

# **Operation Just Cause's Unjust Aftermath: Drug Trafficking and Money Laundering in Post-Noriega Panama**

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Operation Just Cause, the U.S. invasion of Panama in December 1989, marked a critical turning point in America's foreign and military policy. As the first sizeable commitment of U.S. armed forces after the Vietnam debacle, it set the stage for the much larger intervention in the Persian Gulf a year later.<sup>1</sup> It also marked a remarkable escalation in the previously metaphorical 'war on drugs', by establishing Washington's legal claim to the extraterritorial use of force to apprehend suspected drug traffickers abroad.

Many accounts have chronicled the war of nerves leading up to the short but bloody invasion of Panama, and the subsequent the drug trial of Manuel Noriega. Very few, on the other hand, have covered the aftermath, particularly with respect to drugs.<sup>2</sup> Reporters who came to Panama with the troops soon returned home when the brief excitement was over. Attention turned to Noriega's historic trial and conviction in Miami for conspiring to aid the Medellín Cartel and its criminal allies. For much of the media, and even for most scholars, Panama without Noriega was just another Central American backwater.<sup>3</sup>

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<sup>1</sup> As former Secretary of State James Baker observed, 'In breaking the mindset of the American people about the use of force in the post-Vietnam era, Panama established an emotional predicate that permitted us to build the public support so essential for the success of Operation Desert Storm some thirteen months later.' James Baker and Thomas DeFrank, *The Politics of Diplomacy: Revolution, War and Peace, 1989-1992* (New York: G. P. Putnam's Sons, 1995) p. 194.

<sup>2</sup> Among the few exceptions are Christina Jacqueline Johns and P. Ward Johnson, *State Crime, the Media, and the Invasion of Panama* (Westport, CT: Praeger, 1994) pp. 98-102; The Independent Commission of Inquiry on the U.S. Invasion of Panama, *The U.S. Invasion of Panama: The Truth Behind Operation 'Just Cause'* (Boston: South End Press, 1991) pp. 57-59; and Tom Barry, et al., *Inside Panama* (Albuquerque: Resource Center Press, 1995) p. 22.

Other histories say little or nothing about drug issues in Panama in the post-Noriega years. See, for example, Robert C. Harding, *The History of Panama* (Westport CT: Greenwood Press, 2006) and Orlando J. Pérez, ed., *Post-Invasion Panama: The Challenges of Democratization in the New World Order* (Lanham, MD: Lexington Books, 2000).

<sup>3</sup> John Lindsay Poland makes much the same point about the media in *Emperors in the Jungle: The Hidden History of the U.S. in Panama* (Duke University Press, 2003) p. 122. That said, there were many important exceptions, and I am grateful to the diligent reporters whose work I cite.

But a close look at the evolution of Panama's connection to the drug trade in the immediate years after Noriega sheds light on several important questions. How essential was Noriega really to the protection of drug trafficking and drug-related money laundering in Panama during his years of rule? Did the strategy of neutralizing drug 'kingpins' result in any noticeable reduction in the flow of narcotics to the United States? And did Washington's policies in the aftermath of Noriega's ouster comport with the public rationale for the invasion, including the Bush administration's expressed commitment to fighting drugs by any and all means necessary?

It will surprise few students of the drug trade that Noriega's downfall, like that of many bigger traffickers before and after, did nothing to hold back the rising tide of cocaine that flowed north from the Andean nations. What may be more surprising was Washington's willingness to replace Noriega with civilian leaders who had an unambiguous (if not technically criminal) record of serving Colombia's biggest drug lords by protecting their secret financial assets in Panamanian banks. Key members of the new government had in the 1980s represented dirty banks that Noriega, in a remarkable display of cooperation with U.S. law enforcement, closed down or put at risk. In fact, significant elements of Noriega's political opposition represented, in addition to genuine democrats and human rights supporters, business interests that were threatened by the strongman's crackdown on lucrative opportunities to profit from laundering drug profits. Evidently, this framing is entirely at odds with the official version of events, which was spun in the late 1980s to justify Washington's reversal of policy toward Noriega. This paper calls into question just how committed senior American leaders were to sustaining the war on drugs at a time of many other foreign policy challenges, including the fall of communism and the showdown with Saddam Hussein in Desert Storm.

## **The Noriega Legacy**

**T**o better understand the significance of drug trafficking and money laundering in post-Noriega Panama, it pays to reexamine some of the widely ignored or forgotten clashes between the Noriega regime and the major Colombian 'cartels'.<sup>4</sup> The evidence suggests that powerful drug criminals wanted to see Noriega ousted – and that some went on to prosper under the new government that Washington

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<sup>4</sup> I use the term 'cartel' loosely, as it has been used by the DEA and the media, to refer to close associates of Pablo Escobar, the Ochoa family, and José Gonzalo Rodríguez Gacha (Medellín Cartel), and of Gilberto Rodríguez Orejuela and José Santacruz Londoño (Cali Cartel). The global drug trade has never resembled a true economic cartel.

installed in his place.

Journalists who should have known better routinely described Noriega as having been 'one of the world's biggest drug kingpins'.<sup>5</sup> In fact, the U.S. attorney who oversaw his Miami indictment and trial admitted, 'Noriega was never a major player in the drug war.'<sup>6</sup> A few close observers of the long, expensive, and controversial trial believe it failed to prove the government's case at all.<sup>7</sup> Years afterward, retired Medellín cocaine lord Juan David Ochoa claimed in an interview with *Frontline* that 'at no moment did [Noriega] protect us. . . . As far as I know he had nothing to do with the drug trade.'<sup>8</sup>

During Noriega's trial, U.S. officials sat in embarrassment as the defense spent days reading back to them official letters lauding his cooperation in the war on drugs.<sup>9</sup> Critics dismissed those notes as meaningless 'attaboy' letters sent to butter Noriega up. But DEA officials praised Noriega in private as well as in public. Recalled Duane Clarridge, former head of Latin America operations for the CIA,

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<sup>5</sup> Vivienne Walt, 'Despite French Sentence, Noriega Could Go Home', *Time*, July 7, 2010.

<sup>6</sup> Leon Kellner, quoted in Frederick Kempe, *Divorcing the Dictator: America's Bungled Affair With Noriega* (New York: G.P. Putnam's Sons, 1990) p. 247.

<sup>7</sup> David Adams, who covered the trial extensively, said the government's case was 'marred by incompetent witnesses, false testimony, and poor presentation' (*Independent*, October 21, 1991). Paul Rothstein, Georgetown University law professor and former chairman of the American Bar Association's criminal evidence committee, said of the government's witnesses, 'What promised to be the trumpeting of elephants turned out to be the whimperings of mice' (Reuters, December 17, 1991). The fierce Noriega critic R. M. Koster called the trial 'unjust' and declared, 'The prosecution was shameless in its bribery of witnesses. What co-defendants got for flipping made me sometimes wish that I had been indicted. The proceedings were almost totally politicised. It was clear long before they opened that, regardless of evidence, Noriega could not possibly be acquitted--a very sad thing for the United States'. See 'Noriega' at <[http://www.escapeartist.com/efam/56/panama\\_again.html](http://www.escapeartist.com/efam/56/panama_again.html)> For the defense case, see Manuel Noriega and Peter Eisner, *The Memoirs of Manuel Noriega: America's Prisoner* (New York: Random House, 1997). Eisner quotes Judge William Hoeveler, who presided over the trial, as saying 'the outcome could have been different' if Noriega had been better represented (p. xxv).

<sup>8</sup> Interview with Juan David Ochoa, 2000, at <<http://www.pbs.org/wgbh/pages/frontline/shows/drugs/interviews/ochoajdo.html>>. For more exonerating statements from the Ochoas, see Dominic Streatfeild, *Cocaine: An Unauthorized Biography* (New York: Picador, 2001), 479. Greg Passic, former head of financial operations for the DEA, said, 'The Colombians I talked to in the drug transportation business said they didn't deal with Noriega at all. To deal with him you would just have to pay him more money. They didn't need it. It would be expensive'. Passic interview, April 13, 2012.

<sup>9</sup> Copies of some of these letters were collected and published by the Republic of Panama in *Panama: 16 Years of Struggle Against Drug Traffic* (Panama: Editora Renovacion, 1988).

