

OFFICE FOR MICRONESIAN STATUS NEGOTIATIONS

WASHINGTON, D.C. 20240

June 11, 1974

MEMORANDUM FOR THE RECORD

CARMEL TALKS ON MICRONESIAN STATUS

First Meeting, Monday, 1 April 1974 (3:30 p.m.)

PARTICIPANTS

U.S.

Ambassador Williams  
Mr. J. M. Wilson, Jr.

Micronesia

Senator Salii  
Congressman Silk

After welcoming Salii and Silk to Carmel and other pleasantries, Ambassador Williams opened the informal talks with a discussion of organizational arrangements and then reviewed the events since last November leading up to this meeting. He noted the previous informal discussions in Saipan in December and January, contacts with Warnke in January, Wilson's three weeks in Saipan reviewing financial matters jointly with the JCFS and HICOM officials and the most recent discussion in Washington with DOTA, HICOM and his staff and Congressman Setik on the budget and five year plan submission.

He reminded Salii of the earlier understanding that these Carmel talks would be designed to work out tentative agreement on all remaining issues if at all possible prior to scheduling a formal eighth round of status talks with the full JCFS. It was also understood that the talks would be informal and off the record in the sense there would be no proceedings and no press statements. Participants during actual negotiations on the Compact would be the principals and counsel with any others joining in as needed as resource people in any larger meetings. Salii agreed and said he was calling Mr. Warnke later in the evening and expected him to be present on Tuesday afternoon or Wednesday.

In terms of what might happen after these meetings it was understood that Senator Salii and Representative Silk would present and defend any agreements reached before the JCFS and that if these were accepted in turn then the Eighth Round would be scheduled. If initial problems or disagreements developed these would be ironed out in private. If disagreements still remained both sides would have to consider where to go from there.

Ambassador Williams said the most important items on the unfinished agenda from his point of view were the completion of the draft compact with particular emphasis on

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finance and termination, completion of the military land negotiations which would have to be accomplished before the U.S. could sign the compact and were firmly tied to the finance provisions, and the sequence and timetable of events in the transition period leading up to the termination of the trusteeship, including the development and adoption of a new constitution and the completion and approval of the compact of free association. We hoped these talks would follow the same pattern as Hana and be conducted in the same spirit; that is, that there could be a full informal review of the entire agenda coming back as necessary to those points where there had been incomplete or no agreement. It was understood by all in any event that all parts of the Compact were considered tentative until finally approved and there would be no final commitment on either side till all titles were agreed to. Senator Salii concurred.

Ambassador Williams suggested a meeting the next morning at 10:00 o'clock where there could be a general exchange of views on what each side hoped to accomplish and where things were likely to go and what the realities were in the present situation on both sides. Senator Salii agreed. In addition both sides could discuss any particular problems related to the overall situation or the status talks in general. He proposed meanwhile all members of both groups meet for cocktails.

J.M. Wilson, Jr.

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MEMORANDUM FOR THE RECORD

CARMEL TALKS ON MICRONESIAN STATUS  
SECOND MEETING, Tuesday, April 2, 1974  
(10:00 a.m.)

Participants:

Micronesia

Senator Salii  
Congressman Silk

United States

Ambassador Williams  
Mr. Wilson

Ambassador Williams opened the substantive discussion by asking Salii what he considered to be the highlights of the recently concluded session of the Congress of Micronesia. Salii said the first major item was the constitutional convention bill, which had finally passed with a series of amendments. He had opposed some of these personally - the early June date for election of delegates in particular - but had not felt it expedient to oppose them publicly for fear of endangering the bill itself. Silk said the June date was necessary in the Budget Committee's view in order to avoid losing the funds the end of the fiscal year (NOTE: this makes no sense-JMW). Salii also was of the opinion there were too many delegates. He felt the convention itself should not be held until next spring (April) after the new Congressional elections and after the Congress had met in regular session. Meanwhile an intensive program of political education was required. He had already been in touch with the Education For Self Government task force to see what could be done.

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Salii observed that the failure of the House to pass the public land legislation bill was a major disappointment, but he hoped this could be remedied in the special session of the Congress requested for September/October. - Silk blamed part of this failure on the late arrival of the Senate Bill in the House, Salii replied that both houses had started the bill at the same time but the House had waited until the Senate finished. The only really difficult problem he could see was Ataji Balos' insistence on deleting the eminent domain powers of the central government. Wilson said there were other features of the Bill as it had partially emerged which gave us serious difficulties as well, among them the handling of military retention land, the treatment of prior claims, and the delay in completion of military land negotiations until after the Compact of Free Association had been approved in a plebescite. On the latter score, Ambassador Williams reminded Salii of what had been said in previous sessions about no signature of the Compact until U.S. land requirements had been met. He asked what the sentiment was now for having the public lands returned by Secretarial Order rather than COM action. Salii thought it would be preferable to wait and see if the Congress would not pass an acceptable bill in the special session.

