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EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

June 7, 1974

MEMORANDUM FOR: DR. HENRY KISSINGER  
ASSISTANT TO THE PRESIDENT  
FOR NATIONAL SECURITY AFFAIRS

SUBJECT: OMB RECOMMENDATIONS RE MICRONESIAN  
STATUS NEGOTIATIONS: REQUEST FOR  
AMENDMENT TO NEGOTIATING INSTRUC-  
TIONS

We have reviewed the proposed draft memorandum to the President and generally are encouraged by the progress which it indicates Ambassador Williams is making in bringing these prolonged negotiations to a satisfactory conclusion.

Specifically, we have no objection to the recommended changes in his instructions to:

1. Require that any termination of the Compact of Free Association could take place only after successful negotiation of a mutual security agreement covering U. S. defense requirements in Micronesia following termination.
2. Provide that, pending any agreement on new levels of U. S. financial assistance, the annual amounts would continue to be provided after the first fifteen years to the post-trusteeship period, but at reduced rates following the same descending scale established for the first fifteen years of the Compact relationship, all subject to approval by Congress.
3. Commit the U. S., subject to approval by Congress, to a six-year transition period during which there would be an accelerated Capital Improvements Program (CIP) within overall annual authorizations which would total as follows: FY 1975 (\$75 million); FY 1976 (\$80 million); FY 1977 (\$83 million); FY 1978 (\$85 million); FY 1979 (\$67 million), and FY 1980 (\$60 million). If the \$75 million amount for 1975 is approved by the President, early supporting actions would be to

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By KTR NLF Date 9/14/99

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(1) recommend a draft bill which, if enacted, would increase the present \$60 million 1975 appropriation authorization ceiling to \$75 million, and (2) recommend an increase of \$15 million in the 1975 Budget for the Trust Territory, contingent on enactment of the draft bill.

We do object, however, to the proposal that within the overall total amounts for each year from FY 1975 through FY 1980, the U. S. would commit to fixed annual allocations for CIP and Operation and Maintenance (O&M) without any further review of the practicality of the proposed allocations by both the Micronesians and the U. S. As a maximum, we recommend that the Congress of Micronesia and the U. S. use the proposed annual allocations for CIP and O&M as non-binding guidance, subject to further review in the preparation of annual budgets for the Trust Territory.

In addition, we strongly recommend that the Ambassador's proposal to have the U. S. committed to guaranteeing the negotiated amounts from FY 1975 through at least FY 1995 in constant value U. S. dollars using 1975 as a base year be included as a specific item for decision in the draft memorandum to the President. This concept is not supported by any agreed upon technical definition of how to determine the value of U.S. dollars in Micronesia. Since there is no definition of this concept, we don't know how it could be implemented. Therefore, we recommend that the March 29 instruction for the Ambassador be retained which authorized him to commit the U. S. to periodic reviews of the levels of U. S. financial assistance and during such reviews to give consideration to such adjustments as may be required by changes in the value of the U. S. dollar.

*in Pass action  
necessary*

Finally, we recommend that the reference to Defense land requirements be clarified, on page 4 of the draft memorandum to the President, by inserting after the words ". . . negotiation of Defense land requirement. . ." the following ". . . as identified in annex B, Title III of the Draft Compact of Free Association.

*BA Bridgewater*  
B. A. Bridgewater, Jr.  
Associate Director



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