz and Bunker did not expect that their guests would act so transparently. The Panamanians then posed a crucial question to the *estadounidenses* regarding cash compensation to solve the treaty problem, suggesting a joint corporation with a capital of $360 million which would include the US debt to the Panama Canal Company and Panama's natural resources. The US team agreed to raise the question domestically and assured the Panamanians of their commitment to satisfy the need for a cash compensation in addition to tolls and financing (USDS 1977b: 202–3; Vance 1977a: 203–4). However, Washington would not allow more than $40 million per year (Schuker 1977). By mid-July, everything was set to end the negotiations of the Panama Canal Treaties besides the economic agreements, whose complexity the US team may have underestimated (Jaén Suárez n.d.: 337). As a matter of fact, the Carter Administration – certain of the imminent conclusion of the negotiations – had already prepared a statement that began with "This summer Ambassadors Bunker and Linowitz have been concluding our negotiation on the Panama Canal" (USDS 1977c).

When the Panamanian delegation raised the economic issue at the table two weeks later, they unexpectedly halved their demand for the lump sum (from $1 billion to $450 million) and on the annuity (from $300 million to $150 million), to demonstrate flexibility and expedite the agreement. Still the reduced amounts still appeared excessive to the United States (Jorden 2014: 417). In fact, the US team was adamantly sticking to their proposal of compensation by toll increases only. They initially offered 25 cents per canal ton and then increased it to 30. They said that this formula could probably generate about $50 million in revenues to Panama and that raising tolls did not require Congressional approval, but Panama firmly refused (USDS 1977d: 211–6).

The two teams were unable to find an agreement in the following days as the Panamanians "continued to insist on an unacceptable high level of economic payments […] beyond the Canal's revenue generating capacity" (Vance 1977b: 206). Furthermore, a possible setback arose when an off-the-record breakfast involving Linowitz and reporters from the *Christian Science Monitor* was leaked, leading to a media frenzy that posed a threat to the treaty effort. In fact, the news reported the "former" one-billion-dollar Panamanian economic proposal that most newspapers mocked (Jaén Suárez 2005: 614–5). The Panamanians, furious about what they perceived as to discredit them, contemplated holding a press conference to expose what they deemed as lies and bad faith on the US side (Jorden 2014: 418–9).

Unexpectedly, this event contributed to tempering Torrijos' bravado, as the Panamanians gradually became more open to plausible compromises. The urgency to finalize an agreement before the end of summer increasingly influenced Panama's negotiating stance, granting Washington a position of leverage it had lacked throughout much of the economic negotiations. Moreover, as the Panama Canal issue gained prominence in the United States, details emerged that risked alienating human rights advocates within both public opinion and Congress. These included allegations of Torrijos' family's involvement in drug trafficking (Aaron 1978), and the *jefe's* suppression of domestic opposition, particularly during his early years in power (Eisenmann, Eisenmann 1977).

The key to expedite the resolution of the financial aspects of the negotiations turned out to be the direct involvement of Carter and most of the Cabinet members in new meetings (Brzezinski 1977c: 208–9; Brzezinski 1977d: 222–3). The new economic proposal consisted of $18 million of interest payments (which would serve as security for a loan of $200 million); an Export-Import Bank (EXIM) pre-commitment to loan approximately $100 million; an Overseas Private Investment Corporation (OPIC) loan guarantee of $20 million for borrowing in United States capital markets by Panama's public development bank; an aid package of $80 million over five years; and increased taxes on US employees (USDS 1977d). Eventually, the EXIM pre-commitment was doubled from $100 million to $200 million, but AID housing investment guarantees were cut to $75 million over a five-year period. Vance also suggested a treaty provision for a variable annuity payment of 30 cents per ton transiting the canal, anticipating a toll increase of 30 to 35 percent over existing levels. Vance (1977c) also proposed supplementing either the annuity payments or the economic cooperation program using funds currently received as interest on US net direct investment in the canal.

