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More on Micronesia

This memorandum is a follow-up to my recent comments on Interior's proposed reprogramming of \$3.08 million of unobligated FY 1976 Trust Territory capital improvement funds (see attached). What follows is an attempt to identify a series of recent events and to show how they are likely to influence our budgetary and future political relationships with Micronesia. Finally, I will propose a number of steps which could be taken to deal with, or to prepare for, some of the problems we are likely to face in the near future.

Recent Events (Not Necessarily in Chronological Order)

- After several years of negotiations, a Draft Compact of Free Association was initialed in Saipan by the U.S. and the Micronesian negotiating team in June of this year. At that time, only two issues appeared to stand in the way of a final, binding agreement between the U.S. and Micronesia:
 - . a formula for the distribution of U.S. grants among the Micronesian districts subsequent to the termination of the Trusteeship; and
 - . a resolution of who was to control the marine resources within a Micronesian economic zone which might be recognized by international treaty.
- In an effort to force the marine resources issue, Micronesia was seeking and continues to seek greater participation rights at the ongoing Law of the Sea (LOS) negotiations.
- During this past summer, the Micronesians declined to hold further discussions with the U.S. on the Draft Compact until after the completion of the August LOS session in New York.

REPRODUCED AT THE NATIONAL ARCHIVES

- Earlier this summer the Office of Micronesian Status Negotiations (OMSN) was trying to force a decision within the Administration on new negotiating instructions on the LOS question. The OMSN efforts were based on the premise that if the LOS issue could be settled, a final Compact could be agreed to with the Micronesians. I do not believe, however, that any new instructions were ever issued.
- A Micronesian constitutional convention reported out a draft "Constitution of the Federated States of Micronesia." The draft constitution contains numerous provisions which are in direct conflict with the Draft Compact.
- After the Draft Compact was initialed in June, the Congress of Micronesia dissolved its original negotiating team, the Joint Commission on Future Status, and replaced it with a new group of negotiators, the Commission on Future Status and Transition.
- According to a statement made by the President of the Micronesian Senate in June, the Commission on Future Status and Transition is not necessarily bound by the agreements made by the Joint Commission on Future Status. He went on to say that the new negotiators are to renegotiate those sections of the Draft Compact which are in conflict with the Micronesian draft constitution.
- Palau and Marshall District officials said again this summer that their districts will not necessarily be bound by the Draft Compact, even though it was initialed by their representatives on the Joint Commission on Future Status. As two of the largest districts, Palau and the Marshalls see themselves as potential losers under a federated Micronesia. Palau, hoping that the proposed super-port becomes a reality, sees a federated Micronesia as a potential drain upon its locally generated revenues. Both of these districts have made overtures of wanting to negotiate separately with U.S. over the past several years and they continue to do so.

- In a statement before the U.N. Trusteeship Council on June 29, 1976, the President of the Micronesian Senate suggested that it might not be prudent to terminate the U.N. Trusteeship in 1981 as planned if an orderly transition cannot be accomplished by that date.
- At the end of July, Ambassador Williams resigned as the chief U.S. negotiator in the Micronesian future political status talks. Although a successor has been nominated by the President, he has not been confirmed (see attached).
- At its special session in July, the Congress of Micronesia adopted a Five Year Indicative Development Plan. The Plan, which was developed for Micronesia by a task force of the United Nations Development Programme (UNDP), proposes a series of actions to stimulate orderly, short-term economic growth and development in the Trust Territory. The Plan's eleven chapter headings are as follows:
 - I. Population, Employment and Income
 - II. Development Objectives
 - III. Government Reorganization
 - IV. Agriculture and Agro-Industries
 - V. Marine Resources
 - VI. Tourism
 - VII. Transportation and Other Infrastructure
 - VIII. Minerals
 - IX. Education and Manpower
 - X. Health Services
 - XI. Housing Developments
- The planning and administration of the Trust Territory CIP has been turned over to the Navy's Officer-in-Charge of Construction (OICC), Marianas, Guam. The OICC, in coordination with Micronesian leaders, has developed a list of priority projects for each of the districts. Within the \$105 million remaining of the original \$145 million CIP (projects for the Northern Marianas are not included in the \$105 million figure), the OICC intends to put in place in each district a minimal infrastructure of roads, harbors, docks, airfields, water and sewer systems and electrical generation plants. Interior has proposed a \$3 million reprogramming for use by the OICC in developing his basic infrastructure program.

