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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

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April 6, 1973

MEMORANDUM FOR MR. SEYMOUR WEISS
Acting Staff Director
NSC Under Secretaries Committee
Department of State
Washington, D.C. 20520

Subject: Comments on draft memorandum to the President re negotiations on the future status of the Marianas

This is in response to your March 27, 1973, memorandum requesting our comments and/or concurrence in the draft memorandum to the President. Our March 30, 1973, memorandum outlined two objections we have to the study and draft negotiating instructions and made recommendations to overcome those objections. Subsequently, Office of Management and Budget staff have met with staff of the Office of Micronesian Status Negotiations and staff representatives on the working group to discuss the recommendations we made in the March 30 memorandum. The following comments are made in light of these discussions.

Next Steps

We recommend that this memorandum be made an annex to the draft memorandum to the President and that the recommendations we make for changes in the draft negotiating instructions be footnoted in the draft memorandum to the President. We make this recommendation as to the handling of our recommendations in recognition of the high priority which has been placed on the early initiation of the next round of negotiations with the Marianas delegation.

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U.S. Objectives

We continue to believe two U.S. objectives should be as stated in our March 30 memorandum and they are the following:

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- (1) To acquire no more interest in lands in the Marianas Islands than is absolutely essential for military requirements clearly defined in the context of our overall Asian strategy.
- (2) To keep United States financial arrangements and amounts of appropriations for the Marianas in balance with other United States territories, especially in the Pacific, in order both to avoid providing an economic windfall to the Marianas and to avoid resulting pressure for higher Federal appropriations for the other territories.

Overall Assessment of the Recommendations

We are concerned with the items in the draft memorandum to the President as well as the underlying draft negotiating instructions and the recommendations in the study in the following ways:

1. Negotiation for the maximum land alternative (item (c) on page 2 of the draft memorandum for the President).
 - (a) The recommendations for purchase or long-term lease for U.S. military land requirements appear excessive in light of the small total land area of the Marianas. The total land area of the Marianas is 117,440 acres of which the total recommended purchase or lease is 27,240 acres (23% of the total land area). Further, the recommendation would require purchase or lease of all of Tinian (land area 25,200 acres). This package, (Land Acquisition Alt. #1) if presented as the opening U.S. Government position, could produce a strongly negative reaction from the Marianan negotiators. Alternatively, it might cause them to raise their demands for a quid pro quo to a much higher level than the Ambassador is authorized to negotiate. In either case, a conclusion of the negotiations could be delayed with adverse impact on other U.S. objectives.
 - (b) The utility of bases in the Marianas -- assuming the U.S. retains full utilization of current base facilities on Guam which is only 120 miles from Tinian --

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is questionable. Alternatives to a major base development in the Marianas should be defined and compared on a cost-effectiveness basis prior to a U.S. commitment to build a base complex in the Marianas.

- (c) In view of the restricted budgetary outlook for the Department of Defense and the requirement to maintain adequate force levels with modern equipment, new land acquisitions for military use should be kept to the minimal essential requirements.

2. Federal financial assistance for the Marianas (item (d) on page 2 of the draft memorandum for the President).

- (a) We recognize that the financial assistance to be offered is an integral part of the negotiating strategy to achieve the overall U.S. objectives for the future status of the Marianas Islands.
- (b) The financial assistance offered to the Marianas ought not be in amounts or be in forms that cause budgetary problems. However, two features of the financial assistance program potentially would cause those kinds of problems.
 - (i) The recommended flexibility for the Ambassador to negotiate an increase in direct grant assistance from the present amount of about \$7 million annually up to as much as \$12 million annually and to guarantee that amount for up to five years, all subject to congressional actions, could eliminate the President's budgetary flexibility on the amounts budgeted for the Marianas for at least the next five years. After the five-year period, it probably would be difficult to budget less than \$12 million annually regardless of any objective assessment of the need for the funds. The overall effect, therefore, potentially would be to establish a priority for funding the Marianas without regard to priorities for funds for other programs, including those in other territories, for at least the next five years.

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- (ii) Although it is not referred to either in the draft memorandum to the President or the draft negotiating instructions, we are very concerned about the idea raised on page 43 of the study which is stated as follows:

"Local revenues, now about \$2 million annually, could be significantly increased by application of Federal income tax laws with the rebate of resulting revenues and institution of other revenue measures."

The rebate of Federal income tax revenues would be objectionable because it would mandate the use of specific Federal revenues and thereby would reduce the President's control over budget outlays. Further, such a rebate of revenues commits those revenues, of an uncertain amount, without review of the justification for the purposes for which the funds are to be used. Rebates of Federal tax revenues are now made to both the Virgin Islands and Guam; however, because of the problems outlined above, the existence of those precedents does not justify agreeing to tax revenue rebates to any other territory.

- (c) We believe it is essential for the Federal Government to determine the amount of financial assistance provided to the Marianas on an assessment of needs rather than on a guid and pro basis. Therefore, we concur in that part of the negotiating instruction on financial assistance (page XXV, item 4) which states that direct assistance would be "... based on mutually agreed program needs..."

Recommendations

To overcome the concerns outlined above, we recommend that the draft memorandum to the President be amended as follows:

- 1) On page 2, item c, place a footnote (a) after the words "... begin the negotiation with maximum land alternative," and insert at the bottom of page 2 the following footnote:

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"(a) OMB recommendation. That the Ambassador be instructed to negotiate the lease or purchase of the least amount of land required for military purposes." *(For OMB recommendation see RUMENB)*

- 2) On page 2, item (d), place a footnote (b) at the end of the last sentence and insert the following footnote at the bottom of the page:

"(b) OMB Recommendations. That the Ambassador negotiate the minimum amount of direct grant assistance consistent with mutual agreement on program needs and that any guarantee of a specific amount of direct grant assistance for any year or years can be made only after approval by the Director of OMB. Further, that the Ambassador be specifically instructed not to negotiate any rebate of Federal income tax revenues to the Marianas. Finally, that the Secretary of the Treasury review any variation in the ordinary application of Federal tax laws to U.S. citizens that the Marianas delegation might propose before a U.S. position on any such proposal is taken in the negotiations." *(For OMB recommendation see RUMENB)*

(signed) D. E. Crabill
 Donald E. Crabill
 Chief, Natural Resources
 Programs Division

Review by [unclear] [unclear]

While not participating in the drafting of the study, upon review of the completed study, OMB has submitted comments ^{contrary to} the attached guidelines and recommendations. The Department of Justice has also submitted comments for review as to [unclear].

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 RADM Bigley
 OK 4/9/73