'The DEA had told us that they were getting great support in Panama, and from Noriega in particular, in interdicting drugs.'<sup>10</sup> More than a year after the U.S. invasion, when such sentiments were best suppressed, one 'federal drug enforcement source' told a reporter, 'Noriega was helping us, not ten percent, not twenty percent of the time, but in every instance we asked him to do so, one-hundred percent of the time . . . These were key operations . . . that struck at both the Cali and Medellín cartels.'<sup>11</sup>

Among other accomplishments, Noriega and his men helped the DEA target the vital financial infrastructure of the drug cartels.<sup>12</sup> This was a matter of the highest importance to U.S. law enforcement. As the House Committee on Foreign Affairs noted in 1985, 'With more than one hundred banks, the U.S. dollar as the national currency, and strict bank secrecy laws, Panama is an ideal haven for laundering narcotics money. Unlimited amounts of money may be brought into and out of the country with no reporting requirements, and money laundering is not a crime.'<sup>13</sup> A study by the U.S. Treasury estimated that nearly a billion dollars a year in drug cash flowed each year between Miami and Panama.<sup>14</sup>

In a landmark case in 1985, Noriega permitted the country's banking commission to close down First Interamericas Bank, owned by one of the leaders of the Cali Cartel, Gilberto Rodríguez Orejuela, who was fighting extradition from Spain on drug charges in the United States. The bank laundered tens of millions of dollars for the Medellín Cartel as well.<sup>15</sup> As we will see, several leading members of the post-Noriega government sat on the bank's board of directors.

One of the high points of Noriega's cooperation was Operation Pisces, a

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<sup>10</sup> Duane R. Clarridge and Digby Diehl, *A Spy for All Seasons: My Life in the CIA* (New York: Simon and Schuster) 2002, pp. 237, 342.

<sup>11</sup> *Newsday*, January 31, 1992.

<sup>12</sup> Steve Albert, *The Case Against the General* (New York: Charles Scribner's Sons, 1993) p. 348 (Operation Negocios).

<sup>13</sup> February 1985 staff report, quoted Albert (see note 12) p. 13.

<sup>14</sup> U.S. Congress, House of Representatives, Select Committee on Narcotics Abuse and Control, hearing, *U.S. Foreign Policy and International Narcotics Control – Part II* (Washington: U.S. Government Printing Office, 1988) pp. 11, 31.

<sup>15</sup> *Miami Herald*, March 13 1985; Robert E. Powis, *The Money Launderers: Lessons From the Drug Wars – How Billions of Illegal Dollars Are Washed Through Banks & Businesses* (Chicago: Probus, 1992) p. 121; Reuters, February 11, 1992 (testimony of DEA agent Thomas Telles); Albert (see note 12) p. 368; Ron Chepesiuk, *The Bullet or the Bribe: Taking Down Colombia's Cali Drug Cartel* (London: Bloomsbury, 2003) p. 104.

three-year undercover probe that Attorney General Edwin Meese called 'nothing less than the largest and most successful undercover investigation in federal drug law enforcement history'. Among those indicted were Medellín Cartel kingpins Pablo Escobar and Fabio Ochoa.<sup>16</sup> Panama contributed forty arrests and seized \$12 million from accounts in 18 local banks. Said one U.S. prosecutor who helped direct the case, 'The Panamanian officials we were dealing with were sincerely cooperative. They had information. They could have breached security, and they didn't.'<sup>17</sup>

These money laundering cases garnered Noriega numerous friends in the DEA, but lost him important allies at home. Indeed, these local antagonists played a critical role in fomenting domestic opposition to Noriega's rule. The reason was simple: Panama's financial services sector accounted for about a tenth of the country's gross domestic product and employed more than eight thousand people. They formed what the *Wall Street Journal* called 'the nucleus of a thriving middle class'.<sup>18</sup>

This politically powerful sector was directly threatened when Noriega opened negotiations with Washington in 1984 over a Mutual Legal Assistance Treaty that would make it easier for U.S. authorities to request privileged financial information in criminal cases. 'The negotiations, and the publication of the draft treaty in early 1985, caused squeals of indignant protest from the opposition, many of whose most prominent members were bankers', noted John Dinges, one of Noriega's biographers. '*La Prensa*, in banner headlines, said the proposed law put "at grave risk" the secrecy that is considered the pillar on which the International Financial Center of Panama rests.'<sup>19</sup>

The opposition protested even louder when Panama's legislative assembly finally passed a law to crack down on money laundering in December 1986.<sup>20</sup> A

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<sup>16</sup> 'Drugs: Hooking Some Big Fish', *Time*, May 18, 1987; *Sun-Sentinel* (South Florida), May 7, 1987; *Houston Chronicle*, May 7, 1987; *Los Angeles Times*, May 7, 1987 and October 1, 1987.

<sup>17</sup> *Los Angeles Times*, April 2, 1988; House Committee on Appropriations, Subcommittee, hearings, *Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations for 1989*, Part 6, p. 20. For more on Panama's cooperation, see also *Los Angeles Times*, May 7, 1987, and John Dinges, *Our Man in Panama* (New York: Random House, 1990) p. 257.

<sup>18</sup> *Wall Street Journal*, August 7, 1987.

<sup>19</sup> Dinges (see note 17) p. 203.

<sup>20</sup> *Latin America Weekly Report*, January 8, 1987; *Inforpress Centroamericana*, May 21, 1987.

few months later Attorney General Carlos Augusto Villalaz ordered the seizure of fifty-two accounts at eighteen Panamanian banks as part of Operation Pisces—and threatened uncooperative bank managers with arrest.<sup>21</sup> One local banker warned, ‘this could end the Panamanian banking system, because people will no longer believe they can count on bank secrecy’.<sup>22</sup>

Within two months, spooked investors withdrew anywhere from \$2 billion to \$4 billion of the country’s \$39 billion in bank deposits. *Newsday* reported that Panama’s cooperation with the DEA in Operation Pisces had ‘sparked the most serious banking crisis in Panama’s history’, creating the greatest single ‘threat to military strongman Gen. Manuel A. Noriega’. A Western diplomat said of Noriega, ‘The bankers can bring him down. They are complaining in Washington and they’ve got a lot of clout.’ Opposition leader Ricardo Arias Calderón (and the country’s future vice president) spoke for that powerful lobby when he declared, ‘I believe the continuation in power of General Noriega is a danger to the Panamanian economy.’<sup>23</sup> The demonstrations organised that summer by Panama’s business elite – and Noriega’s heavy-handed response to them – triggered his eventual slide from power.<sup>24</sup>

Major cartel leaders also wanted Noriega ousted, viewing him as an ‘obstacle to the functioning’ of their money laundering operations in Panama.<sup>25</sup> A lawyer for the bosses of the Cali Cartel complained that his clients were

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<sup>21</sup> *Latin America Regional Report*, June 11, 1987.

<sup>22</sup> *Inforpress Centroamericana*, May 21, 1987.

<sup>23</sup> *Los Angeles Times*, July 1, 1987 (reprinting *Newsday*); *Wall Street Journal*, August 7, 1987; *New York Times*, August 10, 1987; Bogota Intravision Television July 31, 1987. The dissent fomented by banking interests contributed to popular protests unleashed after allegations of official corruption and murder made by former PDF Col. Robert Diaz Herrera, who was relieved of his command after attempting to seize power. The protests, motivated by a variety of genuine concerns, were organised by leaders of the business and financial community under the umbrella of the National Civic Crusade, which was headquartered at the Chamber of Commerce. See ACAN-EFE, June 15, 1987; *Central America Report*, June 19, 1987.

<sup>24</sup> Kevin Buckley, *Panama* (New York: Touchstone; 1992) pp. 78-101; Kempe (see note 6) pp. 213-26; Dinges (see note 17) pp. 262-270; William L. Marcy, *The Politics of Cocaine: How U.S. Foreign Policy Has Created a Thriving Drug Industry in Central and South America* (Chicago: Lawrence Hill Books, 2010) p. 150. Noriega reacted to the demonstrations by declaring a state of emergency, suspending portions of the constitution, imposing press censorship, and using force against rioters. See *Miami Herald*, June 21, 1987; *Insight*, July 31, 1987.

<sup>25</sup> Rensselaer Lee, *The White Labyrinth: Cocaine and Political Power* (New Brunswick: Transaction, 1989) p. 183.