Another failure in Salii's opinion was the Congressional inaction on revenue sharing which had resulted in the subsequent resolution of the Marshalls' Nitijela asking for

separate status negotiations. He felt, however, that the Marshalls could still be brought back in and indicated the COM leadership was prepared to compromise on the revenue sharing issue at least to the extent of a 30-40 per cent return to the districts. Indeed the Senate would be prepared to go along with 50%. Silk, indicating he was prepared to support the COM action on the whole issue, said Dominick would settle for 30-40 per cent in the House. Silk said further that Congress had purposely delayed action on the allocation of funds to the districts this fiscal year in anticipation of the passage of some sort of revenue sharing bill and that all this could now be handled in the special session. (NOTE: this was a different line from that taken by Silk with Ambassador Williams the night before when he had indicated the Marshalls were serious about separate negotiations and that his own personal preference was for the Marshalls' line, suggesting that the Marshalls might in fact prefer not only separate status but a status closer to the U.S. than that being considered by the JCFS).

Ambassador Williams observed that the U.S. position on the matter had not changed from what he had said publicly last May in Majuro and that Mary Trent had just reaffirmed this in a letter to Andon Amaraich in reply to the latter's query on this score. Salii suggested that a positive official U.S. public statement would be very useful. Ambassador Williams said we continued to hope the Marshalls and Carolines would find it possible to stay together and we would continue

to stand on the Majuro statement.

Ambassador Williams then proceeded to review where we felt the negotiations now stood. He noted that both sides had come a long way since talks started in Hana. Agreement had been achieved in principle on all major issues. The JCFS has acknowledged that its original four points had been met. Micronesian concern for the establishment of their own basic laws was being met through the Constitutional Convention. Concern over control of land had been met, at least by the U.S., in agreement to transfer public land to the districts if the districts so desired. The chosen Micronesian course on future status - free association - was agreed as a common goal, with the United States assuming responsibility for foreign affairs and defense.

We were now engaged in trying to devise a practical basis for putting these principles into effect, Williams said. There were three principal issues remaining - U.S. military land requirements, finance, and termination and the transition time table. We had consulted on these at the highest levels in the U.S. Government and with the Congressional leadership. All have made the assumption that the Hana-Koror agreements in principle, as now reflected in Titles I-III, remained valid and form the foundation on which the remainder of our agreement would be structured. The United States needed to know if this also represented the assumption the Joint Committee was working under and the extent to which this also reflected the viewpoint of the Congress of Micronesia and the district themselves.

After reflecting for some moments, Salii said he agreed.

On U.S. land requirements Ambassador Williams repeated what he had said in the past, that there could be no signature of the Compact until these requirements had in fact been met. He recalled the November, 1973, declaration of the Palau Chiefs and the earlier invitations to send a military survey group, without which specific U.S. requirements could not be identified. Salii said he felt it would be in the U.S.'s best interest not to push for the survey just now but to let the matter cool a bit more to see what the Congress was able to do on public land in a special session. He was confident the Chiefs would live up to their word and in fact would no longer be Chiefs if they broke their solemn pledge.

Ambassador Williams observed that we would be discussing finance and termination in practical terms at the next meeting and also tying this in with our ideas on a transition timetable and the things which needed to be done during that period. On the latter score we had studied and much appreciated Salii's efforts stated in public in his speech before the Congress following on the January meetings. Salii said this still represented his views. He felt the Compact should be completed as soon as possible and be available to those forming the new constitution in April of next year. Thereafter the Compact and Constitution would be considered together by the people and be voted on a year later at the same time. He said they would be prepared

to talk in practical terms beginning with the next meeting.  
It was agreed this would begin at 10:00 the next morning.



CARMEL TALKS ON MICRONESIAN STATUS

Third Meeting, Wednesday April 3, 1974 (10:00 a.m.)

Participants:

Senator Salii  
Congressman Silk  
Mr. Warnke

Ambassador Williams  
Mr. Wilson

Ambassador Williams opened the meeting by proposing three major topics for development in the morning's discussion: (1) the relationship between transition financial programs and post trusteeship financial needs and proposed support levels; (2) the transition timetable; and (3) certain basic economic considerations that have gone into U.S. thinking regarding the economic future. Thereafter we would be prepared to talk actual programs and figures. He recalled that yesterday there had been common agreement on basic principles underlying the future political relationship and the present need to move ahead in practical terms to finish the task of drafting the remaining titles of the Compact. These efforts would be directed towards completing the Compact prior to the convening of the Constitution Convention so that the new Constitution and status agreement could be submitted to the people simultaneously - possibly in April, 1976.

With regard to the relationship between the pre and post trusteeship periods and the transition timetable Ambassador Williams presented the U.S. views following the outline at TAB A. Salii and Silk made essentially no comment. Wilson then presented the U.S. views on economic factors following the outline at TAB B.

There was considerable discussion indicating general concurrence in the timetable presented but reserving final approval until the programs and figures could be presented. Broad agreement was voiced on the need to

reverse the upward trend in the costs and size of governmental operations. ||  
Salif noted that Ray Setik's committee had already taken this line, and there was considerable support for it among Senators as well. He hoped that means could be found to hold down personnel costs by eliminating the need for enforcement of U.S. Civil Service standards. At the same time the idea of a "front end loaded" CIP had great appeal and followed the line suggested by the JCFS in November. He looked forward to learning specifics at the next session which, it was agreed, would be held after lunch.

## TAB A

### The Transition Period and Post Trusteeship Micronesia

It is obvious that the planning and what happens between now and then will have a great effect on the early years of Micronesia following the termination of the Trusteeship.

The next few years especially two-three years are critical ones

- will establish shape and form of future government
- will test Micronesian spirit of unity
- will determine relationship with U.S.
- will determine need of basic infrastructure system. Micronesia

will have in place as it starts out under its own government.

