

TITLE IV  
FINANCIAL PROVISION

Section 401

The Government of the United States, in order to assist the people of Micronesia agrees subject to the provisions of this Compact to provide the Government of Micronesia a sum not to exceed \$25 million annually. This total will comprise the following categories of assistance:

(a) Funds for unrestricted use by the Government of Micronesia toward the costs of the Central and District Governments and for Micronesia governmental programs and services and capital improvement projects for the welfare of the people of Micronesia;

(b) Funds to cover the payment for U.S. Federal programs and services which may be requested by the Government of Micronesia and extended to Micronesia with the approval of the Government of the United States in accordance with the provisions of section 403(b) and (c).

(c) Funds for rentals and other payments under agreements negotiated pursuant to Title III and Annex B of this Compact, which will constitute a first claim upon the revenues described in this Section.

(d) The assistance described in Section 402.

## Rationale

### Section 401

The rationale for the \$27.5\*million figure is that we are beginning a bargaining process and ought to have the flexibility to move upward if necessary. The first offer includes the services of the Post Office, the Weather Service, and the FAA, which are currently valued at approximately \$2.5 million annually. Our offer may be further increased by the provision of Coast Guard services.

The rationale for assistance to Micronesia in the \$25 - \$50 million range is contained in Ambassador Williams' June 30, 1972 memorandum to the Under Secretaries Committee (Att. 1), as approved and qualified by the White House memorandum of August 1, 1972 (Att. 2).

Basically, the argument is as follows:

### Assumptions

1. The Marianas have been excluded from the calculations, thus allowing for approximately a one-sixth reduction from any base figure. (While this deduction is plausible simply on the grounds that the Marianas are one out of six districts, current budget figures show that the one-sixth factor is correct. (attachment 3)

2. The Micronesians have chosen not to have the closer, more permanent association with the United States outlined at Hana which carried the clear implication of a level of assistance not significantly different from the present. (Att. 4)

3. The Micronesians will move towards a simpler, less costly

\*This figure is an overall one cited in the opening statement. It is treated in terms of its component parts in this discussion.

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form of government, with fewer expatriate employees, once the Trusteeship is ended.

4. The arithmetic for this minimum position is as follows:

Present Appropriation	\$60 million
Less Marianas	- 10 "
Less current CIP expenditures	- 16 "
Less current expatriate salaries	- 9 "
	<u>\$25</u> "

This \$25 million would be augmented by Post Office, Weather Service, and FAA services but would nevertheless represent a marked drop in the current standard of living. The Micronesians would be obliged to set priorities among operating programs (schools, health, public works, etc.) and decide what to cut in order to finance development projects.

Senator Salii objected publicly to our draft formulation that the U.S. agrees to provide... a sum not to exceed \$#. "He wants the U.S. commitment to be a floor, not a ceiling, and he can be expected to raise that issue. The reply should be that the U.S. is not contemplating an open-ended offer beginning at such-and-such a figure and that any offer is subject to a number of possible restraints, most notably the U.S. Congress' appropriation authority. In this connection, we may wish to insert in the first sentence of Sect. 401, after agrees, the words "subject to authorization and appropriation by the U.S. Congress."

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