

THE WHITE HOUSE

WASHINGTON ACTION~~SECRET~~

March 25, 1974



MEMORANDUM FOR: THE PRESIDENT

FROM: HENRY A. KISSINGER ^K

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

At Tab B is a report to you from your Personal Representative for Micronesian Status Negotiations, Ambassador F. Haydn Williams. The report covers the progress made in the latest round of negotiations with Micronesian representatives, and asks for supplemental instructions on the financial aspects of the new status arrangements. Ambassador Williams' initial report on this latest round, to which he refers in this letter of January 25, is at Tab C.

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 sometime next fall.

The principle problem, for which Williams is seeking additional instructions, is that of financial arrangements with the five districts. He believes 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 you 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 periodic reviews of the level of our assistance, as well as to adjustments in the levels to compensate for inflation.

-- 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

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district, 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 (CIP) 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 five-year 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 Williams' recommendations 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 Ambassador Williams to move toward that goal.

As to OMB's views,

-- I agree that the general principle of a gradual reduction in U. S. financial assistance to Micronesia should be included in Williams' instructions, but I do not agree that we should lock ourselves into a specific figure or should confine our periodic reviews solely to the question of adjustments in the level to compensate for changes in the dollar. More comprehensive reviews would seem advisable, in order to insure that our financial assistance is supportive of a continuing Free Association relationship.

-- I disagree with OMB when it contends that we cannot rationally set specific minimum and maximum figures for assistance in relocating the capital and for the CIP. (The question is only one of specific figures, since you previously approved assistance for relocating the capital, and since Secretary Morton last January publicly committed us to a major increase in the CIP for Micronesia for the next five years.) We do have rational bases for setting specific minimum or maximum figures. Most importantly at



this point, we need specific figures in order to be credible in what we hope will be our coming final rounds of negotiations.

At Tab A is a draft supplementary instruction in your name which approves Williams' recommendations.

Recommendation:

That you authorize me to sign the draft supplementary instruction to Ambassador Williams at Tab A.

Approve

A handwritten signature in dark ink, appearing to be a stylized 'P' or similar initial, written over a horizontal line.

Disapprove

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