The extent to which essential unfilled needs can be met between now and then depends on:

- amount of time remaining to fill them
- amount of resources the U.S. makes available from year to year.

It is recognized widely of course that needs in the post-Trusteeship period will be dependent to a large extent on what has been accomplished before the trusteeship ends in terms of the extent of the basic infrastructure which is in place, i.e.:

- Airports, roads, harbors
- schools, hospitals, public buildings
- power, water - disposal systems utilities, etc.

Need to assess: what is now in place, what essential and justifiable requirements remain to be filled and how much time will be available.

### U.S. Intentions

Since Hana and Koror U.S. has made it clear that it wishes transition to be a smooth and orderly one and that once future status decided and new

OFFICE FOR MICRONESIAN STATUS NEGOTIATIONS

WASHINGTON, D.C. 20240

June 12, 1974

MEMORANDUM FOR THE RECORD

CARMEL-Sixth Meeting - APRIL 4, 1974, (Thursday) 9:30 a.m.

U.S.

Ambassador Williams  
Mr. J.M. Wilson, Jr.  
Mr. Silver  
Mr. O.T. Johnson

Micronesia

Senator Salii  
Congressman Silk  
Senator Olter  
Mr. Warnke

Senator Salii began the meeting by commenting that they were all very satisfied with the finance figure we had presented the day before. "Ekpap, Bailey and I are very happy with the figures," he said. "I hope the committee's of Congress will approve. I much appreciate all the hard work that has taken place since last November".

Mr. Warnke stated that he expected to take back to Washington the language we had presented in Carmel, and that he and Jim Stovall would go over it carefully and give us the draft. However, he was agreeable to going through the whole Compact.

Mr. Warnke then asked whether the figures we had presented applied to the territory of the present five districts excluding the Marianas. Ambassador Williams said yes. Mr. Warnke then asked, if the Marianas were to opt to join Micronesia, would our figures go up. Ambassador replied, "yes, in principle."

With respect to §404(c), Mr. Warnke said that he wanted the language to indicate that assistance would go on after the first 15 years at the level of the last five years if no agreement was reached as to a modification. He suggested deleting the language on "good faith: contained in our old Sections 401 and 404(c). He thought it would be better to put it in a new §405 on this subject.

With respect to Title XI, Mr. Warnke reiterated that the JCFS would not want to have termination result in a situation where Micronesia enjoyed none of the advantages of the Compact while the United States kept all of its defense rights. Ambassador Williams responded by reading from the JCFS December, 1971, draft on this subject. Mr. Warnke replied (in a more amusing manner than I can now reconstruct) that they had changed their minds. Ambassador Williams then read from paragraph 5 of the Koror communique (the paragraph calling for a prenegotiated

*→ this only  
part of the  
compact  
is  
being  
read.*

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constitution drawn U.S. prepared to move progressively and at an accelerated pace toward (1) greater and greater Micronesian assumption of responsibility and authority for self-government and (2) toward the early termination of the Trusteeship.

Process has already begun in fact - cite the Morton message summarizing the steps already taken or to be taken with emphasis on the CIP 5 year plan with emphasis on the first three years.

#### The Transition Timetable

- At Koror- JCFS mentioned "two years" after agreement reached.
- Subsequently some have said 5, 10, 15, 20, 25 years.
- In February Salii mentioned seven years.
- The U.S. is flexible on this score and will wish to take Micronesian views into full consideration.

#### U.S. Proposal: Two Stage Six Year Transition Plan

- Basic concept similar to Salii's though it differs slightly in length i.e., six instead of seven years.

#### -Summary

Stage I From present to approval of new status agreement and adoption of new constitution by the people of Micronesia (1976-2 years).

Stage II Final period of transition leading to full implementation constitution and termination of Trusteeship (4 years-1980).

- Stage I (Two years) 1974-1975-76.
  - The final planning and preparation period.
    - Planning and execution of accelerated programs.
      - CIP
      - Education for self-government.
    - Planning for and execution of new responsibilities under self-government.
      - Control over land.
      - Control over foreign investment.



TALKING POINTS ON BASIC ECONOMIC PRINCIPLES

1. A number of points have developed as a result of February discussions in Saipan and joint examination of "needs" that took place there.
2. Need for Micronesians to have a series of realistic development goals.
  - a. Brave words from all Micronesian leaders regarding self-sufficiency, even during last COM session.
  - b. Recognition this can never be achieved in practice (no nation today is really self-sufficient) but in relative terms this should still remain target for economic development.
  - c. But better to speak about goal of decreasing present virtual absolute dependence on outside support, i.e., U.S. support, over period of years.
    - (1) Micronesia on its own can't possibly afford present government and scale of living.
    - (2) Truth in Carl Heine's remark that Micronesia needs a revolution - "A revolution of declining expectations".
  - d. Decreasing dependency needs to be gradual to avoid trauma of abrupt fall in living standards - need a leveling off and a spreading around of income to larger base.
  - e. Necessary corollary is development of basic means of economic production and livelihood which will provide progressively greater income for the people in real terms and progressively greater revenues for the government so that Micronesia can stand increasingly on own feet.
3. Not all assistance in the future need come from U.S. grants.
  - a. Where projects are income producing they should be bankable - either commercially or from established international institutions.
  - b. U.S. provided loan funds for a development bank to use directly as loans or basis for commercial guarantees can help materially and would not involve greater dependence on foreign sources.
  - c. Liberalized foreign investment policy also represents major potential source of new capital and financing.

d. Experience elsewhere has shown that discipline of loan application process and repayments is a very healthy thing for developing countries.