Vance (1977c) added that the United States and Panama could engage in co-financing the revenue-producing capital development projects in the Canal area that would borrow up to $200 million from the Federal Financing Bank. Alternatively, Washington could offer Panama an additional fixed annual payment. In this case, the latter would come from the amount that the United States received annually from the Canal Administration. "Panama might attribute part of this payment as military base 'rental.'" He then suggested two compensation options for an annual sum to Panama under a treaty: $10 million per year (totaling $220 million over the treaty's lifespan); or $20 million per year, contingent on Canal revenues, with a maximum of $440 million. Both options faced challenges due to uncertain Canal revenues, with early years projecting moderate losses.

By tying economic compensation to investments, Washington sought to counter criticism of gifting money to "some tinhorn dictator" – a phrase coined by Ronald Reagan that became the rallying cry of anti-treaty advocates throughout 1977 – ensuring that the funds could not be used at Panama's discretion. This strategy also sought to integrate Panama more closely into the US capital market while reinforcing a vision of a new nationalism aimed at restoring US global influence through greater restraint and international cooperation (Zaretsky 2011: 537).

Brzezinski (1977e) tried to help Carter choose the best formula. He narrowed down the issues to "How big should the package be?" and "What items should be in it?" He also sketched briefly two potential scenarios that could result from these decisions – choosing a small or unsatisfactory package that would likely lead to the breakdown of negotiations, riots in Panama, and harm to relations with Latin America; or opting for a full package that satisfies Panama but could lead to Senate rejection of the treaty and also damage the broader political effectiveness of the Administration. Brzezinski and the negotiators believed that the package Vance had proposed was the ideal compromise as it could justify the US position internationally. In fact, according to the NSA, the other Latin America countries would "readily acknowledge it as a positive and reasonable offer, and as a result, that Torrijos will be forced to accept it." Ultimately, Carter approved in general the approach outlined in Vance's memo (Brzezinski 1977f).

The only finance-focused meeting attended in person by Carter was held on July 29. During this meeting, Carter quickly convened with the Ambassadors. He was advised to avoid delving into the specifics of the financial package during his discussions with the Panamanians and instead to emphasize his commitment to maintaining a partnership with Panama after the treaty was signed, as well as to providing support for the country (USDS 1977e: 231–2). The meeting was brief and largely ceremonial in nature. Carter expressed his deep appreciation for all the work that all the negotiators had done and said that he wanted to extend his personal best wishes to Torrijos. Escobar thanked the President and acknowledged that "greater progress was made in the last six months than in the previous 13 years." (USDS 1977e: 233). After that, Carter signed the letter he had prepared for Torrijos. The President (1982: 158) would point out in his memoirs that he "personally wrote" the message "stating in effect that we were making our last offer, and that it was 'generous, fair, and appropriate.'"

> It may be that these proposals will be less than you had expected or wished, but I hope that you will understand that they represent the most that we could undertake to do, based on our consultations with the Congress. In my best judgment, the proposals will be generous, fair, and appropriate. […] There will be many chances to cooperate effectively as we operate, maintain, and protect the Canal together. We fully intend to seize those opportunities. (Carter 1977b: 234–5)

Carter (1977b: 235) managed to convince Torrijos to lower his economic demands by promising future cooperation and support, such as the "improvement of Panama's economic health and development." His proposal was not spelled out in the message, but it is plausible that Carter was already anticipating to Torrijos that part of the economic compensation would come indirectly outside the treaty. The letter had a significant impact on Torrijos and Barletta, who were not present at the meeting, as Panama's position on compensation changed drastically. In fact, Bunker and Linowitz would outline the economic package to Barletta on August 2, emphasizing that they considered this "to be as far as [they] could go." Notably, the Panamanians were "no longer talking about a $460 million lump sum payment and a $150 million annuity" (Christopher 1977: 236).

Jonathan C. Brown (2024: 75–6, 199) argues that Torrijos consistently aspired to play a prominent role among non-aligned nations. The *jefe* eventually recognized, however, the indispensability of US investments for Panama's development. While he could not openly display a shift in his stance toward Washington to his domestic audience, Torrijos still effectively suppressed anti-US protests – particularly following the signing of the treaties and before the ratification process – while simultaneously promoting national pride by framing the agreements as a decisive victory over colonialism through the Government mouthpieces ("Fin al enclave" 1977; "Panameño" 1977).

