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United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

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*Declassified in accord with EO 12356
Harry DeLoach 9/16/85*

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Dear Mr. Doolin:

Secretary Morton has approved a proposed change of policy by the Department of the Interior with respect to foreign, non-United States investment in the Trust Territory of the Pacific Islands. Specifically, the Department is prepared to implement, consistent with national security requirements, a relaxation of existing foreign investment restrictions in Micronesia.

As you are aware, outside investment in Micronesia is presently limited strictly to capital from the United States, with the single recent exception of that of Nauru, which was determined to be eligible since it is outside the restrictions of Article 8 of the Trusteeship Agreement, as that provision has been interpreted.

Despite continuing prohibitions, it is clear to most observers that Japanese firms, and possibly those of other nations as well, are investing a substantial amount of money in the Trust Territory under Micronesian fronts. This investment is extremely difficult, if not impossible, to control, since many of the arrangements are made informally, or documents are signed outside the Trust Territory. Moreover, it is a situation which we are unlikely to undo by more active investigation and enforcement.

The general topic of foreign investment is a major concern of the Congress of Micronesia as well as other elected and appointed officials, as evidenced by the strict controls of the Foreign Investors Business Permit Act, which, because of the present exclusion of other foreign investors, applies only to United States firms seeking to invest in Micronesia. The Act is quite strictly enforced by the Micronesian boards in each district and relatively few American businesses have been chartered, while illegal Japanese investment continues uncontrolled. We believe this puts American investors at a disadvantage which could be remedied by making all foreign investment, including Japanese, subject to the same regulations.

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There is another factor at work here as well. Those Micronesians who oppose the TTPI Administration, or those who oppose present restrictions on foreign investment, may seek or accept Japanese partners rather than American ones as a form of protest against these policies.

It is our conviction at Interior that Micronesian officials would screen Japanese firms as closely as they now do potential American investors, and that Japanese investment will be selective and geared toward maximum benefit for the Micronesian people. Additionally, legalization of foreign investment would remove much of the mystique presently surrounding such activities.

Based on the foregoing, the Department of the Interior is prepared to take immediate steps toward relaxation of existing foreign investment restrictions, consistent with national security requirements and other minimal standards. We would propose that regulations to implement such a relaxation would be the subject of consultations among Interior, TTPI and Congress of Micronesia officials. In this connection, the views of State and DOD would be solicited in advance on foreign policy and national security questions. Further, the proposed change in foreign investment policy would be announced by the Secretary of the Interior, probably in the form of identical letters to the High Commissioner and the presiding officers of the Congress of Micronesia.

We believe that an early announcement of the change in policy would be most helpful. Specifically, it would prove most helpful to have any announcement precede the Trusteeship Council meetings on U.S. administration of the Trust Territory, scheduled to begin on May 23. Moreover, in light of the continuing status negotiations, we are convinced it would be helpful to reinforce the U.S. position that private international commercial arrangements will be the prerogative of the people of Micronesia except in cases involving national security. As you are aware, the general subject of Micronesia's involvement in foreign affairs was a most sensitive one at the recent Palau talks.

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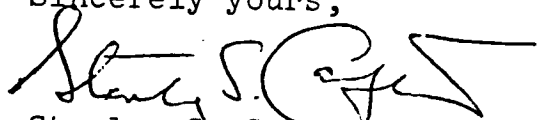
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The relaxation of restrictions on foreign investment has the concurrence of Ambassador Franklin Haydn Williams, the President's Personal Representative for Micronesian Status Negotiations. We would wish that this change in policy would have, as a practical matter, the concurrence of the Departments of State and Defense. The State Department has already indicated its support of this relaxation, and we would also hope that the Defense Department has no objection to implementation of this policy change.

We look forward to receiving your early favorable comments on this matter.

Sincerely yours,


Stanley S. Carpenter
Deputy Assistant Secretary
for Territorial Affairs

Mr. Dennis J. Doolin
Deputy Assistant Secretary
for East Asia and Pacific Affairs
(ISA)
Department of Defense
Washington, D.C. 20301

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