(1) Decreased reliance on hand-outs.

(2) Increased sense of assurance and confidence.

4. Simply building up a large infrastructure base will not assure economic development.

a. Recognize need for basic infrastructure - roads, docks, airfields, utilities, schools, hospitals, etc..

(1) Adequate austere standards initially, however, rather than deluxe trimmings.

(2) Priorities and timing also important - no reason to move ahead of anticipated economic capabilities and needs.

b. Also need a purpose beyond gratifying basic wishes of the moment, i.e., infrastructure planning should be directly related to goal of raising productivity and increasing sources of income.

(1) Little or none of this apparent in February listing of "wants" other than vague thoughts of increasing tourism in some districts and Marshalls direct tie-in with agricultural and marine resources build-up.

(2) "Unmet needs list" essentially meaningless except where related to specific income producing goal.

(a) No need to pave roads unless paving it will materially enhance the users' income.

(b) Necessary ingredient or test is careful cost benefit study of most projects beyond the most basic ones, and this hasn't really been done.

(c) Thoroughly endorse COM's idea that what is needed is first class development planning effort in Micronesia.

c. Careful consideration must be given as well to implications of large infrastructure projects on cost of government operations and maintenance.

(1) Added personnel and maintenance costs must be figured in and how government is going to pay for them.

(2) Danger of simply programming increasing dependency on outside support over indefinite future, as Lehsi so eloquently pointed out.



5. <sup>on</sup>Goal of decreased dependency on outside support dependent/combination of progressively decreasing costs of government (in constant dollar terms) and increasing revenues from local sources.

a. Vital to former is keeping tight lid on operational costs and taking every opportunity to reduce them.

(1) Trend since 1969 has been exact opposite: 50% increase in government personnel (4,400 to 6,600 Micronesians) with over half of work force on government payroll; 135% increase in salary levels: this is unconscionable.

(2) GOM on its own simply could not afford this luxury and neither can U.S. on continuing basis countenance it.

(3) Stifles initiative and private development and insures continued dependency (salary levels should follow, not lead private enterprise).

(4) If political goal is decentralized government, great savings should be possible by progressive dismantlement of overstuffed central government bureaucracy, provided districts don't take the occasion to make the same mistakes.

(5) Other major savings should be possible by progressive elimination of expensive expatriates in all jobs except those where technically qualified Micronesians simply cannot be found.

b. Increasing revenues can be derived from many sources with careful planning and intelligent programs.

(1) Much more needs to be done to make people pay for services provided by government: no need for free water and electricity; pay-off factor in future utilities projects should do much to defray their costs.

(2) Tax base in monetized sectors of economy is woefully inadequate and is badly in need of reform; this could result in progressively greater revenues especially as tax base improves with growth in internal income.

6. Another basic consideration is attitude of U.S. Congress.

a. Recall that we have just completed extensive consultations.

b. While it has been and is likely to continue to be generous toward Micronesian needs, it will not stand still for providing extravagant levels indefinitely or a

TAB B

higher level of assistance to someone outside the family than it provides for its own.

c. With ending of the trusteeship, Congress likely to view Micronesia more in light of foreign aid recipient (remember Julia Butler Hansen's remark that if Micronesia went independent it would have to take its case for aid across the hall to the Passman's Committee and "God help you then".)

OFFICE FOR MICRONESIAN STATUS NEGOTIATIONS

WASHINGTON, D.C. 20240

June 13, 1974

MEMORANDUM FOR THE RECORD

CARMEL TALKS ON MICRONESIAN STATUS-FOURTH MEETING  
Wednesday, April 3, 1974 (2:30 P.M.)

PARTICIPANTS:

U.S.

Ambassador Williams  
Mr. J.M. Wilson, Jr.  
Solomon Silver

Micronesia

Senator Salii  
Representative Silk  
Senator Olter  
Mr. Warnke  
Mr. W. Quinn

Ambassador Williams ran through a brief resume of the morning meeting in order to bring Bailey Olter up to date. This summary dealt with the Transition from Trusteeship to Free Association - including the interlocking relationships of Compact, Constitution, plebescites, referenda, and gradual change in political arrangements. During Transition the U.S. Government would attempt a stepped-up financial assistance package to help put in place the essential infrastructure requirements of Micronesia and also to institute a plan for decreasing the cost of government operations.

Mr. Silver presented additional details on the Transition financial package and the rationale behind it. He pointed to the very large increase in Government personnel; the gross salary bill; and the Micronesian government employees' average salary. He pointed out that this has been the chief cause of the increase in the government's operations bill from about \$20 million in 1969 to over \$48 million in 1974 and a projected rise to \$55 million in 1975. This required action now and through the transition period to reverse that trend so that the new government will not be saddled with an impossible task at the very outset.

He had no easy answers - but suggested the need for removing redundant personnel, raising taxes, increasing users' charges for government services, etc.. He pointed to the need to re-examine the government pay scheme which was now providing an automatic pay increase of 6% each year to each employee.

