

August 1995

# PANAMA

## DOD's Drawdown Plan for the U.S. Military in Panama







United States  
General Accounting Office  
Washington, D.C. 20548

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National Security and  
International Affairs Division

B-258691

August 2, 1995

The Honorable Herbert H. Bateman  
Chairman, Subcommittee on Military Readiness  
The Honorable Joel Hefley  
Chairman, Subcommittee on Military  
Installations and Facilities  
Committee on National Security  
House of Representatives

In 1977, U.S. President Jimmy Carter and Panamanian leader General Omar Torrijos signed treaties that called for the transfer of the Panama Canal to Panama and the withdrawal of U.S. military presence from Panama by December 31, 1999. Earlier this year, we issued a classified report to you on issues related to the U.S. military drawdown in Panama. Since that time, most of the classified information has been declassified.

On the basis of discussions with your staff and because of the likelihood that U.S. military drawdown issues will come before the Congress in the near future, we have updated the information in our earlier report and are issuing this unclassified report. Specifically, we are providing information on (1) the potential for a post-1999 U.S. presence, (2) the status of transfers of Department of Defense (DOD) properties and Panama's preparedness to accept them, (3) the coordination to address treaty-related issues, (4) DOD environmental and property valuation policies, (5) DOD efforts to address employee terminations due to the drawdown, and (6) the cost of the U.S. military drawdown. This report does not deal with the transfer of the Panama Canal to Panama.

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## Background

The Panama Canal Treaty and the Treaty Concerning the Permanent Neutrality and Operations of the Panama Canal went into effect on October 1, 1979. These treaties now serve as the primary basis for U.S.-Panamanian relations. Treaty provisions require that the United States transfer, without charge, all U.S. military real property and nonremovable improvements in Panama to the Panamanian government. The treaties also call for the continued neutrality of the canal but specify that by December 31, 1999, all U.S. military forces will be withdrawn from Panama and only Panama will operate and maintain military forces,

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defense sites, and military installations within its national territory.<sup>1</sup> However, a 1978 protocol<sup>2</sup> states that

nothing in the [Neutrality] Treaty shall preclude the Republic of Panama and the United States of America from making . . . any agreement or arrangement between the two countries to facilitate performance at any time after December 31, 1999, of their responsibilities to maintain the regime of neutrality established in the Treaty, including agreements or arrangements for the stationing of any United States forces or the maintenance of defense sites after that date in the Republic of Panama . . . .

DOD's treaty implementation plan, approved by the Secretary of Defense in 1992 and revised most recently in October 1993, includes plans to (1) relocate or deactivate about 10,050 military personnel, 3,000 U.S. civilians, and 5,200 non-U.S. civilian personnel; (2) consolidate DOD operations primarily onto a few bases on the Pacific side of the isthmus by 1995 and transfer all DOD facilities to Panama by the end of 1999; and (3) relocate U.S. Southern Command (SOUTHCOM) headquarters. SOUTHCOM, a regional unified command, oversees U.S. military operations in 19 countries in Central and South America and is responsible for carrying out the treaty implementation plan. Funding to implement the plan is provided through the normal DOD budget process, and each military service is responsible for estimating budgetary requirements.

DOD plans to transfer to Panama about 77,000 acres of property and 4,272 buildings that have an investment cost of about \$538 million.<sup>3</sup> These facilities include major military installations such as Howard Air Force Base (5,282 acres) on the Pacific Ocean side of the isthmus, from which air operations throughout South and Central America are conducted; Fort Sherman (23,100 acres) on the Atlantic Ocean side, where the Army's Jungle Operations Training Center is located; and several other bases located throughout Panama that are primarily used for housing and training military personnel. Panama believes that the properties to be transferred can be put to good economic use if they can be developed quickly, and Panamanian officials have discussed various proposals for using the properties. For example, Fort Amador, located next to

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<sup>1</sup>Panama's combined military-police forces—known since 1983 as the Panamanian Defense Forces—were dissolved following the December 1989 U.S. military intervention. In its place, Panama created a National Police Force, which, in addition to its policing responsibilities, has responsibility for protecting Panama's borders. Panama does not currently have military forces.

<sup>2</sup>Protocol of Exchange of Instruments of Ratification Regarding the Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal and the Panama Canal Treaty, June 16, 1978.

<sup>3</sup>This figure was reported in June 1991 by the Assistant Secretary of Defense in a study done in response to the National Defense Authorization Act for Fiscal Year 1991 (P.L. 101-510).

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Panama City, is considered to be prime property, and plans are to develop it for tourism.

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## Results in Brief

In 1979, and again in 1991, the Congress stated that the best interests of the United States would be served by retaining a U.S. military presence in Panama after 1999 and that the President should begin negotiations with the government of Panama to consider whether the two countries should allow permanent stationing of U.S. forces in Panama. Some members of the current Congress have reiterated that the President should begin such negotiations. Officials of both the United States and Panamanian governments have publicly indicated a willingness to consider a post-1999 U.S. military presence. However, negotiations have not begun and U.S. executive branch officials have not reached agreement among themselves on (1) what U.S. interests would be served by keeping U.S. forces in Panama or (2) how or when to proceed on this matter. In its drawdown schedule, DOD is positioning itself to retain some forces in Panama after 1999 if instructed to do so by the President under any negotiations that may occur. According to DOD officials, an early decision on this matter is important to maintain an orderly process and avoid incurring unnecessary costs.