- The U.S. was committed to the \$145 million CIP by Ambassador Williams during future status negotiations. Although the Micronesians originally agreed to the \$145 million figure, they have since made a number of statements that \$145 million is not adequate to meet their needs. In the absence of any new agreement, however, the U.S. is continuing to develop and to implement a \$145 million CIP.
- The Micronesians have continued to press throughout the summer, both in Washington and at the U.N., for additional funding to pay off 100% of the awards made by the Micronesian Claims Commission. The Commission has completed its work and total award figures are now known. It would take an additional \$24.4 million to pay off 100% of Title I awards and \$12.7 million more to pay off 100% of Title II awards.
- A new Micronesian district has been formed with Kusaie as its district headquarters.

Issues

1. Political Status

As the Micronesians have become more and more sophisticated in the ways of politics, their perceptions of their own place in the world and of their future political and economic relationships with the U.S. have undergone continual change.

Consequently, although it appeared in early June that a final agreement was about to be made between the U.S. and Micronesia on a future political association, it now appears that the Micronesians may be re-thinking their entire bargaining strategy, with a completely new set of goals in mind. Several of the recent events tend to lend credibility to this theory, including:

- the new Micronesian negotiating team and its instructions,
- the draft constitution,
- the continued desire of some districts to split with the concept of a united Micronesia,
- Micronesian LOS activities,

- statements by Micronesians that extension of the trusteeship might be necessary, and
- the broad implications of the UNDP Indicative Development Plan on Micronesia's future operating and construction budgets, the duration of the Trusteeship and the direction of the Micronesian economy.

It does not seem unreasonable to expect, therefore, that the Micronesians will be attempting to secure more favorable political and economic concessions from the U.S. than those now contained in the Draft Compact when negotiations resume.

Some of the areas in which the Micronesians might attempt to re-open negotiations include the following:

- Extending the Trusteeship beyond 1980 or 1981 -- Although 1980 or 1981 have been tentatively set as target dates for the ending of the U.N. Trusteeship in Micronesia, the UNDP Indicative Development Plan proposes that significant changes be made in the structure and direction of the Micronesian Government and economy before Micronesia will be ready to go it alone. Although the Plan proposes that these changes be accomplished by 1981, it is unlikely that the target date can realistically be met. With the UNDP Plan in hand, therefore, Micronesians will be able to argue that it is the United States' responsibility under the Trusteeship agreement to prepare Micronesia for self government. The UNDP Plan lays out the steps necessary to make Micronesians ready to govern themselves. But until those steps can be taken, the Micronesians can argue, the U.S. should not abandon its Trusteeship commitments.
- CIP funding -- The present \$145 million, six-year CIP does not coincide with the CIP proposed in the UNDP Plan. The CIP will be discussed below in greater detail; nevertheless, it can be said in the context of political status negotiations that the DIP proposed in the UNDP Plan involves considerably more money than is now remaining of the previously agreed upon \$145 million (see attached tables). The \$145 million CIP was a commitment made to the Micronesians as a part of the ongoing political status negotiations; modification of that CIP may also be brought up in the context of the status negotiations.

- Foreign affairs, LOS and defense-related matters -- Micronesia's activities in LOS negotiations, the provisions of its draft constitution which are in direct conflict with provisions contained in the Draft Compact, and the instructions to the new negotiating team to re-negotiate those conflicting provisions could produce some very different bargaining positions on the part of the Micronesians than those which were taken in the past. As a result, the U.S. could conceivably have a much harder time securing a final agreement on defense-related concessions or control over Micronesia's foreign affairs.

- Post-Trusteeship grants -- With the UNDP Plan as a guide, the amounts of post-Trusteeship grants from the U.S. might also be subject to re-negotiation by the Micronesians. Although the UNDP Plan is geared toward making Micronesia less dependent on U.S. aid, it does show a foreign aid (i.e., U.S. grant) requirement of approximately \$60 million in FY 1981 (see attached tables). And although the Plan does not say so specifically, it does indicate that the required amount of U.S. aid in FY 1982 will be less, but not considerably less, than in FY 1981. The Draft Compact would provide for a U.S. grant of \$48 million annually for the first five years after the Trusteeship ends; \$45 million annually for the next five years and \$42 million annually for the next five years. The Compact provides for a periodic review every five years to take into account economic conditions and their affect on the purchasing power of the U.S. dollar.

