


DRAFT:JMW:kkc:11-20-73

Mr. Wilson
Fuels Quon

James M. Wilson - THIRD DRAFTING COMMITTEE SESSION - 11/17/73

I. Introduction

- Have reviewed ^{the} results of first two meetings
 - JCFS paper in justification of \$100 million
 - Friday P.M. Meeting of Chairmen.
- Note that far apart on money - but may be coming closer together conceptually.
 - This might provide means to begin reconciliation of figures resulting from respective conceptual efforts.
- As a result U.S. has restudied its drafts of Title IV (Finance) and Title XI (Termination) 
 - Which we agree with Warnke are very closely related
 - Have two new drafts
 - Tried as much as possible to use JCFS language.

II. JCFS Projections Critique - Silver

III. Discussion of new U.S. draft on Finance

- Have done away with subsections under 401 per JCFS request.
- Have separated out military rentals.
- Have left Operations and CIP differentiation, however, since conceptually most useful
 - Have also left loan component for district development projects, but have omitted material on specified uses as suggested by JCFS.
 - Have geared guaranteed period of financial assistance to period of mutual consent in termination (U.S. version; fifteen years) just as JCFS draft does.
- Have added JCFS language on renegotiation after initial period.



- Have left sliding scale of 401 payments as incentive to self-sufficiency, but

- Have provided means for periodic review to take into account price changes, dollar valuation, etc.

- Have looked over possible levels of funding to fill in the blanks - which now prepared to do for first time.

-- U.S. still talking five districts, not six just as we said we were in Koror, Washington and Barbers Point.

-- Acknowledge possible JCFS charter problem.

-- But U.S. also has charter, based on request of Marianas, and that says five.

-- Nothing in Compact on Marianas - our figures exclude Marianas with whom we will discuss meeting next month.

-- For practical purposes simply add or subtract 1/6 depending on point of view.

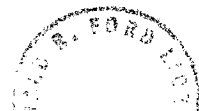
- Still believe U.S. methodology accurate reflection of existing situation - can quarrel if necessary re future projections - but must have a solid starting point.

- Also must remember that not talking of Compact coming into effect tomorrow. May be period of some years, even with best will in world, before trusteeship ends.

-- Significant that this provides long transition period during which CIP would grow materially if funded on presently projected levels.

-- Also provides time to streamline and decentralize operations and save large amounts of money.

-- Do not agree this is penurious operation - rather is most generous with U.S. now providing 90% of budget at a level far in excess of any other foreign area in the world.



-- Objective long term still should be self-sufficiency - Experience has shown simply cannot overstuff a system and have it digest new assets and grow fast and well.

- With all this in mind have nevertheless determined we can go along in new relationship with a continuation of present level of funding with two exceptions:

-- Federal programs and services are designed primarily for members of the family (Micronesia will be leaving the family by choice).

-- Central Government (as distinguished from district government) operations when entire Micronesian emphasis is and has been in direction of decentralization.

- On this basis have taken Silver figure of \$32 million as first level under 401, dropping to \$28 million after first five years and \$24 million after first ten years.

- On development assistance have taken 1/6 from present average level of assistance ^(\$10M) and put most in grants with remainder in transition: 401(a) \$6 million; 404(b) \$2.5 million.

- Level of Federal Programs and services in 403(a) should be added for totalling purposes (\$2.5 million).

- It does not take into account a number of other important sources of income and revenue available to the GOM.

-- Outside assistance from other countries and IFI's.

-- Increases in local revenues.

-- Savings resulting from streamlining of government operations (the 20%).

-- Income derived from anticipated foreign investment.

-- Excludes special aid for capital.

- Note that this is an exceedingly generous figure.