'frustrated by the problems' Noriega created for them in Panama.<sup>26</sup> Cali leaders later got their revenge when they provided \$1.25 million to bribe a trafficker associated with the Medellín cartel to become a key witness against Noriega in his Miami trial. In exchange for the testimony, eager U.S. prosecutors even agreed to cut nine years off the sentence of an unrelated Cali trafficker – brother of one of that cartel's senior leaders.<sup>27</sup>

As for Medellín leaders, a pilot for one of the bigger smugglers, Carlos Lehder, recalled, 'Carlos never liked Noriega. He never trusted this guy.' The same witness described Pablo Escobar's reaction after Noriega approved the raid on a Cartel cocaine lab in May 1984: 'He was just really out of whack with Noriega. He was like, "This guy is dead. No matter what, he is dead."' <sup>28</sup>

Noriega might have survived many years longer had he not been caught up in the wave of anti-drug fervor unleashed in the United States by the 1986 crack-linked death of basketball player Len Bias.<sup>29</sup> This public alarm was directed against Noriega by an unusual pair of allies: the right-wing Senator Jesse Helms, who hated Panama's cozy relations with Cuba and Central American insurgent groups, and the liberal Senator John Kerry, who deplored Panama's human rights

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<sup>26</sup> Kempe (see note 6) pp. 3-4.

<sup>27</sup> *Washington Post*, November 4 and 28, 1995, and March 5, 1996; *St. Petersburg Times*, March 10 1996; Associated Press, March 27, 1996; 'Too Good a Deal? The Noriega Case', *Economist*, March 9 1996; William C. Rempel, *At The Devil's Table: The Untold Story of the Insider Who Brought Down the Cali Cartel* (New York: Random House, 2011) pp. 67-70. Although a federal appeals court declined to order a new trial for Noriega, it criticized the government for appearing 'to have treaded close to the line of willful blindness' in its eagerness to win a conviction. See *United States of America v. Manuel Antonio Noriega*, cases 92-4687 and 96-4471, U.S. Court of Appeals, Eleventh Circuit, July 7, 1997. For other doubts about the testimony of Ricardo Bilonick, see *Newsday*, February 14, 1992.

<sup>28</sup> *Frontline* interview with Fernando Arenas (2000), in <<http://www.pbs.org/wgbh/pages/frontline/shows/drugs/interviews/arenas.html>>. On the arrest of Jack Carlton Reed, see *La Estrella de Panama*, February 10, 1987; Albert (see note 12) pp. 361, 384.

<sup>29</sup> Jonathan Easley, 'The Day the Drug War Really Started', Salon.com, June 19, 2011 at <[http://www.salon.com/2011/06/19/len\\_bias\\_cocaine\\_tragedy\\_still\\_affecting\\_us\\_drug\\_law/](http://www.salon.com/2011/06/19/len_bias_cocaine_tragedy_still_affecting_us_drug_law/)>. Within two years, Reuters would report (April 10, 1988):

'Nearly half of all Americans believe drug trafficking is the most important international problem, ahead of terrorism, arms control, Central America or Palestinian unrest, according to a poll published on Sunday. The *New York Times*/CBS News poll also found that 63 per cent of those questioned in the nationwide survey said it was more important for the United States to put a stop to drug trafficking by some Central American leaders than it was to support them because they were anti-communist.'

violations and relished exposing the hypocrisy of the Reagan administration's war on drugs.

Senators Kerry and Helms were ranking members of the Senate Foreign Relations Committee. Testimony against Noriega in widely publicized committee hearings they organized by witnesses such as José Blandón and Ramón Milian Rodríguez convinced reporters and the general public of his guilt – even though prosecutors later concluded neither was credible enough to put on the stand against him.<sup>30</sup> As juicy revelations spilled out, few reporters bothered to ask skeptical questions in defense of the squat, ugly, and unlikeable Panamanian *caudillo*. The 1988 indictments in Miami and Tampa sealed Noriega's fate. They silenced most of his remaining allies in the Pentagon and CIA and all but forced Vice President and then President Bush to demand that Noriega leave power. The Latin strongman's cocky refusal posed an unforgiveable – and ultimately self-defeating – challenge to Bush's authority and credibility.

## **The Endara government**

On 3 January 1990, with the surrender of Noriega to armed DEA agents, President George H. W. Bush declared that his mission to safeguard American lives, restore democracy, protect the canal, and 'bring Noriega to justice' had been fully accomplished. Bush asserted that Noriega's 'apprehension and return to the United States should send a clear signal that the United States is serious in its determination that those charged with promoting the distribution of drugs cannot escape the scrutiny of justice'.<sup>31</sup> U.S. Ambassador Deane Hinton put it more bluntly: the invasion was 'the biggest drug bust in history'.<sup>32</sup>

Two weeks earlier, as U.S. troops were just beginning their assault, the

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<sup>30</sup> On Blandón's lack of credibility, see Albert (see note 12) p. 182 and Dinges (see note 17) p. 291. Reporter Elaine Sciolino remarked that 'on a number of sensitive issues, Mr. Blandon's public statements in different places have appeared inconsistent', and Vice President Bush insisted that he was 'not telling the truth' in testimony before the Senate Foreign Relations Committee in 1988 (*New York Times*, February 11, 1988). As for Milian, federal prosecutors all but called him a liar, and evidence showed that Panama's cooperation had been essential to the investigation leading to his arrest in 1983. See Powis (see note 15) pp. 127-143; Dinges (see note 17) p. xi; ACAN-EFE, 19 July, 1987; *Los Angeles Times*, August 13, 1987. The Kerry Committee report acknowledged that Milian flunked a lie detector test but justified relying on his testimony anyway. See *Drugs, Law Enforcement and Foreign Policy* at <<https://nsarchive2.gwu.edu/NSAEBB/NSAEBB113/north06.pdf>> p. 62.

<sup>31</sup> *New York Times*, January 4, 1990.

<sup>32</sup> *San Francisco Chronicle*, July 16, 1991.



Bush administration swore in the new government of Panama at Fort Clayton.<sup>33</sup> Its pro-U.S. leaders – President Guillermo Endara and Vice Presidents Ricardo Arias Calderón and Guillermo Ford<sup>34</sup> – had won a popular vote the previous May as heads of the Democratic Opposition Civic Alliance, which enjoyed strong backing from Panama’s financial sector. However, Noriega’s electoral commission annulled their victory, based in part on public disclosure that the Bush administration had covertly earmarked more than \$10 million to bankroll Endara’s ticket.<sup>35</sup> Compounding that embarrassment was the DEA’s arrest in Georgia, on cocaine conspiracy and money laundering charges, of the CIA’s bagman, a wealthy Panamanian businessman and close friend of Endara, just one month before the election.<sup>36</sup> A pro-Noriega newspaper trumpeted the headline, ‘Cocaine Cash Pays for the Opposition Campaign.’<sup>37</sup>

Operation Just Cause finally gave Endara and his running mates—who had been physically attacked and bloodied by Noriega’s paramilitary ‘Dignity Battalions’ after the May election – their long awaited but bittersweet revenge against Noriega. High on their list of difficult tasks was restarting an economy that had been shattered by economic sanctions, capital flight, war damage, and an estimated billion dollars’ worth of losses from post-conflict looting.<sup>38</sup> To rebuild, Endara needed well-placed friends in Washington to help secure financial assistance.

The Bush administration lost no time trying to help. As part of its overall

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<sup>33</sup> U.S.–Panama statement, AP, December 20, 1989.

<sup>34</sup> Eleta was leader of the right-leaning Partido Laborista, president of General Mills in Panama, head of the Phillip Morris tobacco subsidiary, and owner of one of Panama’s leading television stations (Channel 4). He and Arias both received higher education in the United States. Ford was a Miami banker.

<sup>35</sup> AP, April 23, 1989 and 11 May, 1989; Charles D. Ameringer, *Political Parties of the Americas, 1980s to 1990s: Canada, Latin America, and the West Indies* (Westport, CT: Greenwood, 1992) p. 478. Based on Panama’s estimated population of 2.37 million in 1989, the same per capita campaign funding in the United States would have exceeded \$1 billion.

<sup>36</sup> On the arrest of Carlos Eleta Almaran as part of a \$300 million conspiracy to import cocaine, see *Atlanta Journal*, April 7, 8, 11, 12, and 13, 1989. On the CIA’s operation using Eleta, see *New York Times*, January 14, 1990. Federal prosecutors dropped the charges against Eleta soon after Noriega’s ouster (*Atlanta Journal*, February 2 and 23, 1990).

