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Mr. Reeve and Mr. Struve

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Natural Resources Programs Division (Earl Barrah)

A-65 and A-38 classification of Trust Territory of Pacific Islands

We have reviewed the arguments of Interior and State in favor of classifying the Trust Territory (TTPI) as "domestic" rather than "foreign" for data reporting purposes. We also considered the comments of CBS, reflecting the views of the Interagency Committee on Balance of Payments Statistics, which favor designating the Trust Territory as foreign for reporting purposes.

From the standpoint of balance of payments, it would probably be to our advantage to report the TTPI as domestic since almost the entire economy is based on Federal grants ranging from \$24 M in 1968 to possibly \$50 or \$60 M in 1970 and 1971. To some extent this is offset by trade since roughly half of the Federal expenditures are for construction carried out by U.S. contractors with U.S. products.

For all practical purposes the relationship between TTPI and the U.S. are not significantly different from areas like Guam and Samoa which are treated as domestic.

The overriding objective of the U.S. policy toward TTPI is to keep other countries out of the area. Since this is a trust from the U.N. we have no permanent claim and sooner or later will have to agree to a plebiscite. In the meantime the policy of the U.S. is to do whatever is possible to ensure that the plebiscite is favorable to the U.S. and that the natives of the area vote to become a territory of this country. It is possible that there could be some small public relations value attached to treating this area as domestic for reporting purposes rather than foreign.

We are optimistic and hope that the U.S. policy will result in a favorable plebiscite, in which case the TTPI would be considered domestic for reporting purposes on legal grounds as well as for practical reasons. We have no strong feelings either way on this issue but believe that on balance CBS should concur in the recommendations of Interior and State.

cc: NRP Records
Mr. Schwartz

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