Ironically, after a long series of formal and informal meetings on the matter, the two countries reached the final agreement on economic compensation by cable on August 6. In the end, Panama accepted the US proposal consisting of an annuity of 30 cents per ton transiting the Canal (to be adjusted to reflect inflation over the years, based upon a US index); use of the US interest payment ($20 million per annum) as an additional payment to Panama of $10 million per year fixed; and another additional $10 million only if Canal revenues permitted (Bunker, Linowitz 1977b; USDS 1977f; USDS 1977f: 238–42). The economic compensation package of investments and loans worth $295 million was instead put in a side agreement related to the Panama Canal Treaty (*MREP* 1977).

CONCLUSION

The economic negotiations surrounding the Panama Canal Treaties offer a case study of the challenges smaller nations face when dealing with powerful global actors. For decades, Panama struggled to secure equitable compensation for a canal critical to US interests but operated with little regard for Panama's economic needs. In 1977, the insistence on economic compensation notably delayed the conclusion of negotiations by at least two months, underscoring the complexities of addressing Panama's demands for restitution after decades of economic marginalization.

While the transfer of the canal to Panamanian control is often regarded as the central achievement of these treaties, the economic dimensions are equally significant. Through persistent negotiation, Panama increased its share of canal revenues, secured payments reflecting its vital contribution to global trade, and ensured future generations would benefit from a resource located within their national borders. The compensation Panama received was not only financial but also symbolic, representing a restoration of dignity after decades of economic disenfranchisement.

Panama's strategy to approach economic compensation with an assertive stance highlighted its ability to exert pressure on the United States, leveraging its symbolic and strategic position effectively. The Torrijos Administration carefully balanced a forward-looking approach to securing US cooperation for Panama's development with the need to maintain an independent position to preserve credibility among Latin American leaders and non-aligned countries. This dual strategy exemplifies the delicate diplomacy required to advance national interests while navigating regional and global expectations.

Conversely, Washington, after recognizing Panama's veiled policy, managed to regain control of the economic negotiation process. This shift was partly facilitated by the intervention of figures like Pérez, who partially undermined Torrijos' strategy of seeking long-term collaboration. By framing the US offer as "generous, fair, and appropriate," Carter effectively conveyed a willingness to cooperate in good faith, easing tensions and prompting Panama to lower its demands. This approach marked a departure from earlier US policies of imperialism and coercion, showcasing a shift toward more collaborative engagement with Latin America. Such diplomacy fostered mutual respect and sustainable agreements, promoting long-term partnership over dominance in hemispheric relations.

Ultimately, the economic issues surrounding the Panama Canal Treaties highlight the complexities of international diplomacy, where power asymmetries, historical grievances, and evolving economic interests often intersect. Panama's experience demonstrates that, despite significant imbalances, a well-planned strategy can occasionally allow smaller nations to exert meaningful influence, particularly on specific issues like financial negotiations. This case illustrates how smaller states can leverage their unique positions to secure more favorable outcomes, even when engaging with far more powerful counterparts.

NOTES

1 All inflation adjustments in this article were calculated using the Federal Reserve Bank of Minneapolis's inflation calculator, available at https://www.minneapolisfed.org/about-us/monetary-policy/inflation-calculator.

2 Long (2015: 227), at the end of an exhaustive analysis of various 20th century U.S.-Latin American relations events, argues that "just as the United States can exercise influence on Latin America through its power, Latin American leaders can influence both the course of events and, at times, U.S. policy."

ACKNOWLEDGEMENTS

I am grateful to the archivists and librarians at the Jimmy Carter Library, National Archives at College Park, Acervo Histórico Diplomático de la República de Panamá, Biblioteca Presidente Roberto F. Chiari, and Biblioteca Nacional de Panamá who provided valuable assistance with the research for this article. Above all, I am grateful to Professor Stefano Luconi, whose help and dedication made this work possible.

COMPETING INTERESTS

The author has no competing interests to declare.

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TO CITE THIS ARTICLE:
Della Sera, L. 2025. For a Fistful of Dollars: An Appropriate Compensation for the Exploitation of the Panama Canal. *Iberoamericana – Nordic Journal of Latin American and Caribbean Studies*, 54(1): 107–117. DOI: https://doi.org/10.16993/iberoamericana.694

Submitted: 05 February 2025 **Accepted:** 21 October 2025 **Published:** 07 November 2025