<sup>37</sup> Reuters, April 9, 1989.

<sup>38</sup> Buckley (see note 24) p. 241; *St. Louis Post-Dispatch*, May 1, 1990; *Boston Globe*, July 11, 1990.

public relations campaign to justify the war, the administration praised Panama's new civilian government as a clean break from the past. With the war barely over, Justice Department officials lauded 'attempts' by Panamanian officials to freeze hundreds of bank accounts suspected of links to drug trafficking.<sup>39</sup> American officials said they 'hoped' Panama would now rescind some of its strict bank secrecy measures, but carefully disclaimed any intent to 'impose a bunch of stuff' on the occupied country.

The Panamanian side did remarkably little to encourage those hopes, however. A senior aide to President Endara said cagily, 'it's too early to say what we're going to do'.<sup>40</sup> Vice President and Minister of Justice Ricardo Arías Calderón privately bristled at Washington's proposals.<sup>41</sup> The president of the country's banking association was less diplomatic: 'Anything we do to affect confidentiality of the system would destroy the banking center . . . They want us to simply open our books and we cannot let them do that. We think we have enough safeguards now to prevent money laundering.'<sup>42</sup>

Vice President Ford also insisted that Panama already had sufficient controls on money laundering in place.<sup>43</sup> He was understandably touchy. The pro-Noriega press had several years earlier trumpeted the fact that Ford was a co-founder – with Carlos Rodriguez Fernandez-Miranda, who became Endara's ambassador to the United States – of Miami's Dadeland Bank, which was part-owned by a Panamanian who laundered tens of millions of dollars for a leading Cuban-American marijuana smuggler.<sup>44</sup> Ford's younger brother, Henry, had provided personal protection services in Panama for Ramon Milian Rodríguez, an infamous courier of drug cash arrested by U.S. authorities in 1983 based on investigative

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<sup>39</sup> *Wall Street Journal*, January 3, 1990. Attorney General Rogelio Cruz subsequently froze some 200 accounts, but all were associated with colleagues of Noriega. See *Miami Herald*, January 18, 1990.

<sup>40</sup> *New York Times*, January 11, 1990; *Los Angeles Times*, January 11, *La Prensa*, January 11, 1990.

<sup>41</sup> *Los Angeles Times*, January 11, 1990.

<sup>42</sup> *Houston Chronicle*, January 11, 1990.

<sup>43</sup> Associated Press, January 11, 1990; see also *Miami Herald*, January 18, 1990.

<sup>44</sup> *Wall Street Journal*, April 17, 1986; *Miami Herald*, August 6, 1984; *The Panama News*, March 22, 2011; interview with U.S. prosecutor David Cassidy, August 7, 1987; interview with Roberto Eisenmann, September 21, 1987. There is no evidence that Ford or Rodriguez knew of this money laundering, and neither faced criminal charges for it.

leads from Noriega's detectives. Ford said he never questioned the source of Milian's cash.<sup>45</sup>

Still, President Bush continued to endorse Panama's anti-drug efforts, citing them as one justification for his request to Congress for \$1 billion in aid to rebuild the shattered country. Vice President Dan Quayle held a joint press conference with Endara to announce plans for anti-drug cooperation, declaring that the new government's attitude toward the drug war had undergone a 'tremendous change' since Noriega's ouster.<sup>46</sup>

But their fine spirit of cooperation lasted only a day or two. The rift started when President Endara opined that his country's banking laws needed only 'minor changes'. Panama's Controller General, Ruben Carles, chimed in, 'We don't have to change our whole legal system because of drugs.' Such declarations went over poorly in Washington. One frustrated U.S. official warned that Panama's failure to cooperate 'will lead to a very difficult situation'. He explained: 'If Congress says the Panamanians aren't doing what they're supposed to be doing, there isn't going to be any more aid.'<sup>47</sup>

Despite such posturing, the Bush administration was in fact unprepared after Operation Just Cause to help sincere Panamanians fight money laundering. 'We weren't entirely blameless ourselves', recalled Greg Passic, former head of financial operations for the DEA. No one in the administration had bothered to decide which of several competing agencies would take charge of investigating money laundering in Panama after the invasion. Eventually, DEA and CIA got the nod. 'It took six months before we got a team down there to deal with the problem', Passic said. 'We were slow to respond when Panamanians were willing to help us out.'<sup>48</sup>

With the money laundering controversy bubbling into public view, a few U.S. reporters began taking note of the curious background of Panama's new leaders.<sup>49</sup> Of particular note was the remarkable rise to power of individuals

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<sup>45</sup> *Miami Herald*, January 5 and 6, 1990 and February 13, 1990. Milian was also a business partner with Guillermo Ford in a legitimate company, Forma Enterprises. Despite the embarrassment of these connections, money laundering was not yet a federal crime in the United States in the early 1980s, much less in Panama.

<sup>46</sup> Dow Jones news service, January 26, 1990; *Houston Chronicle*, January 30, 1990.

<sup>47</sup> *Los Angeles Times*, February 1, 1990.

<sup>48</sup> Passic interview, April 13, 2012.

<sup>49</sup> Among the first such accounts were in *Oakland Tribune*, January 5 and 22, 1990.

linked to First Interamericas Bank, a major repository of Cali and Medellín cash until the Noriega regime shut it down in 1985. As the *Boston Globe* reported, the bank's former directors included the country's new attorney general, Rogelio Cruz; the new Treasury Minister, Mario Galindo; and the new president of the Supreme Court, Carlos Lucas Lopez. All parties denied any wrongdoing. 'These damn fools got hooked in these transactions innocently', said Controller General Carles, accepting their pleas of ignorance. Less reassuring was the assessment of former finance minister Ernesto Perez Balladares: 'There is not a bank or a banker in Panama who hasn't accepted deposits from a dubious source. Everybody does it.' Or as Vice President Ford put it, 'If you want a perfect government, you've come to the wrong country.'<sup>50</sup>

The next day the *New York Times* cited concerns by DEA and the Justice Department that 'the business connections and friendships' of Panama's leaders 'make it difficult to believe that any real crackdown against money laundering is likely'.

Many senior leaders in the Government, while never accused of money laundering, have had strong ties to corrupt banks. Several of the banks have been indicted for money laundering or been shut because of pressure from the United States. . . . President Endara has for years been a director of Banco Interoceanico de Panama, one of the two dozen Panamanian banks named in a case based on a Federal Bureau of Investigation case code-named Cashweb/Expressway. F.B.I. agents posing as money launderers were given large amounts of cash in that case by Colombians in the United States who instructed them to transfer the funds to these 24 banks.<sup>51</sup>

The White House, for its part, said nothing to embarrass its protégés – or tarnish the memory of Operation Just Cause. President Bush on March 1 again certified that Panama was 'taking adequate steps' to fight the twin evils of drug trafficking and money laundering, making it possible to lift trade sanctions.<sup>52</sup> Still, Vice

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<sup>50</sup> *Boston Globe*, February 5, 1990. The president of First Interamericas Bank was Jaime Arias Calderón, brother of Edara's First Vice President (*La Republica*, December 5, 1988).

<sup>51</sup> *New York Times*, February 6, 1990. Endara called the article 'very unfair' and said that although he had been a member of the board of directors of Banco Interoceanico since 1972, he had no operational capacity and was not connected 'to any misdeed and much less (to) drugs'. ACAN-EFE, February 16, 1990. Endara resigned from the board on May 31, 1990 (*El Panama America*, October 26, 1990).

<sup>52</sup> *Tulsa World*, March 2, 1990.