With respect to CIP, Mr. Silver explained that in the 1975-1980 period, the U.S. Government plans a \$145 million

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total input (in constant dollars) - averaging almost \$25 million a year - or a level considerably higher than any time previously. This would serve to meet almost all urgent requirements for jet airports; docks; harbors; paved roads; water and sewer facilities in population centers; permanent hospitals and schools; as well as a modern fleet of ships for inter-island traffic. The specific annual figures (20, 25, 30, 35, 20 15 ) were then presented along with the comparable annual figures for Operations. (5, 5-55-53-50-48-45) (?). It was expected that this accelerated CIP would then make possible a more modest long range CIP program in the post trusteeship period to COM recurring needs, needs arising from growth in population and economic activity and continued progress in extending the paved roads program, etc..

The specific annual figures for CIP and operations for the year 1975, through 1980 were read off and comparisons drawn with the more recent history. It was demonstrated that these years represented a major step-up in U.S. assistance for CIP and a gradual trimming down of operations. There was some discussion and agreement, on the need to concentrate on economic development and to view CIP investments in light of their potential contribution to economic growth.

Mr. Warnke asked how the \$145 million figure was arrived at and whether this would indeed insure the installation of an essential infrastructure base. It was pointed out that this level of expenditure was the highest in the TT history, that it was larger than the TT's own five year program submission and that it did provide for the transport, water, sewers, hospital, school, etc., need for some time to come. The level of U.S. assistance for CIP in the post trusteeship period should be adequate to keep up on-going and emergency needs.

Ambassador Williams drew attention to the interrelationship of what we propose to do in the transition period to Micronesia's requirements in the post trusteeship period and suggested that our proposals under the Compact be viewed in light of what we were proposing in transition. He explained that our proposal for the transition period was an Executive Branch proposal - that the Department of the Interior and the High Commissioner were in agreement with it and would be implementing it during the remainder of the Trusteeship. We were prepared to next go into a discussion of Title IV (Financial) of the Compact and the related Title XI (Change in Status or Termination) as soon as the Micronesians representatives had had a chance to review our proposals on Transition.

It was agreed to meet at 7:30 p.m. the same day.

OFFICE FOR MICRONESIAN STATUS NEGOTIATIONS

WASHINGTON, D.C. 20240

June 13, 1974

MEMORANDUM FOR THE RECORD

CARMEL TALKS ON MICRONESIAN STATUS-FIFTH MEETING  
Wednesday, April 3, 1974 (7:30 p.m.)

Ambassador Williams reported that the U.S. Delegation had been studying the problem of financial assistance the past few months. Mr. Wilson had gone to Saipan to develop some detailed information on requirements. There have been consultations within the U.S. Government including the Congress. We have spoken to the Chairmen of the relevant committees and sub-committees of Congress. Some members of Congress have advised that it could be difficult to get the financial package through Congress - especially a 21 year commitment to provide financial assistance. Such a commitment is unprecedented.

Our discussions now are based on guidance from the White House and on communications from Secretary Kissinger directly. We should view our proposals for the post trusteeship period in light of what will have transpired on the transition period. Viewed in the perspective of that whole period - 21 years - 6 years of transition and 15 years commitment contained in Title IV, the U.S. would be providing \$1.225 billion to Micronesia in an effort to help Micronesia achieve economic viability.

At this point, a draft of Titles IV and XI of the Compact was passed out. Ambassador Williams went down the wording of Title IV item by item (leaving blank for the moment, the dollar amounts).

- (1) No change in 401 (Operations).
- (2) No substantive change in 402 (Land).
- (3) In Section 403 (Federal Programs), the only changes (a) the level of assistance is stipulated as that level prevailing at the time the Compact is signed (b) opens the door for additional federal programs if mutually agreed, and (c) accepts JCFS language on right to tax U.S. personnel, etc., involved in providing services under federal programs.

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- (4) In Section 404(a), (CIP), we are now proposing that the CIP level not be constant throughout the fifteen year period; but provide differing amounts in five year branches (as in the case for U.S. support for operations).
- (5) In Section 404(b) (Development Loans) there has been a significant change. We are now proposing, in addition to district small business loan funds, a central government loan fund to help finance larger projects and help capitalize institutions like the Micronesia Development Bank.
- (6) Section 405 (Review provisions). There has been a significant insertion, as a result of of our recent consultations within the U.S. Government. We are <sup>Specifically</sup> especially making provision for dealing with the problems of price inflation by designating our commitment in ~~in~~ constant dollars.

Ambassador Williams suggested that the Micronesian Delegates would want to study these changes - principally:

- (1) Graduated scale CIP.
- (2) New loan concept.
- (3) Constant dollars.

Senator Salii commented that he had no difficulty with the approach - he was looking forward to filling in the blanks - i.e., the level of assistance to be provided under each category.

There was then some discussion of the wording in Title XI. The problem narrows down to Section 1103 - the survivability of U.S. base rights if the Compact were terminated. The gist of the Micronesian critique - according to the language as now drafted, the U.S. would get everything it wanted in the post Compact period and Micronesia would get nothing, i.e., the base rights continue but the financial provision and other provisions of the Compact are terminated with nothing to replace them. It was agreed this would have to be studied some more.