Although DOD's treaty implementation plan has been revised several times, generally to postpone some transfers, DOD is proceeding with the drawdown according to its revised schedule. The transfer of Fort Davis and Fort Espinar to Panama, planned for October 1995, will end the U.S. military presence on the Atlantic Ocean side of the isthmus, except for the Jungle Operations Training Center at Fort Sherman and operations at Galeta Island. The transfer of some properties on the Pacific side, including Fort Amador and Fort Clayton, has been postponed from the originally scheduled date because U.S. requirements have changed and Panama does not have a plan for using these properties. In addition, Miami has been selected as the new location for SOUTHCOM headquarters with the move planned for 1998.

A number of committees, some with only U.S. officials and others with both U.S. and Panamanian officials, have been established to coordinate specific treaty implementation matters. Both SOUTHCOM and U.S. Embassy officials noted, however, that as a number of critical issues pertaining to the transfer of properties need to be resolved, the need for all parties to be kept fully informed and engaged on treaty implementation actions will become more important.

DOD has approved policy guidance for the transfer of DOD installations to the government of Panama, including property condition and valuation. Also, DOD has been planning for its employee termination liability in Panama since 1989, and incentives such as early retirement and job placement offered by the U.S. Panama Area Personnel Board should help minimize the effects of severance pay and other potentially costly personnel issues.

DOD reported that as of September 30, 1994, its cumulative treaty-related cost was \$813 million, and it expects future treaty-related costs to be about \$554 million. However, these costs are not offset by estimated savings that may accrue as a result of transferring properties to Panama.

## Plans for a Post-1999 U.S. Presence in Panama

The Panama Canal treaties specify that by December 31, 1999, all U.S. military forces will be withdrawn from Panama and that all U.S. military real and nonremovable property will be transferred without charge to Panama. Department of State and DOD officials have stated that the United States would fully implement all provisions of the treaties. However, treaty implementation documents do not preclude the United States from negotiating an agreement with Panama for the permanent stationing of U.S. military forces in Panama after 1999. Officials from both Departments said that if such an agreement is not negotiated with Panama, all U.S. forces will be withdrawn as specified by the treaties.

The Panama Canal Act of 1979 (P.L. 96-70), enacted to implement the Panama Canal treaties, expressed the sense of the Congress that “the best interests of the United States require that the President enter into negotiations with the Republic of Panama for the purpose of arranging for the stationing of United States military forces” in Panama after 1999. The Panama Canal Commission Authorization Act for fiscal year 1992 (P.L. 102-190, sec. 3505) states, among other things, that “the Panama Canal is a vital strategic asset to the United States and its allies,” and that “the presence of United States Armed Forces offers a viable defense against sabotage or other threat to the Panama Canal.” The act expressed the sense of the Congress that the President should negotiate, at a mutually agreeable time, with the government of Panama to consider whether the two governments should allow the permanent stationing of U.S. military forces in Panama after 1999.

In June 1994, the Secretary of Defense said that the United States would consider keeping forces in Panama if the Panamanian government

requested it to do so. Likewise, Panama's newly elected President, who took office in September 1994, stated that any request on the part of the United States to have military forces remain in Panama would be carefully studied. According to U.S. Embassy officials in Panama, as of October 1994, the U.S. government had no plans to request that the Panamanian government permit U.S. forces to remain in Panama after 1999. In June 1995, executive branch officials noted that they had not agreed among themselves on (1) what U.S. interests would be served by keeping U.S. forces in Panama or (2) how or when to proceed on this matter.

According to Department of State and DOD officials, a presidential review of U.S. policy toward Panama is underway, and the process should, among other things, determine what national interests would be served by having U.S. military forces stationed in Panama after 1999. The review, which was to have begun in early 1994, has been repeatedly delayed. In January 1995, we were told that position papers had been circulated among executive branch agencies and that the review would be completed early in 1995. However, as of June 1995, the review had not been completed, and DOD and State officials told us it was on hold.

Any decision to seek a post-1999 presence would be followed by negotiations with the Panamanian government if it agrees to participate in such negotiations. According to DOD officials, an early decision on a post-1999 presence is important if the services are to maintain an orderly process and avoid incurring unnecessary costs. In its 1995 strategic assessment,<sup>4</sup> the National Defense University asserts that the executive branch must decide soon if U.S. foreign policy and security interests require a continued military presence in the hemisphere outside the United States. The assessment states that a decision on a continued U.S. military presence in Panama cannot be deferred much longer, noting that units are being deactivated as a part of the overall downsizing of the armed forces and budgetary decision windows affecting construction and relocation are about to close.

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## Status of the Transfer of DOD Facilities

According to its treaty implementation plan, DOD will consolidate operations at a few locations primarily on the Pacific side of the isthmus by 1995 and transfer all DOD facilities to Panama by December 1999. The first step in this consolidation occurred in June 1994 when DOD transferred the Coco Solo Medical Clinic on the Atlantic side of the isthmus to

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<sup>4</sup>Strategic Assessment 1995: U.S. Security Challenges in Transition, National Defense University, Feb. 1995, p. 96.

