

NATIONAL SECURITY COUNCIL

ACTIONSECRET

March 19, 1974

MEMORANDUM FOR: SECRETARY KISSINGER

FROM: JOHN A. FROEBE, JR. *CAF*

SUBJECT: Micronesian Negotiations: Request for Supplemental Instructions on Financial Arrangements

At Tab I is a draft memorandum from you to the President attaching a report to him from his Personal Representative for Micronesian Status Negotiations, Ambassador F. Haydn Williams. The report covers the progress Williams made in his latest round of negotiations with Micronesia representatives, and asks for supplemental instructions on the financial aspects of the new status arrangements.

Ambassador Williams reports substantial forward movement in both sets of negotiations -- those with the Marianas District (which desires a separate, closer relationship with us than the other five districts of Micronesia do), as well as those with the other five districts. He hopes to conclude the negotiations with the Marianas this spring and those with the other five districts possibly next fall.

The principal problem, for which Ambassador Williams is seeking additional instructions, is that of financial arrangements with the five districts. He believes that the gap between our position and theirs has narrowed to the point where we can settle on a figure that approximates our current level of assistance to Micronesia -- about \$55 million annually -- plus certain supplemental assistance during the transition period. He therefore recommends that the President authorize him to:

- Negotiate up to a ceiling on assistance of \$60 million a year for up to 15 years. (His present instructions authorize him to go up to \$50 million.)
- Agree to review of the level of our assistance at 5-year intervals, as well as to adjustments in the levels to compensate for changes in the value of the dollar.

-- Commit us to provide up to \$25 million for one-time costs of moving the capital of Micronesia from Saipan (in the Marianas) to another district.

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by F. Graboske, National Security Council

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with our assistance over that figure to be provided on a matching two-to-one basis, the total U. S. assistance for this purpose not to exceed \$35 million.

-- Commit us to a terminal five-year Capital Improvements Program for the five districts of no less than \$15 million annually. The program would begin in FY75 and would be developed by the Department of Interior.

The Under Secretaries Committee agrees with Ambassador Williams' recommendations, but wants to stress that our annual assistance would not be terminated at the end of 15 years but would be reviewed then -- as earlier at periodic intervals -- as regards the levels and types of assistance (Tab D).

OMB however, has raised a number of objections (Tab E):

-- It would require that the five-year reviews of our financial assistance phase the level of our assistance down by \$5 million each time, and that ~~the reviews otherwise be limited to adjusting the level of assistance to~~ compensate for any changes in the value of the dollar. This limitation would be imposed in order to prevent the Micronesians from reopening the total amount of assistance.

-- It objects to the commitments at this point to specific figures on assistance for relocating the capital and on the CIP, contending that these need further study.

My view. I agree both with Ambassador Williams' recommendation and with the USC comment on them. I believe that we now have a better prospect of concluding these protracted negotiations at a reasonably early date, and that this modest increase in financial assistance should enable Williams to move toward that goal.

As to OMB's comments,

-- On the five-year reviews, I believe that we should not lock ourselves into a set figure for reducing the level of our assistance, but do agree that the general principle of downward revision should be included in Ambassador Williams' instructions. Secondly, I do not agree that the periodic reviews should otherwise be limited solely to adjustments for changes in the value of the dollar. More comprehensive reviews would seem advisable in order to insure that our financial assistance is supportive of a continuing Free Association relationship.

-- On the specific figures for moving the capital and the CIP, the question is only one of setting specific levels: Ambassador Williams' present

instructions commit us to help relocate the capital, and Secretary Morton in a January speech on Micronesia committed us to a major increase in this program for the next five years. I do not agree with OMB that we have no adequate basis for setting such minimum and maximum financial limits at this point. Interior is satisfied that moving the capital will cost at least \$40 million. The CIP minimum of \$15 million annually would be lower than the \$25 million reached in FY71. The basic objective is to provide Micronesia with a basic economic infrastructure that will allow us to reduce our economic assistance considerably after this five-year transition period. Most important in terms of negotiating tactics, we need specific figures in order to be credible in what we hope will be our coming final rounds of negotiations. We have no objection to OMB's refining these figures in cooperation with interior, and understand that this process is already underway in the case of the CIP.

I would also note that these figures for this transitional assistance, when totaled with our basic annual assistance to the five districts, will leave us in a defensible position vis-a-vis the financial assistance we are planning to give the Marianas and Guam.

Attached to your draft memorandum to the President is a draft supplementary instruction in the President's name which approves Ambassador Williams' recommendations and incorporates my recommendations on the points OMB has raised.

Recommendation:

That you sign the draft memorandum to the President at Tab I.

Concurrences:

Mr. Kennedy *mm* / *dir*
Mr. Smyser *mm* / *dir*

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