This discussion then turned to the numbers (financial assistance levels) for Title IV. Ambassador Williams advised the Micronesian delegation that he did not propose to play the game - give out smaller figures and then raise the ante as we went on - we were well beyond that kind of thing in relations. The figures have been carefully considered - studied by our staffs and reviewed by the NSC, OMB the Inter Secretary Committee, etc.. They are based on the assumption we will have gone through the transition period - Micronesia will have a substantial economic and social infrastructure in place; the TT Headquarters will have been dismantled; expensive expatriate personnel will have departed, in part; we will have succeeded in holding the line on the cost of government operations; and that our proposal relates only to the Marshalls and the Carolines..

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It is important that we keep these assumptions in mind as we view the new figures. - which incidentally are substantially higher than those offered in Round 7.

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Filling in the blanks:

Section 401 - Operations (grants)  
\$35 million a year for first 5 years;  
30 million a year for next 5 years;  
25 million a year for next 5 years.

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Section 404(a) - CIP (Grants)  
\$12.5 million a year for first 5 years;  
11.0 million a year for next 5 years;  
9.5 million a year for next 5 years.

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Section 404(b) - Economic Development (loans)  
\$5 million a year for 15 years \$2.5 million  
of which for District Government and  
\$2.5 for Central Government.

We estimate the value of federal programs and services to be \$2.5 million. The totals of U.S. assistance then turn out to be \$55 million a year in the first five year period - opposed to a comparable \$43 million offer in Round 7. In the next five year period, the total is \$48.5 million; in the next five year period is \$42 million.

The division between Operations (Section 401) and CIP (Section 404(a)) is not cast in concrete. There could be some transfer as the need develops.

mutual security pact). Mr. Warnke replied by stating that in the language they proposed last November, it was their intention that the Compact not be terminable until a mutual security treaty had been negotiated. Ambassador Williams asked whether it would be acceptable to have an understanding that the mutual security agreement would have to be entered into within the two years between notice of intention to terminate and effective termination.

Ambassador Williams also impressed upon all present on the JCFS side the fact that the United States required advance assurances on the questions of continued military access to Micronesia and continued denial of Micronesian territory to other countries for military uses.

Mr. Warnke suggested that we consider a commitment that during the two years prior to the effective date of termination a defense agreement will be entered into.

After a somewhat pregnant pause, Ambassador Williams stated that this proposal really amounted to requiring that the United States agree to the terms of a mutual security pact before unilateral termination of the Compact by Micronesia could become effective. He admitted that he was surprised that the JCFS would go along with such language.

At this point, Salii offered the clarification that the JCFS would, of course, expect there to be an extension of U.S. financial assistance during the period of negotiation of a defense pact.

The meeting ended with Ambassador Williams again emphasizing the absolute necessity of the U.S. being satisfied with respect to continued access and denial.



OFFICE FOR MICRONESIAN STATUS NEGOTIATIONS

WASHINGTON, D.C. 20240

June 12, 1974

Memorandum of Record

CARMEL TALKS ON MICRONESIAN STATUS-7th Meeting-April 4, 1974(2:30 p.m.)

Participants:

U.S.

Micronesia

~~Ambassador Williams~~

Mr. James M. Wilson, Jr.

Mr. O. Thomas Johnson

Senator Salii  
Congressman Silk  
Mr. Warnke

Salii made the following comments with respect to the indicated Sections or Titles of the draft Compact:

Title V

All of Title V was acceptable.

Title VI

Title VI was acceptable with the following changes:

Add at the end of §602(a) "accept as otherwise agreed".

Delete §603(a).

With respect to our proposed deletion of §603(b), Warnke explained that the JCFS was not concerned so much about air routes from Micronesia to foreign countries as they were about traffic from the United States to Micronesia. They wanted to be able to prevent the CAB from authorizing so much capacity on such routes that intra-Micronesian carriers might be adversely affected. We agreed to try to deal with this concern.

§604 was acceptable.

Title VII

Salii indicated some concern that persons who become citizens of Micronesia by marriage be allowed to become citizens of the United States by operation of this Compact. We agreed to look into this matter, although we explained the difficulty this might present to INS--I.E., that persons would marry Micronesians solely for the purpose of becoming United States citizens.

Title VIII

Title VIII was acceptable, including the changes in §801(b).

411414

Title IX

This Title plus Annex C was acceptable.

Title X

Salii and Warnke suggested that our dispute settlement title contain an arbitration provision to be invoked in the event of a dispute which cannot be settled by negotiation. They specifically suggested that we provide for a three-person arbitration panel, one to be appointed by each side and a third to be appointed by agreement of the first two. We indicated that arbitration provisions and agreements always gave the United States Government difficulty. Warnke said that he understood this. The possibility of some sort of advisory arbitrations was discussed and Warnke said this might meet their needs.

Title XI

Salii was satisfied with Title XI except for §1103, which was put off for later discussion.

Title XII

All of Title XII was acceptable.

OFFICE FOR MICRONESIAN STATUS NEGOTIATIONS

WASHINGTON, D.C. 20240

June 13, 1974

MEMORANDUM FOR THE RECORD

CARMEL TALKS ON MICRONESIAN STATUS-8th Meeting, April 5, 1974  
10:00 a.m.

PARTICIPANTS:

U.S.