2. Trust Territory CIP

The \$145 million Trust Territory CIP, agreed to by Ambassador Williams during political status negotiations in 1974, was ill-conceived and, until recent corrective actions were taken, was poorly administered. By committing itself to a multi-million dollar capital improvement program before a final agreement was reached on future U.S.-Micronesian relations, a significant bargaining tool was lost. And now, as was mentioned above, the Micronesians may be preparing to increase their requests for capital investments from the U.S. over the next several years.

When administration of the present Trust Territory CIP was turned over to the OICC earlier this year, the OICC and Micronesian officials reached an agreement on priority projects which would be funded in each district out of the \$105 million which was remaining of the original \$145 million. Now, however, the UNDP Plan seems to indicate a shift in Micronesian thinking on what will be required in capital investment over the next five years - vis-a-vis the type of projects as well as funding levels.

The Plan proposes a five-year capital program which is divided into two basic components (see attached tables).

The first component is referred to as "social infrastructure" which seems to encompass transportation projects (i.e., harbors, docks, ships, roads, etc.), water systems and electrical generating systems. There seems to be considerable overlap in the projects included under the category social infrastructure, which is contained in the UNDP Plan and the projects which are now being worked on by the OICC. But the Plan estimates that only \$63.5 million will be required to install the social infrastructure while the OICC is estimating that \$88 million will be required to complete a basic infrastructure program in each of the districts. (A footnote in the Plan does qualify the \$63.5 million dollar figure somewhat by saying that actual social infrastructure costs cannot be determined until all engineering studies are completed.)

Since the Plan refers to the social infrastructure in general terms only and does not list specific projects, a comparison with the CIP being worked on by the OICC is not possible. More information is needed on the relationship of these two programs.

The second component of the Plan's capital program is referred to as "productive investment." The Plan is even less specific in its use of this term than it is with its use of the term social infrastructure. It appears that productive investment encompasses those capital projects which would help to stimulate economic development, such as the purchase of equipment or the construction of facilities which would help Micronesians develop agricultural, mineral or marine resources. Again, the Plan is general and does not identify specific productive investment projects with cost estimates (or at least I couldn't find any).

The projected, five-year total for productive investment is \$122.3 million. The Plan implies that the required funds for social infrastructure and productive investment are expected to come from the U.S. through grants. But it is not clear whether the grants are to come directly from Interior or from agencies which handle categorical grants, or a combination of both. I assume that it would be a combination, but, again, more information is needed.

In summary, although only \$105 million of the original \$145 million CIP remains available through FY 1980, the UNDP Plan calls for a capital program totaling \$185.8 million through FY 1981.

3. Trust Territory Authorization Bill

Interior submitted a draft Trust Territory authorization bill to OMB in May of this year. The draft bill would have provided authorization for both operating and capital budgets for FY 1978, 1979, and 1980. The bill was never cleared and, consequently, there is still no authorization for the Trust Territory for FY 1978.

Some of the principal reasons that the bill was not cleared include the following:

- Constant dollar adjustments -- Interior was proposing that a new method of constant dollar adjustments be adopted so that the Trust Territory Government could plan for adjustments at the beginning of the fiscal year rather than deal with them during the course of the year.
- Continuation of constant dollar adjustments -- The issue of maintaining constant dollar adjustments through FY 1980 and not including them in the U.S. grant arrangements under the Draft Compact after 1980 was raised. Such an arrangement could result in large reductions in aid between FY 1980 (tentatively the last year of the U.N. Trusteeship) and FY 1981. This issue was resolved by including the periodic review provision in the Draft Compact which was referred to above.
- Distribution of construction funds -- Interior and the Office of Micronesian Status Negotiations were proposing that funding for the final three years of the six-year CIP be on a declining basis - i.e., \$33 million in FY 1978, \$24 million in FY 1979 and

\$15M in FY 1980. On the other hand, OMB proposed that the funding be uniform through FY 1980 with \$25 million being authorized for construction in each fiscal year.

- CIP evaluation and management -- When Interior's draft bill was submitted, a reevaluation of the entire CIP had just been completed by the Senate Interior Committee and the Office of Territorial Affairs, and the UNDP team was still conducting yet another evaluation. CIP management was being turned over to the OICC and a new list of priority projects was to be developed.