President Ford said pugnaciously a few days later that Panama would not accept economic aid from the United States at the expense of easing its bank secrecy laws.<sup>53</sup>

President Bush invited Endara a few months later to the White House to sign drug enforcement agreements permitting U.S. military personnel, including Coast Guard, to board Panamanian ships and enter the country's territorial waters on anti-drug missions. A third agreement concerned the regulation of precursor chemicals. (Conveniently ignored, of course, was the fact that Noriega's regime had cooperated on all those matters.) In a plea for Congress to lift aid restrictions, Bush said, 'We must help ensure that unfulfilled expectations do not weaken foundations of democracy so recently restored.'<sup>54</sup> In early July, Congress finally came through with about \$200 million in aid – mainly earmarked for foreign debt repayment rather than reconstruction.<sup>55</sup>

Ironically, Panama's economic misery, and the government's severely limited resources, were stimulating a resurgence of drug trafficking in the country. The *New York Times* quoted 'pilots, dock workers and people in rural areas' who said that Noriega's overthrow had 'given smugglers new, unlimited access to many rural landing fields and coastal areas'. As a result, 'illegal drug shipments through the rough Panamanian hinterlands and through the capital are, if anything, more open and abundant than before'. Said one foreign diplomat, 'The Government is just outmanned, outgunned and outmaneuvered.'<sup>56</sup> The demoralised head of Panama's drug police lamented, 'There are hundreds of isolated beaches, farms and uninhabited islands being used by traffickers as safehouses for drugs, and we have only a 40-man force to fight them.'<sup>57</sup>

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<sup>53</sup> *El Panama America*, March 6, 1990.

<sup>54</sup> *St. Louis Post-Dispatch*, May 1, 1990; ACAN-EFE, June 19, 1990. Only a week after championing Panama's fragile democracy, the Bush administration was reported to be 'turning to Guatemala's military to promote economic and political stability' while giving a cold shoulder to the civilian government of President Vinicio Cerezo Arevalo. The CIA was said to be 'trying to take over the drug war' by making heavy payments to army intelligence, or G-2—the same institution that was Noriega's stepping stone to power. The military was linked to death squads that were blamed for dozens of deaths or disappearances each month, and was implicated in drug trafficking as well. Said one European diplomat with no apparent irony, 'they [the United States] are turning to the military as the only institution capable of keeping this place from becoming another Panama'. *Los Angeles Times*, May 7, 1990.

<sup>55</sup> *Boston Globe*, July 11, 1990

<sup>56</sup> *New York Times*, August 21, 1990.

<sup>57</sup> *Chicago Tribune*, February 17, 1991.

Panama's meager forces still managed to seize four tons of cocaine in just the first nine months of 1990, a third more than in the previous year. U.S. officials were more alarmed than impressed, however. 'If you are seizing this much with a . . . small, untrained narcotics force, the conclusion's got to be there's probably a lot that nobody's getting', said U.S. Ambassador Deane Hinton. The chief of Panama's anti-narcotics police said traffickers were flocking to his country because 'they think it's safer to put (drugs) in Panama, where they know there's a reorganization process, than in Colombia where there's a fight against drug trafficking'.<sup>58</sup>

Serious disarray in Panama's law enforcement ranks made matters worse. Attorney General Rogelio Cruz fired one special prosecutor who accused the head of the corrupt Judicial Technical Police of involvement in a kidnap-murder plot involving millions of dollars in drug profits. (The same prosecutor also accused Cruz himself of improper dealings with the violent Medellín kingpin José Gonzalo Rodríguez Gacha.)<sup>59</sup> Then a dozen major drug traffickers, including a Cali-based smuggler arrested with 800 pounds of cocaine, managed to escape from Panama's jails, evidently with official help.<sup>60</sup> Later that summer, in a span of just two weeks, the government fired two successive heads of the National Police.<sup>61</sup>

Even with a worsening drug problem and hundreds of millions of dollars in U.S. aid at stake, Panama's political and financial elite still refused to sign a treaty ending strict bank secrecy laws. Foreign Minister Julio Linares declared, 'you can be sure I'm not going to sign a pact which destroys the financial or banking centers'.<sup>62</sup>

The Endara government was soon embarrassed when Panama's *El Siglo*

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<sup>58</sup> *Christian Science Monitor*, October 11, 1990.

<sup>59</sup> *El Siglo*, May 10, 1990; *La Prensa*, June 10, 1990. On the corruption of Panama's Judicial Technical Police, though not necessarily of its director, see *Boston Globe*, December 18, 1990. The director of the force, Captain Leslie Loiza, himself complained that 'rotten apples remain in the institution' and said that he was prevented by law from investigating Cruz's alleged links to the Cali cartel. See *El Diario Independiente*, February 28, 1991. The next year, Attorney General Cruz allegedly blocked an attempt to fire 16 members of the police force for ties to drug traffickers (*Washington Post*, November 28, 1992; *La Prensa*, November 18, 1992).

<sup>60</sup> *Chicago Tribune*, October 7, 1990; *Critica Libre*, June 27, 1990. For later prison breaks by leading operatives of the Medellín Cartel, see DPA [German Press Agency], February 22, 1991.

<sup>61</sup> Reuters, September 6, 1990.

<sup>62</sup> *Christian Science Monitor*, September 20, 1990. See also *Chicago Tribune*, September 14, 1990; *Washington Post*, October 9, 1990.

newspaper published a long article, based on DEA sources, on President Endara's close ties to Banco Interoceanico de Panama, an institution implicated in money laundering. (The bank issued a vigorous rebuttal in *La Prensa* and filed a libel suit claiming that it was the victim of attempted extortion by *El Siglo*.)<sup>63</sup> North Americans subsequently learned from the *Baltimore Sun* that Endara effectively owned two percent of the bank's stock through a family trust. According to the paper, Attorney General Rogelio Cruz had dismissed warnings by the DEA back in January 1990 that Medellín drug lord Rodriguez Gacha had deposited more than \$12 million in the bank shortly before the invasion. Said Mayin Correa, a popular journalist and mayor of Panama City, 'It is a pity that we fought so hard to get rid of a corrupt, narco dictatorship and now we find the same things are happening again.'<sup>64</sup>

How much did Endara know, and when did he know it? His claims of ignorance did not convince one reporter writing in 1991:

At the time of the alleged money laundering, Endara served in the sensitive post of secretary of the board of directors. With enormous fiduciary responsibilities, it was his job to attend, participate in, and record all high-level management meetings. When most Panamanian banks had stopped making any large cash loans, Interbanco showered several million dollars in loans on its preferred customer, Celso Fernandez Espina, to buy a Panamanian hotel. Spanish drug investigators have directly linked Espina to both the Cali and Medellín cartels. Endara has publicly claimed that he had no knowledge of the activities of the bank's individual clients. 'How can he not know where [. . .] the bank's money is going when he's secretary of the board', asks one midlevel bank manager. 'Especially considering the bank's total declared capital was only \$10 million.'

U.S. ambassador Deane Hinton says, 'I'm personally convinced Endara is an honest man.' . . . But even Hinton's own staff is incredulous, creating a deep rift inside the embassy. 'Just how long can Endara play dumb?' asks a dissident U.S. official. 'Evidence is sufficiently strong so that a broad sector

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<sup>63</sup> *El Siglo*, August 23, 1990; *La Prensa*, October 9, 1990.

<sup>64</sup> *Baltimore Sun*, October 23, 1990; *Independent*, October 24, 1990; *Latin American Weekly Report*, November 8, 1990. Greg Passic, former head of financial operations for the DEA in Washington, confirms that he briefed Cruz about Rodriguez Gacha's bank accounts, based on information captured by Colombian police, to no avail (Passic interview, April 13, 2012). Endara said his holdings in the bank amounted to only two shares worth \$200, not two percent as reported. See Circuito RPC Television (Panama City), October 25, 1990.

of the business elite no longer believes his denials.' Endara's Interbanco associates are tied to a dealer accused of murdering a DEA agent: One of Fernandez Espina's key financial partners is cocaine dealer Juan Matta Ballesteros, currently being held in a U.S. prison, who stands accused of the 1985 murder of DEA agent Kiki Camarena.<sup>65</sup>

Endara's defenders accused the Bush administration of leaking damaging stories to punish Panama's leaders for refusing to sign a legal assistance treaty. Even impartial observers were inclined to agree. As one Panamanian academic told a reporter, 'Just as your government knew about Noriega's drug dealing and kept quiet so long as he was politically useful, Washington also knew about the new government's connections for years but supported them anyway. And now when it needs to turn up the pressure to get [the banking agreement] signed, the embassy starts to let the cat out of the bag. As you can understand, this tends to make us Panamanians just a little bit cynical about your intentions here.'<sup>66</sup>

Relations between the two countries had sunk remarkably far only a few short months after their celebration of a victory for democracy and the rule of law. The United States now demanded that its interests trump democracy in Panama, while Panama dug in to resist attempts to make it enforce North American laws. One U.S. Senate staffer said bluntly, 'It's time for our Panamanian friends to realise that we did not remove Noriega so that the same conditions could prevail.' Witnesses in Panama reported public shouting matches between Ambassador Hinton and Foreign Minister Linares.<sup>67</sup> Hinton responded that 'some Panamanians are very emotional people' who ignore the facts and 'have an emotional reaction that the big gringos are imposing this'. He added, 'If these people had been smart, they would have settled this a long time ago' and collected 'a lot of money' in the form of U.S. aid.<sup>68</sup>

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<sup>65</sup> Marc Cooper, 'Same As It Ever Was', *Village Voice*, May 28, 1991. Fernandez Espina denied any impropriety in the \$3 million loan that one of his hotels received from Interbanco. See his letter to the *Washington Post*, August 12, 1991.