Ambassador Williams  
Mr. J. M. Wilson, Jr.  
Mr. Solomon Silver  
Mr. O. T. Johnson

Micronesian

Senator Salii  
Senator Olter  
Congressman Silk  
Mr. Warnke

The meeting began with Senator Salii requesting that they be provided with a clean draft of Title IV. Salii also stated that they wanted to review our Section 1103 against Section 405. Salii indicated that his concern was the absence of a floor below which assistance could not fall should defense negotiations be prolonged.

Mr. Warnke then explained that their interest was in obtaining the security of bargaining power. He said there would be no incentive for the United States to negotiate a mutual security treaty if assistance would go to zero, or near zero as a result of stalling by the United States.

There was a prolonged discussion of the JCFS<sup>1</sup> suggested change in Section 1201 to the effect that the Compact would not become effective in any district in which 3/4 of the voters voted against it. U.S. concern with respect to the impact of this change on the Marianas was made clear. In response, Salii and Warnke attempted to assure us that it was not their intent that this language interfere in any way with the negotiations with the Marianas. They further indicated that it was their expectation that the people of the Marianas would have decided whether to accept or reject commonwealth status before the people of Micronesia had an opportunity to vote on this Compact. Salii said he understood and assumed Marianas would have noted on commonwealth status prior to plebiscite in other districts on free association. If majority in Marianas approved commonwealth, matter would be ended. If not, he assumed Marianas would be given opportunity to vote with rest of TTPI on Compact which would be adjusted as required to make this possible. Williams agreed.

411416

Ambassador Williams said, "that U.S. considers Compact to apply only to Carolines and Marshalls and that this position had been made clear at the outset of the Washington talks of 1972". (Reporting cable-April 9, 1974).

OFFICE FOR MICRONESIAN STATUS NEGOTIATIONS

WASHINGTON, D.C. 20240

June 12, 1974

MEMORANDUM FOR THE RECORD

Carmel Talks On Micronesian Status - April 5, 1974 - 2:30 p.m.

PARTICIPANTS:

<u>1</u>	<u>U.S.</u>	<u>Micronesia</u>
	Ambassador Williams	Senator Salii
	Mr. J. M. Wilson, Jr.	Senator Olter
	Mr. Solomon Silver	Congressman Silk
	Mr. O. T. Johnson	Mr. Warnke

The meeting began with the U.S. side going through some of the less significant questions that had been raised in previous days regarding the Compact. Specifically, we indicated our agreement to a modified Section 1001 providing for advisory arbitration in the event of a dispute which could not be settled by negotiations, and proposed a new Section 603(b) on air commerce between the United States and Micronesia, to which Salii agreed.

With respect to our draft of Section 405 (which at that time did not provide for any freezing of assistance levels) Mr. Warnke commented that it was difficult for him to determine how, in this framework, the needs of Micronesia bargaining power in the negotiation of any mutual defense pact could be met. Warnke suggested that we add to our Section 405 the words "amounts shall not be reduced during the negotiations". Ambassador Williams responded that he thought it would be preferable to put language such as this in Section 1103 if it was to be put in at all. Mr. Warnke agreed with this suggestion.

Ambassador Williams then indicated that we were agreeable to the JCFS change in Section 1201. He also stated that it was the U.S. position that we were negotiating an agreement to cover five districts. Other minor changes in Sections 1201 and 1102 were then discussed.

With respect to Section 1103, the U.S. side made the point that under Williams' proposal (described above), the Government of Micronesia would have the authority to freeze assistance indefinitely by giving notice of its intention to terminate and then stalling in the defense pact negotiations. Warnke admitted that this was theoretically possible. He added, however, that it was his opinion that if the parties did not negotiate in good faith, as required by Section 1103, we would presumably have a dispute.

411418

In an attempt to break this impasse, Ambassador Williams pointed out that all the U.S. is interested in is the survival of its right to use its bases in Micronesia pursuant to such leases that may exist at the time of termination, and the survival of our rights of denial. Warnke said that he thought our language in Section 1103, went beyond this. He suggested that we might just say that the future defense agreement would embody the continuation of our bases leases and our rights of denial, and that, with this change, the JCFS might find acceptable some arrangement in the continuation of assistance short of an indefinite freeze. Ambassador Williams agreed to this approach and appropriate changes were made in Section 1103.

JR 11/1/84 4-5-74:ktb

<u>W/10/11</u>	<u>CIP</u>	<u>OPERATION</u>	<u>LOANS</u>	<u>PROGRAM</u>
BY 1995	8.5	25	5	2.5
1995-2000	8	10	5	2.5
2001-2005	6.5	15	5	2.5
2006-2010	5	10	5	2.5
2011-2015	3.5	5	5	2.5
2016-2020	2	-	5	2.5
2021-2025	.5	-	5	2.5

