

16 November 1973

03
74

MEMORANDUM FOR THE RECORD

Subj: Second Session of Drafting Committees, 15 November 1973

1. Mr. Wilson opened the second session at 1009, 15 November 1973 by noting that the U.S. had delivered copies of the Draft Compact late yesterday afternoon to the JCFS. He realized that the JCFS had not had an opportunity to review this draft and suggested that this session open on a discussion of finance.
2. Representative Silk replied that the JCFS figures on finance were not yet typed. However, he had asked Representative Ray Setik and Mr. William Quinn, Deputy Budget Director, TTPI to be present and make a few statements on finance. Silk also noted that Senator Salif asked Quinn to do a study on financial needs of Micronesia.
3. Mr. Paul Warnke introduced two draft titles (Micronesian versions): Termination and Laws of the United States. He noted that the differences between the two termination periods was great but not irreconcilable. On finance, Warnke said that the Micronesian draft is tied to a ten year start up cost and that unless some agreement can be reached on finance, namely how much money is U.S. prepared to pay, there is no use in going ahead with the Compact. He doesn't think the U.S. approach on Finance is reasonable and is too oriented to Government Operations, i.e., "Running a cut rate territorial Government". The U.S. proposal is not oriented to programs and does not take into account the ongoing programs such as OEO, medical referral, salary equalization. He doesn't think the GOM could function on the amount of money the U.S. is proposing.

He reiterated a previous position that it is essential to negotiate for all six districts. If the Marianas happen to go separate, then there could be some adjustment. There is no option since this is in the JCFS Charter. He said the JCFS is faced with the possibility of the Marianas rejecting the Commonwealth and there must be some provision for bringing them back into the fold. The U.S. should reevaluate their proposal and include the Mariana Islands.

4. Mr. Quinn was then asked by Silk to explain to the U.S. Committee the costs of continuing the government as it is now, with building costs, CIP (planned, programmed and not yet accomplished). These costs are as follows:

\$74 million per year - operations

\$18.5 million per year - CIP -Airline, Banks, Shipping line

\$ 3.8 million per year - Unmet CIP needs

\$130.5 million per year (not counting inflation)

Total ten year cost - \$1.3 billion.

Quinn said the CIP was strictly a wish list, and that all figures were rough estimates. Mr. Silver commented on Quinn's presentation, noting that

03 024272

\$74 million a year for current operations seemed extremely high based on current figures; in fact it was three times the cost of current operations. He indicated that the CIP items such as Airlines and shipping are bankable through such institutions as EXIM bank. He then made the assumption that the Micronesian figure implied tax collections of internal revenues.

Quinn replied that he had not considered sources of funding. Continuing, Quinn said that payroll increases would average 8% a year plus there would be some growth in government operations. By the end of ten years, the cost of the government would be \$150 million. He also stated that the COM revenues are probably understated and that there would probably be a 10% growth a year in revenues. Mr. Silver asked if the GOM would be in a position to collect \$100 million by the end of ten years to run the government. Quinn replied that his proposal is not a spending plan, not a development plan and there were no estimates of the increase in revenues as a result of the revenues.

5. Mr. Wilson said that he would like to consider further the remarks by Mr. Warnke and Quinn, plus the projections. The U.S. side is constrained to feel that if the JCFS stays at the \$100 million level, there isn't much hope of reconciliation. The per capita contribution in Micronesia if the U.S. provided \$100 million is far in excess of what we are doing now in any area and greatly exceeds that of any other major nation's contribution of aid under similar circumstances. Mention was made of Gibraltar. U.S. instructions do not permit us to go near that figure. The U.S. cannot really set down to consider a "wish list"; there must be reason in the approach. The JCFS approach would be difficult to sell to the U.S. Congress. For a looser relationship, why should the U.S. pay more than it is now.

Mr. Wilson continued with a comment that we would like to break off until we have a chance to review the JCFS budget projections and perhaps get together in smaller groups to consider other titles in the Compact.