<sup>66</sup> Cooper (see note 65) For similar statements by the president of Panama's National Bar Association, see *El Panama America*, October 26, 1990.

<sup>67</sup> *Baltimore Sun*, October 28, 1990. See also *New York Times*, October 22, 1990; *Christian Science Monitor*, November 20, 1990. One European diplomat called those outbursts 'maybe the best show in town. It's like unexpectedly walking in on a married couple in the middle of a fight over sex. You know it's rude to stay but you just can't leave'. *Los Angeles Times*, December 27, 1990

<sup>68</sup> *San Diego Union-Tribune*, November 30, 1990.



Endara lashed back at his critics. He filed a slander complaint against a local newspaper columnist who had dared to write about the president's ties to Banco Interoceanico. Attorney General Cruz then ordered the journalist's arrest for 'crimes of calumny and insult'. This provocation triggered demonstrations and protests against Endara by many Panamanian journalists, including Roberto Eisenmann, the prominent anti-Noriega publisher of *La Prensa*.<sup>69</sup>

In an attempt at damage limitation, Panama's national banking commission appointed a trustee to take over management of Interbanco at the end of October 1990. The commission said the bank suffered 'some liquidity deficiencies' but claimed the institution was untainted by money laundering. The intervention was the first by the commission since 1985, when it shut down First Interamericas Bank.<sup>70</sup>

Meanwhile, the stalemate over the MLAA and the holdup of U.S. aid continued, with President Endara telling the *Wall Street Journal* in December 1990, 'We are not going to plunge a knife into our banking system even if the U.S. stands on its head and jumps up and down.'<sup>71</sup> U.S. officials, in turn, said off the record they believed their counterparts in Panama were covering up for dirty banks they had been associated with as lawyers or directors.<sup>72</sup> Privately they advised President Endara that one of Panama's main treaty negotiators, Foreign Ministry legal adviser Julio Berrios, was implicated in a \$1 million money laundering investigation.<sup>73</sup>

The State Department's narcotics bureau called public attention to the fact that Panama was awash in drugs and drug cash. It reported in March 1991 that 'large seizures during 1990 indicate that traffickers continue to use Panamanian sea, land, and airspace to transship illegal narcotics – especially cocaine – destined for the U.S. and elsewhere. . . . money laundering through banks and

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<sup>69</sup> Reuters, November 6, 1990; *El Siglo*, November 6, 7, and 9, 1990; *Critica Libre*, November 7, 1990; *El Panama America*, November 7, 1990; *La Prensa*, November 7, 1990;.

<sup>70</sup> ACAN-EFE, October 31, 1990; *La Prensa*, November 8, 1990; *Latin American Weekly Report*, November 15 and December 6, 1990. Following an investigation, the commission decided to liquidate the bank. See *Independent*, December 27, 1990.

<sup>71</sup> *Wall Street Journal*, December 19, 1990. Endara and other critics of the treaty insisted they supported cracking down on drug money laundering but not on tax evasion or insider trading. See *La Prensa*, October 30, 1990; *El Diario Independiente*, November 2, 1990; *La Prensa*, November 8, 1990.

<sup>72</sup> *New York Times*, February 11, 1991.

<sup>73</sup> *Independent*, May 8, 1991. Berrios resigned in April, just as the treaty was finally being signed.

businesses, especially in the Colon Free Zone, is still a major concern. Rumors persist about several cocaine processing labs in the southern province of Darien.'

While praising the Endara government for taking 'a strong and vocal stance against the illegal drug trade', the report also noted Washington's 'concern' over reports of official corruption in Panama and its 'great concern' over the failure to conclude a mutual legal assistance agreement. 'The Endara government has a mixed record on combatting money laundering', the report observed. '. . . Despite the removal of the Noriega regime, the money laundering infrastructure remains largely in place, and credible reports indicate that some banks in Panama and the Colon Free Zone continue to accept large cash deposits and launder drug money.' It cited evidence that Colombian traffickers were moving tens of millions of dollars a year through Panama's banks.<sup>74</sup>

Some Panamanian authorities were equally pessimistic. According to Ramiro Jarvis, the 28-year-old head of the country's narcotics police, drug cartels knew that 'Panama right now is safer than Colombia' as a place to stash their cocaine. He added that the big smugglers 'know we have [only] 45 agents, no money to pay informants, no cars to go anywhere . . . nobody working in the provinces'.<sup>75</sup> Although Bush administration officials rarely offered such embarrassing before-and-after comparisons, a special assistant to U.S. Attorney General Richard Thornburgh admitted, 'The country is less able to deal with narcotics trafficking than it was under Noriega.'<sup>76</sup> The street price of a gram of top-quality cocaine now cost only \$2, down from \$35 under Noriega.<sup>77</sup>

At the beginning of April 1991, the head of the Democratic Revolutionary Party, a center-left party associated with Noriega, cited a DEA court affidavit in a Miami cocaine smuggling case against Cuban exiles Augusto Guillermo Falcón and Salvador Magluta – said to be the largest in U.S. history – to accuse President Endara's law firm, Solis, Endara, and Delgado, of associating with money

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<sup>74</sup> U.S. Department of State, Bureau of International Narcotics Matters, *International Narcotics Control Strategy Report*, March 1991, pp. 171-172, 372-373. The General Accounting Office came to many of the same conclusions a few months later, citing the informed opinion of one DEA agent that 'trafficking may have doubled since Operation Just Cause'. U.S. General Accounting Office, Report to the Chairman, Select Committee on Narcotics Abuse and Control, House of Representatives, 'The War on Drugs: Narcotics Control Efforts in Panama', GAO/NSIAD-91-233, July 1991.

<sup>75</sup> *Houston Chronicle*, April 18, 1991.

<sup>76</sup> *Washington Post*, April 18, 1991.

<sup>77</sup> *Chicago Tribune*, April 25, 1991.

launderers. The affidavit named six shell companies used by Falcón and Magluta to launder their drug profits through Panamanian banks and buy property in the Miami area; all employed Endara as treasurer and his other two law partners as director-president and secretary. Endara said he was unaware of the true owners of those corporations, and handled all their business through a Miami-based friend (who had the misfortune to be murdered by Colombian assassins in 1989). Diplomats speaking off the record said they did not suspect Endara of 'direct involvement' in crimes, but acknowledged that 'the revelations do not shed good light on his legal judgment or his choice of friends'. However, the attorney for the two indicted drug smugglers charged that Endara and his law partner Hernán Delgado met directly with his clients and 'knew they were dealing with traffickers'.<sup>78</sup>

Endara soon came under attack from his former allies in the Christian Democratic Party (PDC) as well. Vowing to respond to them 'blow by blow', he provoked a political crisis by firing all five PDC members from his cabinet. The party's leaders in turn promised 'to bring out in the open the truth' about Endara's connections to the accused Florida traffickers.<sup>79</sup> Death threats soon forced the DEA agent who swore the affidavit to leave the country; some Panamanian reporters pointed an accusing finger at Endara's other law partner Menalco Solis, who headed Endara's shadowy security agency, the Council for Public Security and National Defense.<sup>80</sup>

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<sup>78</sup> Prosecutors in the Miami case accused Falcón and Magluta of importing 75 tons of cocaine and earning more than \$2 billion. The lawyer for the two accused, Frank Rubino, was also representing Manuel Noriega at the time. See Circuito RPC Television (Panama City), April 4, 1991; *El Siglo*, April 5, 1991; *La Estrella de Panama*, April 7, 1991; *San Francisco Examiner*, April 9, 1991; *San Francisco Chronicle*, December 24, 1991; Linda Robinson, 'The Panama Connection', *U.S. News and World Report*, December 9, 1991, pp. 37-40; Jim DeFede, 'Falcon and Magluta', *Miami New Times*, February 12, 1992.