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Panama. The consolidation of U.S. troops on the Pacific side is planned for Howard Air Force Base, Fort Kobbe, and Rodman Naval Station. DOD officials stated that these facilities are among those the U.S. military would want to retain if the United States and Panama agree on a post-1999 U.S. presence in Panama.<sup>5</sup>

DOD officials believe 1995 will be a key year in consolidating forces from the Atlantic to the Pacific side. The transfers of Fort Davis and Fort Espinar, expected to occur in October 1995, appeared to be on schedule as of June 1995. These transfers will mark the end of U.S. military presence on the Atlantic side of the isthmus, except for the Jungle Operations Training Center at Fort Sherman, and operations at Galeta Island, both scheduled for transfer in 1999. About 1,200 military and 650 civilian personnel on the Atlantic side will be relocated or deactivated by the end of 1995. At that time, only 154 military and 116 civilian personnel are scheduled to remain on the Atlantic side to staff the Jungle Operations Training Center and Galeta Island.

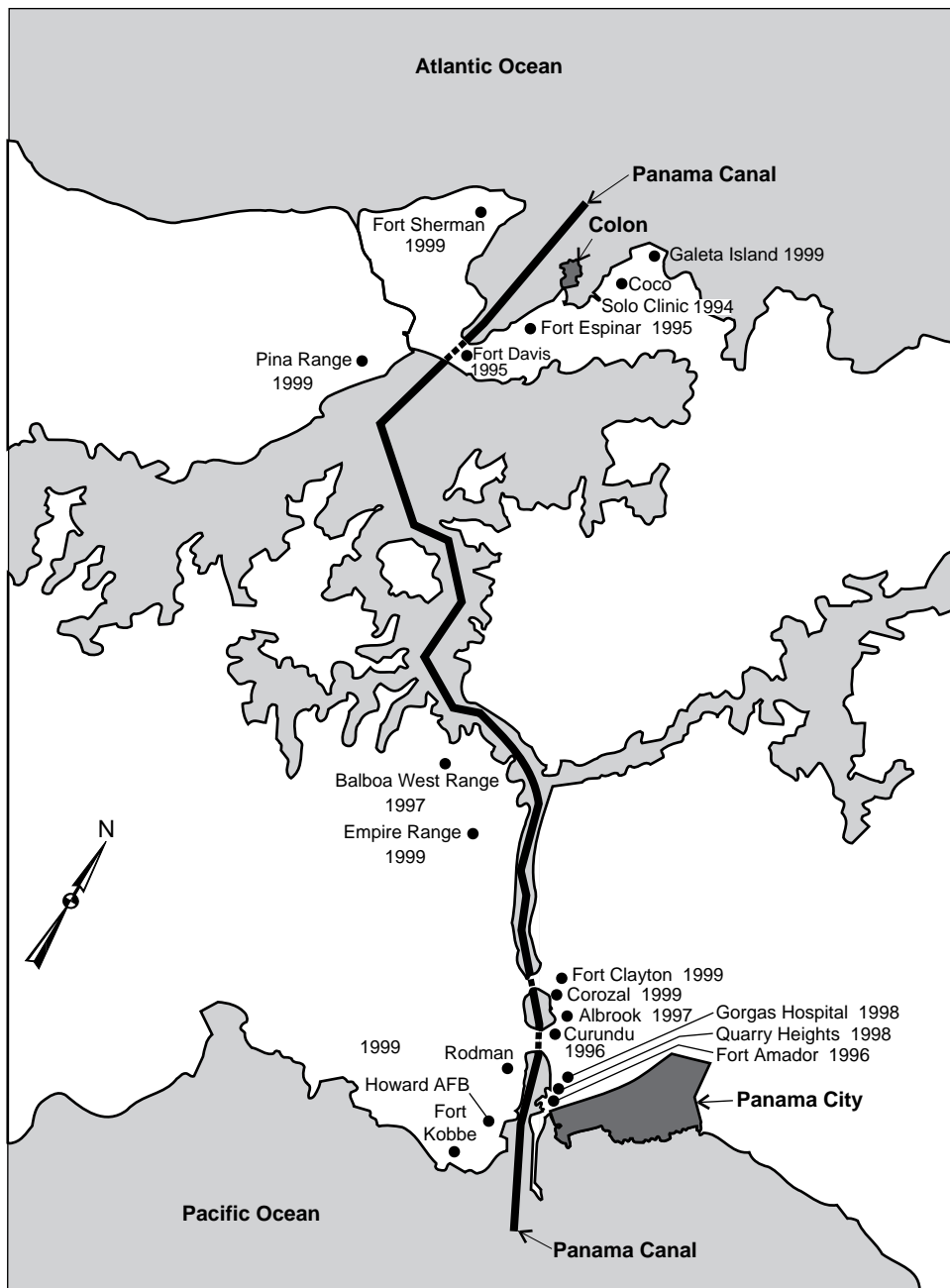
Although some minor properties on the Pacific side of the isthmus have already been transferred, Panama's lack of a plan for using DOD properties has delayed some transfers. For example, Fort Amador was scheduled for transfer in late 1995, but in January 1994 SOUTHCOM and the government of Panama negotiated a postponement of the transfer until early 1996. In June 1995 they negotiated a further delay to late 1996. Panama favored the postponement because it had not awarded a contract to formulate an economic development plan for Fort Amador, which is to be developed for tourism.<sup>6</sup> A U.S. Agency for International Development official told us that the development plan would take at least 8 months to complete. SOUTHCOM officials told us they can use the housing on Fort Amador and agreed to the postponement to accommodate Panama's planning needs.

