

Mr. Froebe



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United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

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.

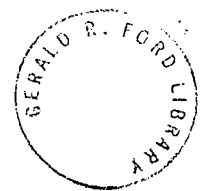
-- There should be a specified level of assistance to the Micronesian Government for a transitional period of, for example, five years after the compact takes effect. This could be an absolute amount, such as about \$25 million per year in addition to military payments, or could be set up as a residual 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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By HR NLF Date 9/14/99

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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
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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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