



*Mr Froebel*

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# United States Department of the Interior

OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20240

December 15, 1971

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Memorandum

To: Ambassador Arthur W. Hummel, Jr.  
From: Franklin J. Crawford *[Signature]*  
Subject: Micronesian Status Negotiations: U.S. Position on Tariffs,  
Trade, and Economic Affairs

## 1. Recent Negotiating Background

At Hana the Micronesians said that in any future association they would reserve their right to make agreements on their own behalf with nations other than the United States and with international institutions in matters of an economic, cultural, educational, social and scientific character. In particular, they would reserve the right:

- a. to negotiate and conclude trade agreements;
- b. to seek economic assistance from countries other than the United States and from international organizations;
- c. to seek technical assistance and employ specialists or other personnel from countries other than the United States and from international organizations; and
- d. to apply for membership in United Nations specialized agencies or similar international organizations.



In addition, the Micronesians asked for power to establish tariff schedules and other mechanisms to control imports, while at the same time enjoying free entry for Micronesian products into the American market.

In its reply the U.S. Delegation noted that the area of trade and tariff controls is a complex one and that, while free entry of Micronesian products into the United States could be agreed to, it was expected that any such arrangement should be reciprocal. The Delegation pointed out that legislation which would give free entry to Micronesian products was pending in the U.S. Congress.

## 2. Historical Perspective

In 1948 the United States requested, and was granted, a waiver from GATT to permit the United States to accord duty-free treatment to all products of the Trust Territory imported into the customs territory of the

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United States. Consequently, some legislation of the early 1950's accorded temporary preferential treatment. The more common practice, which is now being followed, has been to subject Micronesian imports to U.S. duties, however. As a practical matter, this is of little consequence since the amount of dutiable material is miniscule.

The legislation to provide preferential treatment referred to above has the endorsement of the Interior Committees of the House and Senate, but is being held up in the House Ways and Means Committee whose interest is not in territorial status but in the financial and political implications of preferential tariffs.

There is no gainsaying the reality of the domestic political problem raised by the possibility of preferences, but it is not necessarily insoluble with regard to Micronesia. In the first place, the present volume of trade is now negligible. If a preferential arrangement was proposed in the context of an overall status agreement, it could be argued that this was a relatively minor part of a more important whole and that safeguards could be devised to prevent Micronesia from becoming a funnel for the duty-free entry of foreign goods into the United States.

3. Proposed U.S. Position

A. Reciprocal Tariff Arrangements

In light of the above, we should propose to the Micronesians that we are prepared to agree to a preferential arrangement, consistent with the 1948 GATT waiver, which would provide duty-free entry of Micronesian goods into the United States while not requiring reciprocal preference for American products imported into Micronesia.

In response to the other Micronesian requests, we should take the following positions:

B. Right to Negotiate and Conclude Trade Agreements

We would, in general, pose no objection to straight commercial trade transaction between Micronesia and foreign individuals and governments. There would, however, have to be certain restrictions applied to trade and other contacts where questions of national security are involved. General trade agreements involving matters such as the establishment of tariffs are another matter; however, these would be reserved to the United States as a part of its general authority in the field of foreign affairs.

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C. Right to Seek Economic and Technical Assistance from Other Countries and International Organizations

We would have no objection to Micronesia becoming a member or associate member for purposes of economic, scientific, or cultural assistance of specialized agencies or similar international organizations which it qualifies for. To the extent such organizations are involved in political issues, as is increasingly the case, we would expect Micronesia to follow the policy laid down by the U.S. in the exercise of its authority in the field of foreign affairs.

Direct economic assistance from foreign countries would necessarily involve Micronesia in a bilateral foreign policy relationship. Since this would fall within the purview of U.S. authority, prior U.S. consultation and agreement would be needed. There is not any objection in principle, however, to Micronesia's accepting direct aid from foreign countries or international organizations in the event it is offered.

Franklin J. Crawford

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*Mr. Troche*

DEC 23 1971

Memorandum

To: Captain William J. Crowe, Jr.  
Office of Status Negotiations

From: Acting Deputy Assistant Secretary for Territorial  
Affairs

Subject: Micronesia - Proposed Financing Arrangements

This is a preliminary response to your memorandum of December 8, 1971, and Ambassador Hummel's earlier memorandum, concerning our future financial arrangements with Micronesia. The Department has no firm position on the financing question, and the following are intended as observations and discussion points.

-- Financial assistance should be broken down as to source and purpose, and should not be presented as a lump sum. This should ease the likely problem of later Micronesian pressures for renegotiation; at the least, bargaining can be handled on a program-by-program basis.

-- There should be specified rental payments for military land leases and options to lease. The level of payment should reasonably reflect other recent agreements outside the United States. The compact should state the means of payment and to whom payment is directed, to avoid later problems.

-- The compact should specify that there will be no payment for denial, but that this is part of the defense-foreign affairs package to be handled by the U.S.

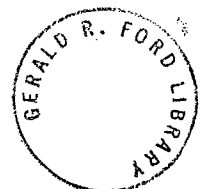
-- There should be a specified level of assistance to the Micronesian Government for a transitional period of, for example, five years after the compact takes effect. This could be an absolute amount, such as about \$25 million per year in addition to military payments, or could be set up as a residual grant up to a certain limit, e.g., a grant which would bring annual Micronesian revenues, including military payments and local revenues, up to \$35 or \$40 million.

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-- After the above transitional period, there could be a review of Micronesian needs, to determine the feasibility of continued direct grant assistance.

-- The United States could take the position that capital improvement projects started as of a certain date would be funded to completion, but that subsequent projects would be a Micronesian responsibility.

-- With respect to standard program assistance from the various Federal agencies we have already stated at Hana that most programs could, by mutual consent, be made applicable to the Trust Territory.

*Royston C. Hughes*  
Royston C. Hughes

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Appendix - Funding for other territorial areas

With respect to Federal grants other territorial areas, we are able to draw a parallel only with American Samoa, due to the complicated Federal financial arrangements with, and heavy Federal expenditures in, Guam and the Virgin Islands. (As an example, the Department of Defense spent an estimated \$142 million in Guam in FY 1971, which probably had little direct effect upon Government of Guam revenues, but certainly a massive indirect benefit.)

American Samoa, with a 1970 population of 27,159, will receive in FY 1972 Interior Department grants and appropriations of \$11,198,000, and other Federal grants of \$2,061,400, according to earlier budget estimates. This total Federal subsidy of \$13,259,400 results in per capita assistance of slightly under \$500. Local and other revenues brought the territorial budget to slightly over \$20 million, a per capita amount of about \$740.

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