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<sup>5</sup>The 1992 treaty implementation plan stated that Howard Air Force Base, Rodman Naval Station, Fort Kobbe, and Fort Sherman would be the final bases transferred to Panama in 1999. In 1994, Fort Clayton was added to the list of bases to be transferred in 1999.

<sup>6</sup>This \$1 million contract is to be paid by the government of Panama with funds generated from the repayments of loans made under a grant agreement by the U.S. Agency for International Development. These funds had been previously earmarked by Panama to repay nonmilitary bilateral debt to the United States.

**Figure 1: DOD Installations to Be Transferred to the Republic of Panama**  
(as of June 1995)



Note: Dates indicate planned reversion to Panama.

Other transfers have been postponed due to changing U.S. requirements. For example, Fort Clayton was originally scheduled for transfer in 1997. In mid-1994, SOUTHCOM officials decided to postpone the transfer to 1999 based on a continuing need for housing and office facilities. SOUTHCOM headquarters, originally scheduled to be moved in 1995, is now scheduled to be moved to Miami in 1998. Figure 1 on page 7 shows the scheduled dates for the transfers of all DOD properties to Panama.

## Coordination of Treaty Issues

SOUTHCOM and the U.S. Embassy have interrelated responsibilities for implementing the Panama Canal treaties. The U.S. Ambassador to Panama has overall responsibility for (1) effecting the diplomatic notes that transfer U.S. properties to Panama, (2) generally providing authoritative treaty interpretations, and (3) negotiating bilateral agreements with Panama on behalf of U.S. agencies that fall outside the purview of the treaty-mandated Joint Committee.<sup>7</sup> SOUTHCOM is responsible for planning and coordinating activities affecting the U.S. forces and military-related aspects of the treaties.

Various committees assist with implementing the treaties. A key committee, known as the Joint Committee, is comprised of representatives of the U.S. military and the government of Panama. It addresses treaty-related matters pertaining to the U.S. military and Panama. Most of the committee's work to date has dealt with matters other than the reversion of lands, and U.S. Embassy and SOUTHCOM officials believe that the committee has worked effectively. However, they told us that in the near future, the committee would be handling an increased number of reversion issues, for which the procedures had not been fully tested. Some of the critical issues that will require close coordination include the approval of property transfer procedures and the resolution of issues on health, safety, and the removal of hazards before the transfer of properties.

The Joint Committee does not have a representative from the U.S. Embassy as a permanent member, but an Embassy official may attend meetings as an observer. The committee met formally in 1990 but did not formally convene again until September 1994, when it met to discuss the use of U.S. facilities for housing Cuban migrants. A SOUTHCOM official told us that most of the committee's work has been conducted by telephone, letters, and memorandums of understanding.

<sup>7</sup>The Ambassador's position has been vacant since February 1994. As of July 19, 1995, the President's nominee was awaiting Senate confirmation.

The Panama Review Committee is comprised of the U.S. Ambassador,<sup>8</sup> the SOUTHCOM Commander-in-Chief, and the Panama Canal Commission Administrator and meets quarterly to discuss U.S. government positions on various matters, including those related to treaty implementation. Minutes of these meetings are provided to the Secretary of State, the Secretary of Defense, and heads of other interested agencies.

An unofficial, binational planning working group comprised of SOUTHCOM and Panamanian officials was established to help Panama with treaty-related activities, to include the sharing and coordination of turnover timeliness, reutilization workshops, and the exchange of computer-aided information. This committee is working with the Panamanian Regional Authority to plan for the reversion of military properties, since the Authority is responsible for developing land use plans for reverted properties.

The Joint Commission on the Environment was established as a binational commission comprised of Americans and Panamanians. This commission does not represent the U.S. or Panamanian governments. Its function is to advise both governments on matters pertaining to safety, health, and the environment. The U.S. Embassy provides an executive secretary to the commission's U.S. delegation.

Both SOUTHCOM and U.S. Embassy officials said they believed that overall coordination at the working level has been effective. However, as the end of the treaty implementation period nears and increasing numbers of properties are prepared for turnover, officials from both SOUTHCOM and the U.S. Embassy noted that all participants will need to be kept fully informed on actions being taken and on U.S. policy decisions.

## DOD Environmental and Property Valuation Policies

According to an agreement implementing the Panama Canal Treaty, before the United States transfers properties to Panama, the two countries must consult with each other concerning the properties' condition, including the removal of hazards to life, health, and safety. We previously reported that DOD experienced high termination costs for bases closed in Germany and that the U.S. military withdrawal from the Philippines involved high costs for relocation and potentially high costs for environmental damage.<sup>9</sup>

<sup>8</sup>The charge d'affaires represents the United States in the absence of an ambassador.

<sup>9</sup>European Drawdown: Status of Residual Value Negotiations in Germany (GAO/NSIAD-94-195BR, June 23, 1994) and Military Base Closures: U.S. Financial Obligations in the Philippines (GAO/NSIAD-92-51, Jan. 22, 1992).

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DOD has approved a policy for the transfer of DOD properties to the government of Panama. The policy specifies that DOD will eliminate known imminent and substantial hazards to human health and safety and will attempt to maintain the usefulness of facilities transferred to Panama. SOUTHCOM is developing implementing procedures and is expected to prepare and maintain records of all facility transfer consultations and agreements.

