03/4

OFFICE FOR MICRONESIAN STATUS NEGOTIATIONS
WASHINGTON, D.C. 20240

17 November 1973

MEMORANDUM FOR THE RECORD

Subject: Third Session of the Drafting Committees, 17 November 1973

1. The Third Session of the Drafting Committees opened at 1145, 17 November 1973. Present were:

U.S. Drafting Committee	JCFS Committee
Mr. James M. Wilson, Jr.	Representative Ekpap Silk
Captain Richard Y. Scott, USN	Mr. Paul Warnke
Mr. Harmon Kirby	Senator Roman Tmetuchl
Mr. Herman Marcuse	Senator Ambilos Iehsi
Mr. O. Thomas Johnson	Representative Herman Guerrero
Mr. Solomon Silver	Mr. Michael White

Observers

Mr. James Berg
Mr. Adrian deGraffenried
Mr. John Dorrance
Colonel William Kenty
Captain Edward C. Whelan

2. The JCFS committee had no opening remarks. Mr. Wilson reviewed the respective positions, bearing in mind the results of the last two meetings, the JCFS paper on finance and the 16 November discussion between Ambassador Williams and Senator Salii. It seemed profitable to discuss finance further at this time even though we are still far apart on the level of financing. It appears that both sides are coming closer together in concept. Further review on this basis might offer some means of reconciling figures.

The U.S. has restudied its draft Titles IV and XI taking into consideration the JCFS drafts. We agree with Mr. Warnke that the two titles are linked; therefore we have treated them together. We have redrafted these titles using as much of the JCFS draft language as possible, and expected to hand these drafts out in a few minutes. At this time, Mr. Silver was asked to review the figures submitted on 15 November by the JCFS.

3. Mr. Silver said that he had gone over the JCFS figures as well as supplementary figures provided by Mr. Quinn on CIP projects in each district. It is difficult to give a qualitative judgment since we don't have projections on increased revenues, foreign investment and other benefits that might accrue to the GOM. Mr. Silver made the general observation that the JCFS plan indicated the cost of government operations would rise by 100% in 1985 - $52 million now to over $100 million in 1985 - while government revenues were rising much more slowly. This would result in a $98 million deficit by 1985 although the narrative says the deficit will be closed. This is difficult to visualize since there is no apparent improvement in government revenues.

03 035899

Mr. Silver continued by saying it was difficult to see how self-sufficiency would be realized under the JCFS program. Reviewing the line items he made the following observations:

Government operations - the increase in cost is attributable to an 8% inflationary increase, compounded annually, so that by the end of ten years there would be a 100% increase in government operational costs. This is a most untenable position. It doesn't seem reasonable to continue this projected increase for ten years, especially since there should be a stabilization in salaries. Since we have provided for changing conditions, the JCFS program is double counting by providing for built-in inflationary costs. For purposes of analysis it is necessary to keep the cost of government constant.

Federal Programs - The U.S. is prepared to continue three programs at no cost to Micronesia, but other federal programs that are available to States and/or Commonwealths would not be available except by charging the GOM for them. This is a realistic proposal since the JCFS has chosen to be less closely associated with the U.S. than a commonwealth.

Table 2 - JCFS Plan - It appears to us that the second line items of $18.5 million a year for three large CIP projects should be deleted. These items, shipping, airlines and banks, are properly bankable items. If any one of them is a solid project it can be supported by a bank (EXIM) and the loans paid back from the earnings. For this reason we have not included this item in our estimates.

District CIP - The proposed $38 million annual CIP for district use appears to be out of proportion to actual capabilities to perform. We must consider the current level of CIP which is running at $10 million per year and the difficulties encountered at spending even that amount. If the CIP increased by four-fold it could impose serious problems on the GOM and districts. It must be concluded that the JCFS CIP is higly overstated and impractical to implement.

In conclusion, Mr. Silver said that to make a more realistic plan the JCFS should remove the inflation factor for government operations and plan on reducing its figure for current operations. The reasons the U.S. had used FY-73 as a base instead of FY-75 was because the COM has previously indicated that '75 expenditures would be no larger than '73.