	1	10	1	2	8.5
	2	20	1	2	10.5
	3	30	1	2	12.5
	4	40	1	2	14.5
	5	50	1	2	16.5
	6	60	1	2	18.5
	7	70	1	2	20.5
	8	80	1	2	22.5
	9	90	1	2	24.5
	10	100	1	2	26.5
	11	110	1	2	28.5
	12	120	1	2	30.5
	13	130	1	2	32.5
	14	140	1	2	34.5
	15	150	1	2	36.5
	16	160	1	2	38.5
	17	170	1	2	40.5
	18	180	1	2	42.5
	19	190	1	2	44.5
	20	200	1	2	46.5
	21	210	1	2	48.5
	22	220	1	2	50.5
	23	230	1	2	52.5
	24	240	1	2	54.5
	25	250	1	2	56.5
	26	260	1	2	58.5
	27	270	1	2	60.5
	28	280	1	2	62.5
	29	290	1	2	64.5
	30	300	1	2	66.5
	31	310	1	2	68.5
	32	320	1	2	70.5
	33	330	1	2	72.5
	34	340	1	2	74.5
	35	350	1	2	76.5
	36	360	1	2	78.5
	37	370	1	2	80.5
	38	380	1	2	82.5
	39	390	1	2	84.5
	40	400	1	2	86.5
	41	410	1	2	88.5
	42	420	1	2	90.5
	43	430	1	2	92.5
	44	440	1	2	94.5
	45	450	1	2	96.5
	46	460	1	2	98.5
	47	470	1	2	100.5
	48	480	1	2	102.5
	49	490	1	2	104.5
	50	500	1	2	106.5
	51	510	1	2	108.5
	52	520	1	2	110.5
	53	530	1	2	112.5
	54	540	1	2	114.5
	55	550	1	2	116.5
	56	560	1	2	118.5
	57	570	1	2	120.5
	58	580	1	2	122.5
	59	590	1	2	124.5
	60	600	1	2	126.5
	61	610	1	2	128.5
	62	620	1	2	130.5
	63	630	1	2	132.5
	64	640	1	2	134.5
	65	650	1	2	136.5
	66	660	1	2	138.5
	67	670	1	2	140.5
	68	680	1	2	142.5
	69	690	1	2	144.5
	70	700	1	2	146.5
	71	710	1	2	148.5
	72	720	1	2	150.5
	73	730	1	2	152.5
	74	740	1	2	154.5
	75	750	1	2	156.5
	76	760	1	2	158.5
	77	770	1	2	160.5
	78	780	1	2	162.5
	79	790	1	2	164.5
	80	800	1	2	166.5
	81	810	1	2	168.5
	82	820	1	2	170.5
	83	830	1	2	172.5
	84	840	1	2	174.5
	85	850	1	2	176.5
	86	860	1	2	178.5
	87	870	1	2	180.5
	88	880	1	2	182.5
	89	890	1	2	184.5
	90	900	1	2	186.5
	91	910	1	2	188.5
	92	920	1	2	190.5
	93	930	1	2	192.5
	94	940	1	2	194.5
	95	950	1	2	196.5
	96	960	1	2	198.5
	97	970	1	2	200.5
	98	980	1	2	202.5
	99	990	1	2	204.5
	100	1000	1	2	206.5

7/12/62

		<u>Present</u>		<u>JCFRS</u>		<u>U.S.</u>		
OPNS	(6)	48	55	50	45	38	34	29
	(5)	(40)	(46)	(42)	(38)	(32)	(28)	(24)
Devel Grant	(6)	10	30	-	-	7	-	-
	(5)	(8.5)	(25)	-	-	(6)	-	-
Devel Loan	(6)	0	5	-	-	3	-	-
	(5)	(0)	(4)	-	-	(2.5)	-	-
Fed Progs	(6)	8	3	-	-	3	-	-
	(5)	(6.5)	(2.5)	-	-	(2.5)	-	-
TOTALS W/O Fed Progs	(6)	58	90	85	80	48	44	39
	(5)	(48.5)	(75)	(71)	(67)	(40.5)	(36.5)	(32.5)
W/Fed Progs	(6)	66	93	88	83	51	46	42
	(5)	(55)	(77.5)	(73.5)	(69.5)	(43)	(39)	(35)

Plus 66 \$7  
Total \$84.5

30



U.S. FINANCIAL ASSISTANCE  
 IN CONSTANT DOLLARS - NY 1974-1976  
 LOW RANGE

PROPOSAL 51

YR.	1	2	3	4	5	6	7	8	9	10	11	PERIOD													
												3RD SYR. PERIOD POST TRUST	2ND SYR. PERIOD POST TRUST	1ST SYR. PERIOD POST-TRUST	TRANSITION PERIOD										
	5 DISTRICTS	5 DISTRICTS	5 DISTRICTS	6 DISTRICTS			6 DISTRICTS			5 DISTRICTS															
1976	25	25	55																						
1977	30	30	53																						
1978	35	35	50																						
1979	20	20	47																						
1980	15	15	45																						
1981	12.5	12.5	35																						
1982	12.5	12.5	35																						
1983	12.5	12.5	35																						
1984	12.5	12.5	35																						
1985	12.5	12.5	35																						
1986	12.5	12.5	30																						
1987	12.5	12.5	30																						
1988	12.5	12.5	30																						
1989	12.5	12.5	30																						
1990	12.5	12.5	30																						
1991	10	10	25																						
1992	10	10	25																						
1993	10	10	25																						
1994	10	10	25																						
1995	10	10	25																						
1996	10	10	25																						
TOTAL PERIOD	210	210	1140																						
CUM. TOTAL	210	420	630																						
AVG PERIOD	42	42	57																						
CUM. TOTAL	175	175	175																						
AVG PERIOD	35	35	47.5																						
CUM. TOTAL	51.66	51.66	51.66																						

A) EXTRAPOLATED FROM 6 DISTRICT DATA (MINUS 6)  
 FROM 5 DISTRICT DATA (PLUS 5)