DOD has several firing ranges among the properties it will transfer to Panama. They present the most problematic environmental concerns due to the potential for unexpended ordnance below and on the surface. Other potential environmental concerns involve fuel spills and leaks from underground storage tanks. The President of Panama's Interoceanic Regional Authority stated that the Panamanian government has been studying contamination on U.S. bases to document contamination levels. He said that the Panamanian government would ask the United States to decontaminate all military bases before turning them over to Panama and noted that the total cost of decontamination might be in the hundreds of millions of dollars.

Although the Panama Canal Treaty states that U.S. properties will revert to Panama at no charge, an agreement to implement the treaty requires that the United States and Panama consult with each other concerning compensation for the properties' residual value. To comply with the agreement, DOD's policy on the valuation of transferred facilities to Panama states that the adjusted book value (that is, the original cost adjusted for age, inflation, and condition) of the nonremovable property or improvements will be used as the starting point for discussion of residual value with the government of Panama. Accordingly, DOD is recording the accumulated residual value of these properties, and DOD officials have noted that such figures could be used to offset Panamanian claims for environmental damage.

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## Personnel Issues

One SOUTHCOM objective is to maintain a high quality of life for military members and their families in Panama. SOUTHCOM's Commander-in-Chief has stated that he believes military forces stationed in Panama should continue to be accompanied by their families as long as possible. He has also stated that on-base housing should be provided to the extent possible to all military members who want to live on base. As the transfer of DOD properties occurs, SOUTHCOM's Commander-in-Chief has also made it a

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priority to maintain a full range of community services for U.S. military personnel and their families, including the education of dependents.

The drawdown of U.S. military troops in Panama will result in the termination of civilian employees' jobs. As of June 1995, DOD employed more than 6,350 U.S. and Panamanian and other non-U.S. civilians in Panama, about 1,800 of whom were temporary employees. Permanent employees, who are eligible for severance pay, will receive a basic severance and an age adjustment allowance when their jobs are eliminated.

The U.S. Panama Area Personnel Board is responsible for coordinating civilian personnel policy in Panama. The Board's Executive Director told us that DOD and the Board have been planning for the DOD drawdown by implementing several programs to reduce the costs of treaty implementation. For example, the Board administers interagency placement and referral programs to help displaced DOD civilian employees find jobs with other federal agencies and the Panamanian private sector. Also, the Board has approved policies that encourage the use of treaty-related retirements for pre-treaty employees covered under the Civil Service Retirement System. Both of these programs encourage voluntary separations and in turn decrease the adverse effects of reductions-in-force.

We previously reported that in other countries DOD had not always anticipated the full extent of its termination liabilities for displaced host country personnel. These liabilities have been significant.<sup>10</sup> In anticipation of the drawdown in Panama, all locally hired DOD civilians have been appointed on a temporary basis since November 1989. As of June 1995, 26 percent of DOD's Panamanian and other non-U.S. civilian employees were temporary hires. Temporary employees are not eligible for severance pay or reduction-in-force rights when displaced, which will help reduce the budgetary impact of a reduction-in-force on the U.S. government.

Under 5 U.S.C. 8348 (i)(1), the Panama Canal Commission is responsible for that portion of any estimated increase in liability resulting from the early retirement of pre-treaty Commission and DOD employees. According to a Panama Area Board official, the Office of Personnel Management confirmed that the special retirement costs for all pre-treaty DOD employees have been included in the Commission's monthly payments to the U.S. Civil Service Retirement Fund. Our audit of the Commission's

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<sup>10</sup>Base Closures: Long and Costly Process of Reducing the Local National Work Force in Germany (GAO/NSIAD-92-62, Apr. 17, 1992) and Army Force Structure: Personnel, Equipment, and Cost Issues Related to the European Drawdown (GAO/NSIAD-92-200BR, Apr. 9, 1992).

1993 and 1994 financial statements found that early retirement costs are being funded from Canal revenues on an accelerated basis in order to be fully funded by 1999.<sup>11</sup>

## Treaty Implementation Costs

DOD reported that as of September 30, 1994, its cumulative treaty-related cost was \$813 million, and officials believe that DOD's future treaty-related costs will be about \$554 million.<sup>12</sup> These costs are for relocating units, turning over properties, consolidating forces into fewer sites, and funding other planning considerations. However, these costs are not offset by estimated savings such as reduced maintenance and civilian personnel costs that may accrue as a result of transferring properties to Panama.

About \$447 million of the \$554 million in estimated DOD future costs is related to the Army. The Army's future costs include the following:

- Relocation costs of \$292.9 million include transportation of personnel, families, and equipment; civilian personnel severance pay; procurement of communication equipment for SOUTHCOM headquarters; and construction for units remaining in the force structure.
- Turnover costs of \$51.7 million include repair and maintenance to facilities before turnover, environmental compliance and hazardous waste disposal requirements, deinstallation or removal of equipment from facilities and transportation to a disposition area, and security of facilities before turnover.
- Consolidation costs of \$44.3 million include local transportation of equipment from one site to another; upgrade of base communications and design and construction of an information facility at Howard Air Force Base, Rodman Naval Station, and Fort Kobbe; and facility renovation to accommodate consolidating units.
- Other costs of \$58.4 million include operation of treaty implementation offices at SOUTHCOM and DOD headquarters, travel allowances for military police to provide security, and transfer of supplies to other locations.

The Air Force and the Navy estimated that they will need \$82.9 million and \$23.9 million, respectively, for treaty implementation requirements from 1996 to 2000.

