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TACTICS FOR HANDLING METHOD OF ACQUISITION AND PRICE

Purpose: To summarize for Ambassador Williams the current factors surrounding the issues of price and acquisition and propose possible negotiating options.

Assumptions:

1. That while both a high price and acquisition by lease will be difficult to justify to the U.S. Congress, an inordinately high price would be the most difficult hurdle.

2. That ultimately the U.S. negotiators will agree to lease the lands at issue.

3. That the MPSC will make an offer to lease the agreed land areas for 50 years automatically renewable for 50 years, at a rate to be re-negotiated, perhaps as often as every 10 years. (Such offer may well be based on a fee-simple valuation between 25 and 30 million).

4. That the U.S. negotiators must bear in mind, and will necessarily be influenced by, the fact that inflated land settlements with the Marianas will cause costly (to U.S.) reverberations all over the Pacific. - Guam - Phillipeans - Palau - Roi Namur - . Any inflated cost would thus multiply the burden of the U.S. taxpayer for land cost in the Pacific.

Present Positions:

1. From the out-set of the status negotiations, Ambassador Williams has made clear the U.S. position that lands can only be acquired at fair market value. This was reiterated during the land talks, with their delegates clearly reminded that the generous financial package, already agreed upon, must be considered along with land acquisition. Therefore social and economic desires could not be made a part of land valuation. The U.S. Congress would not accept.

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2. The U.S. has proffered a clear and finite proposition to purchase the agreed land requirements for 11.661 million, carefully itemized so as to avoid the issue of residual lease-hold (retention lands) values.

3. The U.S. has frankly discussed an MPSC proposed appraisal approach which would have exceeded 34 million dollars --- demonstrating, and advancing clear authorities to disprove most of the rationale for their approach. The U.S. made clear its willingness to use such an approach <u>but</u> only utilizing approved and accepted appraisal and valuation techniques. By using such techniques the fee simple valuation would be 10.5 million. This is clearly less that the U.S. offer and has the added disadvantage of bringing Congressional attention to bear on the retention lands issue, which would undoubtedly result in a significant reduction in the 10.5 million figure.

4. Their delegation was frankly told that while the U.S. offer was firm, some minor adjustments were very possible as we jointly examine individual parts of the U.S. proposal. <u>However, in no case could the United States take any further action until we had received a firm proposal from their side</u>. Thus, boxed-in, they agreed to provide a firm offer prior to the next negotiating session.

5. We have been told that the MPSC's Washington advisors have forwarded a proposed offer package to the MPSC for their evaluation, appraisal and subsequent submission to the U.S. No action has been taken to date. --- Because of the sensitivity of this issue within the MPSC membership and their wide variety of viewpoints from which a concensus must be obtained, it is reasonable to assume that a formal Marianas offer will not be available before the opening of Marianas V - <u>if then?</u>

6. The latest NAVFAC estimates, based on current firm appraisal data indicate a maximum valuation of 11.6 million for the lands in question. They believe this figure to be near the upper limit of the valuation that can be sold to the U.S. Congress on a pure land value basis. ---

On the other hand, the Marianas study authorizes the U.S. negotiator to offer a one-time lump sum payment of up to:

	$19,232,640	for Tinian
	1,695,382	for Saipan
	206,000	for F de M
Total	$21,134,022	

Essentials for Further Discussion

1. We must have a clear offer from the MPSC to enable the development and analysis of areas of agreement and disagreement.

2. From the foregoing analysis, and frank discussions and compromises with the MPSC, we must develop a general agreement on the range of fee simple values for the land, or as a minimum an agreed formula for obtaining this value (A formula which will minimize the effect on land values elsewhere in the Pacific and be salable to the U.S. Congress). - The above is necessary to lay the groundwork, if any "horsetrading" is to be done in tradeoffs of lease for purchase.

a. We need cheaper leases to help in selling Congress.

b. We need longer leases to help in selling Congress and assure acceptability to DOD.

Tactics:

1. Our opening position (statement) should highlight the fact that the U.S. has (a) made a firm offer and (b) has frankly and fully cooperated in their appraisal efforts by critiqueing their approach. Therefore, we feel they owe us both a firm offer, and an item by item response to areas of disagreement with our critique of their appraisal approach. 022868

2. After their presentation the U.S. must of necessity have a reasonable time to analyze their proposal and prepare an answer.

3. After analysis, the subsequent meetings (without regard to method of acquisition) should concentrate on squeezing the MPSC fee-simple valuation into a range wherein some horse-trading may be feasible (perhaps 18-23 million).

4. After securing a MPSC fee-simple valuation that gives us a reasonable target to shoot at, the U.S. might make a 1st counter offer of 16-21 million (to approach the MPSC fee-simple valuation) for fee-simple purchase (with preferential reversionary clause). The proposal may also include falling off the land needs on Saipan. This offer should be based on political valuation with some formula or rationale that differentiates between real land values and the U.S. "incentive package". We should also make clear that we all must cooperate to the fullest to get such a figure through the U.S. Congress.

5. Only after receiving their counter proposals and with clear indication that further U.S. movement would nearly assure agreement, the U.S. might then resubmit an upward adjusted fee-simple purchase offer, along with an offer of the 50/50 (100 yr.) lease at a considerably lower cost. Such cost may perhaps be set as low as the practical evaluation of 11.6 million proposed by NAVFAC. Again we should remind them that such an offer will be hard to sell - but "with your help, we'll try".

6. Assuming such an offer might be accepted in principle, not including price it may be possible to effect a compromise that will not effect real land valuation along the following lines: (FIGURES ARE ILLUSTRATIVE)
Assuming a true fee-simple value of $12,000,000 the U.S. could offer:

a. Four (1976, 77, 78, and 79) annual lease payments of 10% per year (1,200,000 X 4) - 40% - 4,800,000

b. Upon dissolution of the trust U.S. will have options to make one time payment of fee simple value to cover balance of lease

- 100% - 12,000,000

c. U.S. would agree to a 10% penalty for such an early pay-out

10% - 1,200,000

Total Package - 150% - $18,000,000

Appraisal: If a settlement cannot be reached under above monetary ceiling and acquisition flexibility, the U.S. must clearly re-appraise Marianas intentions and its whole approach to the political status and defense problem.