The UNDP Indicative Development Plan now has introduced an entirely new set of factors into the question of what would comprise an appropriate Trust Territory authorization bill. As indicated above, the Plan reflects a different and more expensive capital improvement program than has been anticipated to date. The Plan reflects no increase in governmental operations over the next five years, however. The Plan shows local government operations and maintenance costs at a constant figure of \$46 million over the five-year period (see attached table).

By using a formula which can be figured out by looking at the attached table, the amount of U.S. aid required over the five years covered by the Plan is shown to be \$61.9 million in FY 1977, declining slowly to \$59.9 million in FY 1981. Although the formula for arriving at the amount of U.S. aid in each year can be easily recognized, the method of arriving at the figures which go into the computation is less apparent. Especially confusing is what the line labeled savings represents and how the figures were arrived at.

The following are just a few of the other concepts embodied in the Plan which could have an influence on future budgets:

- Greater decentralization is anticipated and although the Plan indicates that the budget of the central government is shown in the tables as remaining constant at its 1976 level, efforts will be made to reduce central government expenditures by \$8.5 million.

- A greater local tax effort and the use of user fees where appropriate are proposed.
- A complete reorganization of the existing Trust Territory governmental structure is proposed.
- Several feasibility studies are proposed to be carried out over the next five years, including studies of tourism potential, alternative water supply systems, a ship repair facility and on-shore mineral exploration and exploitation. The costs of the mineral feasibility studies alone are estimated to be between \$1.5 million and \$3.0 million.
- The Plan proposes that 15% of each year's gross capital investment budget be set aside for the maintenance of in-place capital projects or equipment. How this relates to the \$46 million for local government operations and maintenance is not clear.
- The Plan indicates that Micronesia is not likely to be completely self-sufficient until approximately 1995.

My quick review of the UNDP Plan raises many questions. Much more information is needed on where the figures contained in the Plan came from and what they are likely to mean in terms of future Trust Territory budget requests.

Considering the uncertainty of political status negotiations and the new budgetary requests which are likely to be forthcoming from the Micronesians as a result of the UNDP Plan, I do not feel that an authorization bill covering more than FY 1978 would be appropriate at this time.

Recommendations

1. That the Administration begin to reevaluate its overall bargaining strategy regarding future political relationships with Micronesia and that new negotiating positions be developed in case the Micronesians attempt to modify the Draft Compact or any other tentative agreements reached during past negotiations. Some of the more likely issues to arise are as follows:

- control over foreign affairs;
 - U.S. defense requirements;
 - U.S. financial aid;
 - the extension of the U.N. Trusteeship beyond 1981;
 - the size and character of the capital improvement program during the transition period;
 - additional appropriation requests to pay full awards granted by the Micronesian Claims Commission;
 - LOS matters (although no agreement was reached in LOS with the Micronesians, neither was the U.S. position ever clarified).
2. That the Department of Interior be required to conduct an analysis, with recommendations, of the following:
- the efforts of the OICC to put in place a minimal infrastructure in each of the Trust Territory districts under the present CIP and how they (the OICC efforts) compare with the capital program outlined in the UNDP Indicative Development Plan;
 - the potential affect of the UNDP Plan on future Trust Territory operating and construction budgets;
 - the interrelationships of the present CIP to the UNDP Plan to the future status negotiations and an assessment of where Interior's staff feels the negotiations are likely to go in the upcoming months;
 - an overall assessment of the UNDP Plan, identifying those areas with which Interior agrees and those with which it does not agree, stating the reasons why; and
 - the possible extension of the UN Trusteeship beyond 1981 and what such an extension would mean in terms of U.S. budgetary support.

The required analysis should be completed and sent to OMB early in October if it is to have any influence on our FY 1978 budget review. No further reprogramming of unobligated FY 1976 or 1977 funds should be approved by OMB until the analysis is received. Attached is a list of questions which I suggest be sent to Interior.

3. That Interior be advised that a Trust Territory authorization bill should be drafted immediately and sent to OMB for clearance which
 - covers FY 1978 only;
 - contains the same formula for making constant dollar adjustments that is contained in the Trust Territory's FY 1977 authorization bill; and
 - reflects a construction budget figure not to exceed \$25 million and a total authorization not to exceed \$75 million.

Authorization bills for FY 1979 and 1980 should be held in abeyance until further information is available on the future of the political status negotiations and the likely influence of the UNDP Plan on Micronesia's future operating and construction budget requests.

Attachments

cc:
Official File/NRD-I
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