<sup>11</sup>Financial Audit: Panama Canal Commission's 1994 and 1993 Financial Statements (GAO/AIMD-95-98, Mar. 31, 1995).

<sup>12</sup>This figure does not include funding to fully decontaminate the firing ranges and military bases, which the President of the InterOceanic Regional Authority said the government of Panama might request.

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## Agency Comments

In commenting on a draft of this report, DOD generally concurred with the information included in this report (see app. I). DOD provided some technical points of clarification, which we incorporated where appropriate. The State Department provided oral comments, which we have also incorporated where appropriate.

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## Scope and Methodology

We interviewed and obtained relevant documents from officials at DOD, the State Department, the Panama Canal Commission, the Agency for International Development, the U.S. Embassy in Panama, and SOUTHCOM. We also visited a number of DOD properties in Panama. We conducted our review from February 1994 to January 1995 and updated the information in June 1995 in accordance with generally accepted government auditing standards.

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We are sending copies of this report to the Chairman and Ranking Minority Member, Senate Committee on Armed Services, and other appropriate congressional committees; the Secretaries of Defense and State; and other interested parties.

If you or your staffs have any questions concerning this report, please call me on (202) 512-4128. Major contributors to this report were Lawrence L. Suda, Assistant Director; Oliver G. Harter, Evaluator-in-Charge; and Jay A. Scribner, Evaluator.



Harold J. Johnson, Director  
International Affairs Issues

# Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



## ASSISTANT SECRETARY OF DEFENSE

2400 DEFENSE PENTAGON  
WASHINGTON, D.C. 20301-2400



28 JAN 1995

Mr. Harold J. Johnson  
Director, International Affairs Issues  
National Security and International  
Affairs Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Johnson:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report entitled "PANAMA: DOD's Drawdown Plan for the U.S. Military in Panama" dated December 2, 1994 (GAO Code 711066), OSD Case 9824-X. The DoD partially concurs with the report.

The GAO draft report reflects information available through October 1994. However changes are continuing to occur. The changes to the Treaty Implementation Plan proposed by the U.S. Southern Command, even though not yet formally approved, have created a different situation today than was depicted during the time of the GAO review. For example, the inactivations of some units are delayed and some properties will revert later than originally reported.

In addition, while the DoD agrees with much of the information included in the draft it is important that GAO discussion of treaty-related requirements be precisely presented to avoid incorrect interpretation. In that regard it should be clearly recognized that there are important differences between the treaty itself and treaty protocols.

The detailed DoD comments on the draft report findings are provided in the enclosure. Suggested technical changes were separately provided to the GAO staff. The DoD appreciates the opportunity to comment on the GAO draft report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Maurice L. Green" or similar, followed by "for".

Joseph S. Nye, Jr.

Enclosure

See comment 1.

**GAO DRAFT REPORT - DATED DECEMBER 2, 1994  
(GAO CODE 711066) OSD CASE 9824-X**

**"PANAMA: DOD's DRAWDOWN PLAN FOR  
THE U.S. MILITARY IN PANAMA"**

**DEPARTMENT OF DEFENSE COMMENTS**

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**FINDINGS**

**FINDING A: Panama Canal Treaty.** The GAO observed that the Panama Canal Treaty and the Treaty Concerning the Permanent Neutrality and Operations call for the continued neutrality of the canal, but specify that, by December 31, 1999, (1) all U.S. military forces will be withdrawn from Panama; (2) only Panama will operate and maintain military forces, defense sites, and military installations within its national territory; and (3) the U.S. will transfer, without charge, all U.S. military real property and nonremovable improvements in Panama to the Panamanian Government.

The GAO further observed that the May 1994, DoD Treaty Implementation Plan includes plans to (1) relocate or deactivate about 10,050 military personnel, 3,000 U.S. civilian, and 5,200 non-U.S. civilian personnel; (2) consolidate DoD operations primarily onto a few bases on the Pacific side of the isthmus by 1995 and transfer all DoD facilities to Panama by the end of 1999; and (3) relocate U.S. Southern Command (SOUTHCOM) headquarters. In addition, the GAO pointed out that the DoD plans to transfer to Panama about 77,000 acres of property and 4,272 buildings that have an investment cost of about \$538 million. The GAO noted that those facilities include major military installations, such as Howard Air Force Base (5,282 acres); Fort Sherman (23,100 acres); and Fort Sherman (23,100 acres). (pp. 1-3/GAO Draft Report)

**DoD RESPONSE:** Partially concur. The GAO observed that the Panama Canal Treaties specify that by December 31, 1999, all U.S. military

forces will be withdrawn from Panama and that only Panama will operate and maintain military forces and defense sites and installations within Panama. The DoD agrees that the Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal (the Neutrality Treaty) does contain language to this effect. It should be recognized, however, that the Protocol of Exchange of Instruments of Ratification regarding the Treaty Concerning the Permanent Neutrality and Creation of the Panama Canal and the Panama Canal Treaty of June 16, 1978, contains a stipulation which has the effect of limiting the treaty language. That protocol states that "Nothing in the Neutrality Treaty shall preclude the Republic of Panama and the United States of America from making ... any agreement or arrangement between the two countries to facilitate performance at any time after December 31, 1999, of their responsibilities to maintain the regime of neutrality established in the Treaty, including agreements or arrangements for the stationing of any United States forces or the maintenance of defense sites after that date in the Republic of Panama....." Therefore, any arrangement between the two countries for stationing of forces after 1999 would not require any modification of the existing treaty, as ratified.