According to one account, the confidential DEA affidavit was leaked not by the U.S. embassy, but by the office of the attorney general in Panama. See *El Panama America*, April 9, 1991. Zealous DEA officers later reportedly detained and questioned Endara's law partner, Hernán Delgado, at Howard Air Force Base, until Ambassador Hinton intervened on his behalf. See *El Clarin Nacional*, September 5, 1991.

<sup>79</sup> *El Siglo*, April 5, 1991; DPA, April 12, 1991.

<sup>80</sup> *El Siglo*, April 11, 1990; *San Francisco Chronicle*, December 24, 1991. Solis was also accused of helping Attorney General Cruz block an investigation into a Panamanian bank used by Israeli security experts to purchase arms for Medellín kingpin Jose Gonzalo Rodriguez Gacha. *Dominical El Siglo*, January 19, 1992; *Newsday*, March 13, 1991; *Chicago Tribune*, May 26, 1991; U.S. Senate, Permanent Select Committee on Investigations, hearing, *Arms Trafficking, Mercenaries and Drug Cartels* (Washington, D.C.: U.S. Government Printing Office, 1991).

Endara finally realised it was time to surrender. On April 11, 1991, Panama and the United States reached agreement on a legal assistance treaty targeting money laundering in drug cases, but leaving banks relatively untouched in cases involving tax evasion and other non-drug-related crimes. U.S. officials admitted at least one big shortcoming: shining a light on secret bank accounts would still not lift the veil on shell companies that hid their true owners behind nominees—typically corporate lawyers like Endara and his partners. Nor did the treaty cover deposits via wire and computer transfers.<sup>81</sup> Still, Vice President Ford told reporters the treaty would 'send a loud and clear message to the world that in Panama we are not condoning the crime of money laundering and the drugs problem'.<sup>82</sup>

The announcement gave Panama's government only a brief respite from bad news. The next month, as the head of the Bush administration's Office of National Drug Control Policy was in Panama to praise the new spirit of collaboration, Panama's director of Customs came under fire for alleged embezzlement, extortion, abuse of authority, and tax evasion. He fired back that his accuser, the agency's chief of investigations, was trying to block a probe of departmental corruption that had already implicated the chief of the drug squad at Tocumen International Airport for possessing more than a pound of cocaine. An informant claimed the airport official was merely one of a large number of agents from Customs, Treasury, and the Technical Judicial Police who were running hundreds of pounds of cocaine through the facility to the United States on behalf of the Medellín and Cali cartels.<sup>83</sup>

Cocaine could now be found everywhere in Panama, from street markets to warehouses in Colón. Traffickers also took advantage of Panama's relatively unpatrolled Pacific coast to drop loads of cocaine into the Bay of Panama, where boats would fish them out and transfer them to sealed trucks or other vehicles heading north. Smugglers had little to fear from Panama's National Maritime Service, whose fleet consisted of two speedboats and two leased shrimp boats.

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<sup>81</sup> Reuters, April 11, 1991; Associated Press, April 2, 1991; *New York Times*, April 3, 1991; *Los Angeles Times*, April 28, 1991.

<sup>82</sup> Reuters, April 11, 1991. For details of the pact, see 'Treaty with U.S. signed as laundering increases again', *Money Laundering Alert*, v.2 (June 1991), p. 7. Ironically, Sen. Jesse Helms held up ratification of the treaty in the U.S. Senate for more than two-and-a-half years, asserting that it would give corrupt Panamanian officials the right to see confidential U.S. documents (*San Francisco Chronicle*, February 5, 1994).

<sup>83</sup> *Chicago Tribune*, May 26, 1991.

Patrols by the U.S. Coast Guard, which began following the signing of the legal assistance treaty, posed a more serious challenge. In late May, one such patrol seized a ship off Panama in international waters carrying more than two and a half tons of cocaine – the largest seizure in the country’s history.<sup>84</sup>

Many of Panama’s bankers eagerly took advantage of the burgeoning cocaine market. ‘Fueled by returning domestic flight capital and drug money, bank deposits are now close to \$21 billion, compared with their 1989 low of \$8.5 billion’, reported James Henry in July 1991. ‘The demand for shell companies, used as “fronts” for dubious activities all over the world, fell from 1,500 a month in 1986 to only 800 a month in late 1989, but it is now back to more than 1,300 a month.’<sup>85</sup>

Panama’s money laundering now surfaced as a big issue in Europe as well as the United States. Spanish police complained that senior Panamanian government officials had been guilty for months of ‘covering up the personal assets and business activities’ of major Spanish cocaine traffickers who had long been ‘using Panama as a haven and cover for their activities’. Attorney General Cruz was said to be notably unresponsive to Spanish requests to examine their local bank accounts. It also emerged that Panama’s chief Interpol liaison had tipped off a notorious Spanish drug lord about the arrival of police from his country, giving him time to hide evidence of his money laundering.<sup>86</sup>

Panamanian reformers gave vent to frustration and disillusionment over the growth of corruption. Miguel Antonio Bernal, a law professor and long-time activist for human rights and democracy in Panama, charged that in the 18 months since the U.S. invasion,

my country has not taken a single meaningful step toward democracy or order. Under the American-installed government of President Guillermo Endara, Panama is reeling backwards so fast that it is on the verge of disintegrating. Street crime has quadrupled. Murders are up 50 percent. Drugs are more plentiful than ever. . . . Inside government, corruption and

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<sup>84</sup> *El Siglo*, July 5, 1990; *Dallas Morning News*, June 28, 1991; *Chicago Sun-Times*, July 7, 1991; *San Francisco Chronicle*, July 16, 1991; *New York Times*, August 13, 1991.

<sup>85</sup> James Henry, ‘Panama: Dirty Business as Usual’, *Washington Post*, July 28, 1991.

<sup>86</sup> *Diario 16* (Madrid), August 18 and 19, 1991; *El Siglo*, May 23, 1991. The focus of the Spanish investigation was on a ring of Galician traffickers led by José Ramon Prado Bugalio, also known as Sito Minanco.

nepotism rule.<sup>87</sup>

As the year ended, one observer of the drug trade reported, 'U.S. officials believe as much as half a ton of cocaine still flows daily through Panama, mainly en route to the U.S.'<sup>88</sup> Still a State Department press release at the end of 1991 claimed the fact that 'a country which was once our adversary in the war on drugs has now begun helping us defeat this menace'.<sup>89</sup> Or as Vice President Arias put it, though Panama undoubtedly still had its share of corrupt officials, 'nobody can now say that the government is a willing accomplice'.<sup>90</sup>

That boast must have seemed feeble when several of Panama's senior drug enforcement officials brought criminal charges against Attorney General Cruz in the fall of 1992 for unfreezing \$38 million in bank accounts allegedly used by the Cali cartel for laundering drug profits. Panama's Supreme Court eventually found Cruz guilty of abuse of authority but gave him a mere one-year suspended sentence. He later turned up as legal counsel for the Cali Cartel's top trafficker in Panama, who had smuggled tons of cocaine north to the United States in the post-Noriega era under cover of a fishing fleet.<sup>91</sup>

After all this, even Vice President Arias was too disgusted to defend the regime. 'The filthy, polluting waters of drug trafficking and money laundering are still flowing through the country', he said in early 1993. 'This is an enormous pitfall on our road to democracy.' A report by the Panamanian Committee for

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<sup>87</sup> Miguel Antonio Bernal, 'Panama After the Fall is a State of Turmoil', *San Francisco Chronicle*, July 20, 1991.

<sup>88</sup> Kenneth Sharpe, 'U.S. Losing the Drug War in Panama', *Chicago Tribune*, December 19, 1991. Although that estimate was likely inflated, the enormous size of the traffic was shown by a bust in July 1992 by U.S. customs of 5.3 tons of cocaine that had been packed in Panama (*Dallas Morning News*, October 28, 1992). Panamanian police seized some 20 tons of cocaine in 1992, several times the total for all the 1980s (AP, February 1, 1993).

<sup>89</sup> Dec. 26, 1991 press release, cited in *Los Angeles Times*, June 12, 1992.

<sup>90</sup> *San Diego Union-Tribune*, April 12, 1992.