4. Mr. Warnke replied to Mr. Silver's presentation by stating that he recognized that the JCFS approach to a financial plan was rudimentary. However, the increase in government operations costs does not include an inflation factor but rather considers increases in pay, staffing and services required by the new GOM. The $8 million in services as opposed to the U.S. proposal of $2.5 million covered most of the services now in existence. It is obvious that the GOM would not have adequate resources to pay for these services so therefore the U.S. was being asked to provide the money. With regard to the three large CIP items, they could be bankable but in fact these three were not included in the $100 million program. The justification for the $38 million CIP was that the new GOM anticipated doing a more efficient job than the current government.

5. At this point, Mr. Wilson handed out the revised U.S. drafts of Titles IV and XI. He pointed out that in Title IV, Section 401 was revised to overcome previous JCFS objections and that the new Section 402 separated out the land payment. Also, Section 401 was geared to a guarantee of assistance during the period when the Compact could only be terminated by mutual consent as the JCFS draft was. We also adopted JCFS language on renegotiation after a review period. We did leave the sliding scale approach in this version which is considered as useful for the objective of self-sufficiency. We do not insist, however, on this approach, but if we use the straight line approach the going in figure would be lower. Section 404 was basically the same formulation as the earlier draft. Section 405 provides a review of the figures to account for changing economic conditions and in 404(b) we have omitted reference to future internal control of loans.

Mr. Wilson said we have looked over funding possibilities and are now prepared to talk figures. He emphasized that we are talking five districts. Even though this may run counter to the JCFS Charter it is the U.S. Charter based on the request of the Mariana Islands to negotiate for a separate status. Our figures exclude all financial assistance for the Marianas since we will be talking finance with them in December - therefore, 1/6 can be added or subtracted to respective figures, depending on the point of view.

The methodology used in arriving at the U.S. figures reflects existing conditions in the Trust Territory. We believe there should be a solid starting point. Also, we are not talking about having a compact tomorrow. There will be a transition period of several years during which there will be continued funding under the trusteeship. This period will provide for completion of programmed and planned CIP projects. It is our hope that this period will also provide time for streamlining government operations resulting from a decentralized government, with expatriate Americans sent home and progressively more Micronesians in key government positions.

Mr. Wilson said that we do not agree that the present level of U.S. support is penurious. The U.S. is providing 90% of the Micronesian budget in an amount higher on a per capita basis than that existing in any foreign country in the world. We hold to the self-sufficiency concept but there is a practical limit to how much can be stuffed into the economy. The level of assistance must take account of absorptive capacity.

The U.S. is nevertheless willing to continue in the post-trusteeship period with the current level of financial assistance but with two exceptions.

a. Federal Programs - These are designed primarily for the benefit of members of the American political family. The most we can offer at no cost are three ongoing programs. Other services can be made available if the GOM requests them on a reimbursable basis.

b. Operations of Central Government. We cannot continue on the present level if as the COM said they want to streamline and decentralize.

Mr. Wilson then provided the figure for the blanks in our Title IV.

Section 401 - First five years - $32 million, Second five years - $28 million; third five years - $24 million.

035901

Section 403 - current analysis shows that the current average level of $10 million is adequate. Subtracting 1/6 would end up about $8 1/2 million. Therefore Section 403(a) is $6 million and 403(b) is $2 1/2 million on a loan basis.

None of these figures takes into account possible revenues such as outside assistance from other countries (World Bank, ADB, etc.) and local revenues, additional savings in government operations, foreign investment which the GOM will be able to handle as they see fit, and special transitional costs such as a relocation of the capital.

Mr. Wilson said that he feels this offer is generous and reasonable. He then asked for the JCFS Drafting Committee's reactions. Representative Silk said they would like to recess until 1430. The session recessed at 1230.

6. The Third Session reconvened at 1430. Representative Silk introduced Representative Moses who had not been present at the morning session and then asked Mr. Warnke to comment on the latest U.S. Draft of Title IV.