6. Mr. Warnke responded by making additional comments on finance. He acknowledged that the CIP list was a list of desires which was 1/3 higher than the Micronesians were asking and that the GOM could not fund even a reduced list. He considered that the U.S. approach would cost the taxpayer more than present, while their's would be more palatable to Congress since it runs for only ten years. The JCFS views the \$100 million as one time start up costs plus certain costs associated with termination of the Trust. The U.S. program, continuing for 25 years is a continuing drain on the U.S. taxpayer. Their approach is not a per capita cost per se, but rather is a reasonable estimate of start up costs. Both Quinn's and the U.S.' position seem unrealistic. He considers the overall figure to be negotiable and asks the U.S. to reconsider its position. If there is no hope in sight, it will be necessary to break off negotiations.

7. Mr. Wilson said there had been considerable discussion on the nature of the relationship. The Micronesian program seemed to be a ten year program of economic assistance after which nothing is forthcoming. There will be no pump priming operation. Mr. Warnke replied that the JCFS is talking about creating a machine while the U.S. is just priming the machine. Mr. Wilson then referred to Micronesian comments on cutting back on government costs and adopting a more austere approach. Now it appears the Micronesians want to step up to Cadillacs instead of continuing to ride in LTD's.

mentioned at Koror.

8. Mr. Wilson then proposed the discussion turn to termination. He thought we had some substantial agreement on words and procedures but differences on figures. He then went on to reaffirm the four points of the U.S. position.

a. Length of Moratorium:

U.S. - 15 years

Micronesia - 5 years

We were concerned over the duration of the agreement. It may be to the advantage of the Micronesians to have a longer moratorium. It takes time to iron out problems and differences. The mutual consent period should be longer to provide more stability. It serves to reassure the Micronesians that the U.S. could not "bug out". The agreement is not immutable; there are amendment provisions. However, five years is too short and twenty-five not too long but fifteen is our reasoned judgement as to the minimum we could live with.

b. Annex D. Procedures for termination are not new since they were thoroughly discussed at Koror. Annex D is designed to insure that a relationship of this seriousness is not terminated lightly. The U.S. is interested in insuring that if termination is desired, it will be accomplished in a democratic process.

c. Survival of Title III. The U.S. has left a blank, but we would like it to be as long as possible. We had in mind something like 99 years in total which is directly related to the strategic importance and need for stability in the area. It may sound like a long time, however, the U.S. is not concerned with domination of the area, primarily with denial, but admittedly it is hard to "crystal ball" the length of time. The U.S. is determined to carry out its responsibilities for maintenance of peace. We do not want to see Micronesia become a cockpit for future struggles.

d. Treaty. Survivability should not be handled as a treaty. The Koror solution was not practical. We should work out a formula to have survival apply automatically.

9. Mr. Warnke stated that since termination was so closely linked to finance, there was not much use in going into termination until finance is settled. The two drafts are similar in some respects. In the JCFS view, however, when the Compact terminates all Titles terminate. In his opinion, the JCFS draft provides for a more lasting bond. It is difficult to visualize 99 years or any long period. It might be possible to work out an annex that would come into effect upon termination. He doesn't like the treat approach either. Perhaps we should negotiate an annex for survivability.

10. Representative Silk proposed a pause to give the U.S. a chance to review the Micronesian finance figures. Mr. Wilson suggested that smaller groups get together to look over other Titles; however, Mr. Warnke wanted to wait until the JCFS had had a chance to study the U.S. drafts.

THE MEETING ADJOURNED AT 1145. NO FUTURE MEETINGS SCHEDULED.

As of:
19 Nov 73

024275

	<u>Present</u>	<u>JCFS</u>		<u>U.S.</u>	
OPNS	(6)	55	50	38	34
	(40)	(46)	(42)	(32)	(28)
Devel Grant	(6)	30	-	7	-
	(8.5)	(25)	-	(6)	-
Devel Loan	(6)	5	-	3	-
	(0)	(4)	-	(2.5)	-
Fed Progs	(6)	3	-	3	-
	(5)	(2.5)	-	(2.5)	-
TOTALS W/O Fed Progs	(6)	90	85	48	44
	(48.5)	(75)	(71)	(40.5)	(36.5)
W/Fed Progs	(6)	93	88	51	46
	(55)	(77.5)	(73.5)	(43)	(39)
					(35)