<sup>91</sup> Agence France Presse, December 24, 1992; *Washington Post*, November 28, 1992; *El Siglo*, October 12 and 31, 1992, November 5 and 9, 1992, and April 24, 1996; *El Panama America*, November 1, 1992; *La Prensa*, November 8, 1992; Reuters, October 28, 1993; *Wall Street Journal*, July 10, 1997; U.S. Department of State, Bureau of International Narcotics Matters, *International Narcotics Control Strategy Report*, April 1993, at <http://dosfan.lib.uic.edu/ERC/law/INC/1993/03.html> (viewed March 14, 2012). Other officials who came under investigation after Cruz for drug-related crimes included the director of Panama's police academy (*La Prensa*, April 15, 1993) and the former head of Panama's Customs bureau, who was accused of stealing \$1.8 million in seized drug cash (*Washington Post*, September 20, 1993).

Human Rights echoed his statement, charging that Panamanian society was now 'immersed in a culture of corruption that reaches into the government sector as well as civil society itself'.<sup>92</sup>

## Conclusion

Popular depictions of Operation Just Cause at the time resembled some 1950s Westerns, with their depictions of virtuous lawmen bringing murderous villains to justice (usually at the end of a noose, not in an air-conditioned jail cell). Just as audiences of that era left theatres comforted that law and order had been restored to Dodge City, so most North Americans in 1990 likely assumed that President Bush's timely intervention had saved Panama from the grip of evil drug lords. But even as the United States was congratulating itself on winning the war on drugs in Panama, cocaine was never in short supply on the streets of either Panama or North America. In retrospect, it was a hollow victory for law enforcement. A year and a half after Noriega's arrest, unnamed 'U.S. experts' told *Time* magazine, 'the unexpected result . . . is that the rival Cali cartel established a base in Panama and has since inundated the country – along with Mexico, Guatemala and the Caribbean – with vast quantities of cocaine destined for the U.S. and Europe'.<sup>93</sup>

Contrary to those 'experts', such an outcome should have been entirely foreseeable. Serious law enforcement professionals and students of drug policy know that the pursuit of 'kingpins' creates drama for journalists and politicians but has no lasting effect on the supply of drugs.<sup>94</sup> The world drug market is far too pluralistic to be shut down while market demand remains strong. To its credit, the DEA itself warned within days of Operation Just Cause against any unrealistic expectation that the change of regime would seriously curb the drug traffic. 'No single event, no matter how significant it is, will result in the immediate impact on availability of drugs in the United States', said Frank Shults, a spokesman for the agency. Noting that Panama was 'not by any means a substantial' transit country for drugs, he added, 'There are numerous financial centers throughout the world. Drug traffickers are very flexible in their ability to move their money.

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<sup>92</sup> Associated Press, February 1, 1993

<sup>93</sup> Cathy Booth, 'Day of Reckoning', *Time*, August 26, 1991, p. 18.

<sup>94</sup> See, for example, Michael Kenney, *From Pablo to Osama: Trafficking and Terrorist Networks, government Bureaucracies and Competitive Adaptation* (University Park, PA: Penn State Press, 2007), pp. 88-90.

They will no doubt exploit whatever markets they are able to.’<sup>95</sup> The next few years would fully vindicate that prediction. Years later, Panama remained a scandal-plagued haven for drugs and drug cash, with a rating of only 3.3 out of 10 on Transparency International corruption-perception index.<sup>96</sup>

The case of Panama, however, is less than ideal as a test of the ‘kingpin’ theory of drug trafficking. As we have seen, Noriega was never – even in the eyes of his prosecutors – a major player in the world drug trade. At worst he took bribes to facilitate the transit of a limited number of drug shipments through Panama. Arresting him did nothing to block the myriad of other transit routes in the region – or the use of Panama ports, airfields and banks that was easily arranged after he was gone. Other officials could always be bribed. That said, smugglers hardly needed to waste their money given the decrepit state of Panama’s law enforcement units in the wake of devastating U.S. sanctions and war.

Panama was a better test of the sincerity of the U.S. war on drugs. As innumerable critics have pointed out, Washington’s longstanding support for Noriega reflected badly on its commitment to that cause. Again, this should not have surprised any serious student of the history of narcotics policy. Makers of foreign policy must weigh a variety of strategic and political interests, of which drug enforcement is only one. The future of the Panama Canal and U.S. military bases, the specter of leftist insurgencies in Central America, and regional intelligence operations involving Cuban and other targets were all national security considerations that trumped drugs until the late 1980s, when a well-organised anti-Noriega lobby took advantage of popular alarm over the crack epidemic to push the drug issue onto the center stage. America’s preoccupation with drugs in Panama reached its zenith with Operation Just Cause, only to recede as the Washington’s attention turned to dramatic events in the former Soviet bloc and the Persian Gulf.

The mostly quiet but relentless campaign to pressure the Endara

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<sup>95</sup> *Seattle Times*, January 9, 1990.

<sup>96</sup> See, for example, the Council on Hemispheric Affairs’ summary of accusations from the period 2004 to 2011 in Carrie Burggraf, ‘The U.S. Whitewashes Panama’s Fatal Flaws to Champion Their Free Trade Agreement’, August 25, 2011, at <<https://tinyurl.com/yzzvz8nz>> or <<http://www.coha.org/the-u-s-whitewashes-panamas-fatal-flaws-to-champion-their-free-trade-agreement/>>.

For a depressing compilation of recent news stories about Panama’s booming drug trade, visit <<http://www.panama-guide.com/index.php?topic=drugs>>. For the Transparency International index, see <<http://cpi.transparency.org/cpi2011/results/#CountryResults>>.



government to sign a mutual legal assistance treaty shows that Washington's interest in Panama's drug issues did not entirely disappear with the successful ouster of Noriega. But that interest was ambivalent at best. Indeed, Washington's sponsorship of the Endara government was deeply cynical given how many of its members had long-standing ties to money-laundering banks. These connections were no secret; the Bush administration simply chose to ignore them. Trumping that issue, apparently, was the reliably pro-U.S. cast of the new government, which Washington had every hope would be more pliant on a range of issues.

Most of the media chose to ignore those connections as well. Not until the end of 1991, two years after Noriega's ouster, did a major U.S. news publication ask bluntly, 'Did America oust one alleged crony of drug dealers and replace him with another'? The article revealed that the same question had arisen much earlier in Washington:

Before Operation Just Cause in December 1989, a senior U.S. official expressed concern to Endara that some of his business dealings may have involved drugs and that "the appearance of any association with drugs would be damaging". But this official was satisfied with Endara's explanations and only in early 1990 did the DEA raise the Falcon-Magluta matter.<sup>97</sup>

U.S support for the Endara government compounded the very cynicism earlier created by Washington's support for Noriega. Richard Gregorie, the former assistant U.S. attorney who brought the Miami indictment against Noriega, said 'Endara might have known, along with half a dozen others' about the true purpose of the Falcon-Magluta shell companies. 'But we won't pursue it because it's against the dictates of the State Department.'<sup>98</sup> Once installed in power by Washington, Panama's tainted leaders could not be discredited without discrediting the military operation waged by the Bush administration in the name of justice and democracy.

More haunting than such reactions in the United States, however, was the sense of betrayal felt by many opponents of the Noriega regime who had risked their livelihoods and even their lives for the cause of democracy and the rule of law. As the new government's shady ties were unveiled, and as it attacked journalists who dared to expose the truth, some of those critics wondered if their

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<sup>97</sup> Robinson (see note 78) p. 38. On U.S. pre-invasion concerns about Attorney General Cruz, see *Washington Post*, November 2, 1992.

<sup>98</sup> Robinson (see note 78) p. 40.

cause had been hijacked. A bitter new joke began making the rounds in Panama, recited by journalists and academics. It said of the Americans, 'They took Ali Baba and left us with the 40 thieves'.<sup>99</sup>

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<sup>99</sup> For examples, see Agence France-Presse, August 26, 1991; *San Francisco Chronicle*, December 24, 1991; Alma Guillermoprieto, 'Letter from Panama', *New Yorker*, August 17, 1992, p. 62; *Los Angeles Times*, October 18, 1993. In the film version of John Le Carre's novel *The Tailor of Panama*, Harry Pendel says, 'When Bush came in and removed Ali Baba he left the 40 thieves.' See <<http://www.imdb.com/title/tt0236784/quotes>>.