October 14, 1993 was the last annual update to the Treaty Implementation Plan document directing the draw down of U.S. Forces from Panama. The GAO report should reference that document, rather than the May 1994, DoD Treaty Implementation Plan.

Finding B remains classified.

See comment 2.

See comment 3.

**FINDING C: Status of DoD Facilities to Be Transferred.**

The GAO observed that according to the DoD Treaty Implementation Plan, operations will be consolidated to a few locations primarily on the Pacific side of the isthmus by 1995, and transfer of all DoD facilities to Panama by December 1999. Specifically, the GAO reported that:

- In May 1994, the DoD transferred the Coco Solo Medical Clinic on the Atlantic side of the isthmus to Panama.
- Consolidation of U.S. troops on the Pacific side is planned for Howard Air Force Base, Fort Kobbe, and Rodman Naval Station-- facilities that are among those the U.S. military would want to retain, if the U.S. and Panama agree on a post-1999 U.S. presence in Panama.
- The transfer of Fort Davis and Fort Espinar, expected in October 1995.
- The transfer of the Jungle Operations Training Center at Fort Sherman, is scheduled for transfer in 1999.
- About 1,400 military and 775 civilian personnel on the Atlantic side will be relocated or deactivated in 1994 and 1995, and by the end of 1995, only 179 military and 121 civilian personnel are scheduled to remain on the Atlantic side to staff the Jungle Operations Training Center.
- The SOUTHCOM headquarters would be relocated in 1995-- however, a decision on the new location of SOUTHCOM

See comment 4.

headquarters had not been made as of October 1994, and the SOUTHCOM relocation has been postponed until 1998. The GAO noted that in June 1994, the SOUTHCOM Commander-in-Chief submitted a proposal to relocate the SOUTHCOM headquarters out of Panama regardless of whether the U.S. retains a post-1999 military presence in Panama, but the Secretary of Defense had not responded to that proposal as of October 1994. (pp. 8-11/GAO Draft Report)

**DoD RESPONSE:** Partially concur. The 1994 annual SOUTHCOM update of the Panama Canal Treaty Implementation Plan (PC TIP) also specifies the retention of Fort Clayton as one of those facilities that the U.S. Military would want to retain for optimizing available base support infrastructure, particularly family housing for the refined TIP personnel ceiling. In addition, based on the 1994 annual SOUTHCOM update of the PC TIP, about 1,400 military and 775 civilian personnel on the Atlantic side will be relocated or inactivated in 1994 and 1995. However, by the end of 1995, only 154 military and 116 civilian personnel are now scheduled to remain on the Atlantic side to staff the Jungle Operations Training Center and the Galetta Island operation.

As of January 1995, the Secretary of Defense has not yet responded to the SOUTHCOM proposal to relocate the SOUTHCOM headquarters out of Panama, regardless of whether the U.S. retains a post-1999 military presence there. A decision by the Secretary of Defense is expected by the end of March 1995.

**FINDING D: Coordination of Treaty Issues.** The GAO reported that the SOUTHCOM and the U.S. Embassy have interrelated responsibilities for implementing the Panama Canal treaties. The GAO explained that the U.S. Ambassador to Panama has overall responsibilities for (1) coordinating the transfer of U.S. properties to Panama, (2) generally providing authoritative treaty interpretations, and (3) negotiating bilateral agreements with Panama on behalf of U.S. agencies. The GAO added that the SOUTHCOM is responsible for planning and coordinating activities affecting the U.S. forces and military-related aspects of the treaties.

The GAO reported that various committees assist with implementing the treaties, such as: (1) the Joint Committee which addresses treaty-related matters pertaining to the U.S. and Panama; (2) the Panama Review Committee which meets to discuss U.S. Government positions on various

See comment 4.

matters, including those related to treaty implementation; (3) an unofficial binational planning working group that was established to help Panama create the Inter-oceanic Regional Authority responsible for developing land use plans for reverted properties; and (4) the Joint Commission on Environment which advises both U.S. and Panamanian Governments on matters pertaining to safety, health, and the environment.

The GAO pointed out that according to SOUTHCOM and U.S. Embassy officials, the overall coordination at the working level had been satisfactory. However, the GAO noted that as the end of the treaty implementation period nears and increasing numbers of properties are prepared for turnover, officials from both the SOUTHCOM and the U.S. Embassy indicated that all participants will need to be kept fully informed on actions being taken and on U.S. policy decisions.  
(pp. 11-13/GAO Draft Report)

**DoD RESPONSE:** Concur. The U.S. Ambassador to Panama has overall responsibilities for (1) effecting the diplomatic notes that transfer U.S. properties to Panama, (2) generally providing authoritative treaty interpretations, and (3) negotiating the bilateral agreements with Panama on behalf of U.S. agencies that fall outside of the purview of the Treaty mandated Joint Committee. The Joint Committee addresses treaty-related matters pertaining to the U.S. forces and Panama. The Binational Planning Working Group is an unofficial committee established to assist Panama in treaty related activities, to include sharing and coordinating turn over timelines, reutilization workshops, and exchange of computer aided information.

