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Our estimate is that the combined result of the increased financial assistance which is recommended would be to enable the Marianas to provide a level of public services (with only a very low tax burden on the permanent inhabitants) superior to that provided in other U.S. island territories in the Pacific. Further, we believe the almost inevitable result would be pressure from those other territories for commensurate increases in U.S. financial support for public services provided to their inhabitants.

Recommendations

To overcome the problems outlined above we recommend the draft negotiating instructions be amended as follows:

- (1). That the Ambassador be instructed only to negotiate for the lease of the minimum amount of land required for military purposes (e.g., land acquisition alternative no. 4).
- (2). That the Ambassador be instructed, with regard to financial arrangements, to negotiate a formula under which the Federal Government would provide an annual grant to the Marianas Government that would, at the outset equal the difference between the cost of providing public services reasonably consistent with those provided in Guam and the total amount of locally collected revenues together with other Federal grants and services. Further, to avoid an unlimited commitment of Federal support for providing public services, the formula would provide for the Federal grant to be reduced by 5% of the difference between costs and other financial resources each year after the tenth year following termination of the trusteeship. This formula would be a substitute for:
  - (a). the proposed increase in the amount of direct grant assistance from the present \$7.1 million annually up to as much as \$12 annually; and
  - (b). the proposed rebate of Federal income taxes as a source of revenue to the Marianas Government.

We have no objections to the remainder of the draft instructions. OMB would be available to more fully develop the formula which we recommend for providing financial assistance and for further discussion concerning the rationale for recommending the land purchase option #4.

CLASSIFIED BY ..... F. Haydn Williams  
SUBJECT TO GENERAL DECLASSIFICATION  
SCHEDULE OF EXECUTIVE ORDER 11652  
DATE 11/19/01 BY SP-6 BJS/STW

*[Handwritten Signature]*  
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