

01

JUN 7 1968

Honorable Stewart L. Udall
Secretary of the Interior
Washington, D. C. 20240

Dear Mr. Secretary:

This is in response to Mr. Robinson's letter of April 8, 1968, requesting that the Trust Territory of the Pacific Islands be reclassified as part of "United States Territories and Areas" under Circulars No. A-65 and A-58. The question was quite timely, since in connection with the recent revision of Circular A-58 we have been reconsidering the inconsistent current treatment of the Federal Government's transactions with the Trust Territory.

Our review indicates that several considerations are involved. While the Trusteeship Agreement with the U.S. gives the U.S. very broad powers of administration, legislation and jurisdiction over the Trust Territory, the U.S. does not claim sovereignty over the area. The Territory is considered a "foreign country" under the Federal Tort Claims Act and the Internal Revenue Code. In addition, it is commonly excluded from the operation of most favored nation clauses in treaties of commerce and navigation and imports from it are subject to U.S. customs duties.

The funds which Congress appropriates to administer the Trust Territory can reasonably be considered as special foreign assistance to a less developed country. Indeed, our grants to the Trust Territory normally appear in reported totals of foreign assistance. (Another analogy to foreign less developed countries is the presence of a large number of Peace Corps volunteers.)

The use of U.S. currency mentioned in your letter does not appear to have any special significance, since U.S. currency is also the primary medium of exchange in the Ryukyu Islands and Liberia. Nor does the extension of the U.S. postal system, which is a matter of administrative convenience, provide support for reclassifying the Trust Territory.

As you know, the most closely related statistical reports, such as the Commerce data on trade and aid, the new Treasury tabulations on foreign grants and credits, and the summaries on similar topics published by the United Nations and the Organization for Economic Cooperation and Development, Development Assistance Committee, all treat U.S. transactions with the Trust Territory as foreign transactions.

For the foregoing reasons and in the absence of any compelling argument, in our judgment, in favor of classifying the Trust Territory as part of "U.S. Territories and Areas," we believe that the classification now provided in Circulars A-65 and A-58 is proper and should be retained.

This is also the view of the officials directly responsible for the preparation and publication of official U.S. statistics. Accordingly, to assure the consistent application of these policies, you are requested to include the transactions of your Department with the Trust Territory in all future submissions under the revised Circular No. A-59.

Sincerely,

(signed) Charles J. Zwick
Charles J. Zwick
Director

cc:
DO Records
DO Chron.
Dir. Reading
Mr. Reeve
Return: Mr. Struve, 351

OBR:JEReeve/CAStruve/gft 5/28/68

19 424100