Warnke restated the JCFS position that they were negotiating for six districts since that was what their charter directed and at some point the U.S. must face up to the fact that the Marianas must decide which way to go. It must be the final act of will by the people of the Marianas. The U.S. should recognize the possibility that the Marianas might not accept separate status; therefore unless provisions are made to accommodate the Marianas in the Compact there will be no way to get them back if they reject Commonwealth status.

If the U.S. proposal were translated to six districts by adding 1/6, the resultant figures for Title IV would be 44, 41, and 35 million dollars respectively, including 7 million for CIP in each increment. These amounts were still below the minimums acceptable to the JCFS. Their review made during the recess showed that an average of $80 million a year is required for ten years. Warnke then presented the latest JCFS counter proposal for six districts as follows:

Section 401: first three years - $55 million per year.

next four years - $50 million per year

last three years - $45 million per year

plus $30 million a year for CIP (Section 404(a)).

These figures as compared to the U.S. offer of $41 million plus three Federal Programs still leave a big gap and Warnke said the first exercise both sides must go through is to see if the gap can be closed. He said he had reviewed the U.S. proposal with the other members of the JCFS and there were still questions on the Federal programs. The present level in the Trust Territory is based on Micronesia being part of the American family whereas a new status would suggest a less close relationship and fewer Federal programs. Warnke said that if we go with the words in the U.S. draft Micronesia would be "cloyingly close".

Salii had been consulted during the recess to come up with a counter-proposal. The general feeling is that the latest U.S. proposal still falls far short for the first ten years of the Compact. Mr. Warnke again pointed up the difference in the two drafts regarding duration of financial aid. He said that in the Micronesian draft, review and possible termination could be made under theirs at ten years and the total amount would not be much different than the fifteen year U.S. proposal.

He went on to say that the JCFS would accept four Federal programs - FAA, Postal Service, Weather Service and Coast Guard. They would be prepared to agree that any additional programs would be paid for.

Summing up the Micronesian proposal he said the amount for six districts is:

401 & 401(a) - $80 million plus continuation of four Federal programs at existing levels.

The JCFS drafting committee has gone over the text of Title IV and think the overall approach is susceptible to compromise. They would like to propose a change in Section 405 to avoid the annual U.S. Congressional authorization/appropriation exercise. They would prefer one time authorization similar to arrangements the U.S. has in base rights agreements. Additionally, they want a sentence in Section 401 or a Section that deals with U.S. failure to live up to its obligations and termination of the Compact. Warnke then asked if the U.S. drafting committee wished to comment on the Micronesian presentation.

7. Mr. Wilson said that we would have to take a look at the Micronesian proposal. He said that we do not intend to belabor the five versus six district argument. This is a matter of record on both sides and we don't think it has to be resolved just at this moment. It creates an awkward situation but one that can be handled with some mental agility. He added that the U.S. position on this has been approved at the highest level in the U.S. Government to which Mr. Warnke replied that the JCFS versions had also been approved at the highest level in the Joint Committee.

Mr. Wilson then commented on the level of Coast Guard activity in Micronesia since it was apparent the Micronesians present might have an inflated notion of Coast Guard services. He said that the current level of Coast Guard activity was limited to Loran C and Loran A and that Loran A was being phased out. The U.S. would look into this matter and verify the actual level.

With regard to the revisions in Title IV; he said there may be some misunderstanding on the "Congressional approval" phrase. This appears in most AID agreements at the behest of the government. It is not intended to insure annual appropriation. We are sympathetic to the JCFS position on annual appropriations but while our Congress might go along with an open-ended authorization it is likely to have great difficulty with multi-year appropriations. We welcome any suggestions from the JCFS. Also we will have to look at their words for a new Section 405 regarding termination or failure of the U.S. to meet its obligations We have looked into this. Normally it is an unwritten rule in any agreement. There may also be a Congressional problem but in any case it requires study.

The decision was made to meet again in drafting committee session at 1100, Monday, 19 November 1973.