**FINDING E: The DoD Policies On the Condition and Value of Properties.** The GAO reported that according to an agreement implementing the Panama Canal Treaty, the U.S. and Panama are required to consult with each other, before the transfer of properties, concerning the properties condition, including the removal of hazards to life, health, and safety. The GAO noted that the DoD has approved a policy for the transfer of DoD properties to the Government of Panama, which specifies that the DoD will eliminate known imminent and substantial hazards to human health and safety and will attempt to maintain the usefulness of facilities transferred to Panama. The GAO added that the SOUTHCOM is developing implementing procedures and is expected to prepare and maintain records of all facility transfer consultation and agreements.

The GAO reported that although the treaty states that DoD properties

will revert to Panama at no charge, an agreement to implement the treaty requires the U.S. and Panama consult with each other concerning compensation for the residual value. The GAO noted that to comply with the agreement, the DoD policy of the valuation of transferred facilities to Panama states that the adjusted book value of the nonremovable property or improvements will be used as the starting point for discussion of residual value with the Government of Panama. The GAO pointed out that accordingly, DoD is recording the accumulated residual value of those properties, and DoD officials have noted that such figures could be used to offset any Panamanian claims for environmental damage. (pp. 14-15/GAO Draft Report)

**DoD RESPONSE:** Concur.

**FINDING F: Personnel Issues.** The GAO reported that according to the SOUTHCOM Commander-in-Chief, military forces stationed in Panama should continue to be accompanied by their families as long as possible, and that on-base housing should be provided to the extent possible to all military members who want to live on base. The GAO noted that as the transfer of DoD properties occurs, the SOUTHCOM Commander-in-Chief has also made it a priority to maintain a full range of community services for U.S. military personnel and their families, including the education of dependents. The GAO reported that although the drawdown of U.S. military troops in Panama will result in civilian employee terminations, permanent employees eligible for severance pay, will receive a basic severance and an age adjustment allowance upon termination. The GAO noted that as of June 1994, DoD employed more than 8,200 U.S. and Panamanian civilians in Panama, 2,700 of which were temporary employees.

The GAO reported that the U.S. Panama Area Personnel Board is responsible for overseeing civilian personnel activities in Panama. The GAO reported that according the Board's Director, the DoD and the Board have been planning for the DoD drawdown by implementing several programs to reduce the costs of treaty implementation. The GAO reported that the Board has also approved policies that encourage the use of treaty-related retirements for pre-treaty employees covered under the Civil Service Retirement Systems. The GAO added that both of those programs encourage voluntary separation which, in turn, decrease the adverse effects of reduction-in-force. The GAO further added that, in anticipation of the drawdown, all locally hired DoD civilians have been appointed on a temporary basis since November 1989. The GAO explained that because

temporary employees are not eligible for severance pay or reduction-in-force rights when displaced, that action will help reduce the budgetary impact of a reduction-in-force on the U.S. government.  
(pp. 15-17/GAO Draft Report)

**DoD RESPONSE:** Concur. The U.S. Panama Area Personnel Board is also responsible for coordinating personnel policy in Panama.

**FINDING G: Treaty Implementation Costs.** The GAO reported that as of September 30, 1993, DoD cumulative treaty-related costs were \$770 million, and according to officials, DoD requirements for future treaty related costs are about \$554 million. The GAO explained that those costs are for relocating units, turning over properties, consolidating forces into fewer sites, and funding other planning considerations. The GAO pointed out that those costs are not offset by estimated savings, such as reduced maintenance and civilian personnel costs that may accrue as a result of transferring properties to Panama.

The GAO asserted that the Army portion of future costs is about \$447 million, and include (1) relocation costs of \$292.9 million, (2) turnover costs of \$51.7 million, (3) consolidation costs of \$44.3 million, and (4) other costs of \$58.4 million for operation of treaty implementation offices at SOUTHCOM and DoD headquarters. The GAO also noted that the Air Force and the Navy estimated that they will need \$82.9 million and \$23.9 million, respectively, for treaty implementation requirements from 1996 to 2000.

The GAO noted that according to DoD officials, the lack of a timely decision on where to relocate the SOUTHCOM headquarters could result in a lack of funding in the DoD budget for major construction that may be needed for the new location, thereby delaying the move even further. The GAO also noted that according to DoD officials, a decision on a location for the SOUTHCOM must be made by mid-1995, to ensure that budgets are formulated and approved in time to facilitate the move.  
(pp. 18-19/GAO Draft Report)

**DoD RESPONSE:** Concur. As of September 30, 1993, the DoD cumulative treaty-related costs were \$770 million and DoD requirements for future treaty related costs are about \$554 million for relocating units, turning over properties, consolidating forces into fewer sites, and funding other planning considerations. The September 1993 estimated costs are well within the funding limits established by Public Law 96-70. and are

See comment 5.

not offset by savings such as reduced maintenance and civilian personnel costs that may accrue as a result of transferring properties to Panama.

**RECOMMENDATIONS**

**NONE.**

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The following are GAO's comments on the Department of Defense's letter dated January 28, 1995.

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## GAO Comments

1. As stated in the report, we updated the information in our classified report, and verified this information with the appropriate agencies.
2. Our draft report did not state that any arrangement between Panama and the United States for stationing forces after 1999 would require a treaty modification; nonetheless, we modified our report to clarify this point.
3. The report text has been modified to reflect this information.
4. See page 8 for updated information on the SOUTHCOM's scheduled move to Miami.
5. See page 12 for updated cost estimates.

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