

~~SECRET~~

ACTION
June 19, 1974

MEMORANDUM FOR: SECRETARY KISSINGER
FROM: JOHN A. FROEBE, JR.
SUBJECT: Micronesia Status Negotiations

At Tab A is a draft memorandum from you to the President attaching Ambassador F. Haydn Williams' report to the President on his latest round of negotiations with representatives of the five districts of Micronesia. (As you recall, he is conducting separate negotiations with the representatives of the sixth district, the Marianas.) ^Q Ambassador Williams also recommends further amendment to his negotiating instructions.

Ambassador Williams reports that he reached agreement with Micronesia representatives ^o in the two remaining issues -- unilateral termination of the Compact of Free Association and U. S. financial assistance.

(As you will recall, Williams earlier had achieved agreement giving the U. S. control of foreign affairs and defense and the Micronesians control over internal government under a self-drafted constitution consistent with the Compact.) ^Q However, Williams ^{could only get} agreement on these two issues

^{BY GOING} ~~goes~~ beyond his current instructions in minor respects, ^{ON AN AD REFERENDUM BASIS,} and he has therefore asked for Presidential approval of the undertakings he has tentatively given the Micronesians.

--Unilateral Termination. Williams achieved a tentative agreement under which the Compact would be terminated only by mutual consent

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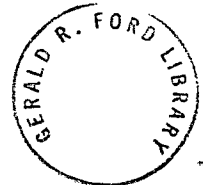
~~SECRET~~ GDS
HR 9/14/99

during the first 15 years after the Compact goes into force (tentatively in 1980). Thereafter, the Compact could be terminated unilaterally by either side, but notification to terminate would be followed by a two year waiting period during which both parties ~~would negotiate~~ ^{MUST REACH AGREEMENT ON} a mutual security treaty covering our continued use of military bases and facilities in the islands. ~~THE PRACTICAL EFFECT OF THIS WOULD BE TO MAKE~~ ^{UNILATERAL TERMINATION BY EITHER PARTY WOULD BE VERY} ~~DIFFICULT TO ENFORCE.~~ ^{DIFFICULT TO ENFORCE.} Thus, in effect termination would be possible only by mutual consent.

This tentative agreement exceeds the letter, but not the spirit, of Williams' current instructions -- which call for the Compact to include pre-negotiated arrangements providing for denial and basing rights that would survive any termination of the free association relationship by 50 years. The likely reason for the Micronesian preference for ~~the~~ ^A revised form is that it contains more of the appearance of sovereignty. Substantively, it assures the survival of our denial ^{AND} basing rights just as effectively as our initial offer would. The concerned departments and agencies agree with Ambassador Williams' recommendation that we accept this revised form, and I see no objection to it.

--U.S. Financial Assistance. Williams achieved agreement on U.S. financial assistance for the first 15 years after the Compact goes into force: the level would start at \$55 million annually for the first five years and would decrease to \$42 million annually during the last five years. (The President had authorized a \$60 million annual ~~xxx~~ ceiling

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for this period.) However, as regards our financial assistance that would follow the first 15 years, the Micronesian representatives objected to our proposal that this be left to later negotiations. ^{THAT SAID} [contending] that this would give them insufficient protection. They finally agreed to Ambassador Williams' proposal that if agreement on subsequent levels was not readily achieved in later negotiations, U.S. financial assistance would continue on a scale that would decrease at the same rate as [the reduction in financial assistance] during the first 15 years. As regards U.S. financial assistance during the transition period before the Compact goes into force, the Micronesians agreed to our offer for an increased Capital Improvements Program (CIP) ranging from \$20 million in FY 75 to a high of \$35 million in FY 78, dropping to \$15 million in FY 80. *ALL THESE FIGURES ARE IN CURRENT, NOT CONSTANT, DOLLARS.*

Williams recommends that he be authorized to accept the revised formula for negotiating the level of U.S. financial assistance to follow the first 15 years, and to commit the U.S. to the amounts, in constant dollars, which he has agreed on for the transition period and the first 15 years. The concerned departments and agencies, with the exception of OMB, agrees with Williams' recommendations. OMB has two objections:

--That, as regards U.S. financial assistance during the transition period, Williams should not commit the U.S. to a binding breakdown between CIP and operating expenses, but should use the proposed breakdown as guidance which would be reviewed in the preparation of annual budgets for the TTPI.

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OMB doubts the administrative ability of our High Commissioner's Office to spend the full CIP amounts^g and also would like to be able to use some CIP funds to support rising government operating costs in Micronesia. Ambassador Williams strongly disagrees: he contends that giving Micronesia an adequate infrastructure through implementation of the CIP is an important part of ending our trusteeship. In addition, Williams believes we should gradually reduce U.S. support for Micronesian government operating expenses, and has ~~offered~~ obtained the agreement in principle of Micronesian representatives and Interior on this. Lastly, Williams believes that, if pressed, our High Commissioner's Office can implement the CIP on schedule. I agree with Williams: our priority objective is to leave the Micronesians with an adequate infrastructure; rising operating costs, to the extent they cannot be ~~met~~ contained, should be met primarily through increasing local revenues⁷ with possibly some temporary additional U.S. assistance.

--That Ambassador Williams should not commit us to guarantee the negotiated levels of financial assistance in constant value U.S. dollars. OMB argues that it would be technically impossible to implement such a commitment, since there is no agreed-upon technical means for determining the value of U.S. dollars in Micronesia. OMB recommends that Ambassador Williams be limited to his present instructions, which authorize him to commit us to periodic reviews with the Micronesians for making such adjustments as may be required by changes in the value of the U.S. dollar.

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Ambassador Williams' office agrees with OMB's position. *So do I.*

Issue of the Plebescite and Constitutional Convention

Williams also reached agreement with Micronesian representatives on procedures for bringing the Compact into force over a six year period.

During the next two years the status negotiations (including military land negotiations) will be concluded, the Micronesian Congress will consider the Compact, a Micronesian constitution will be drafted, and ^{THEN} a plebescite will be held. During the ^{FOLLOWING} ~~next~~ four years the U.S. Congress will consider the Compact, the U.N. Trusteeship Council will take up termination of their trusteeship, and the President will proclaim the Compact.

As regards this tentative schedule, State, Defense (including the Joint Chiefs), Justice, and Interior recommend that a major effort be made to hold the plebescite before, rather than after, the Constitutional Convention. They ^{THINK} ~~are~~ ^{SHOULD} ~~concerned~~ is that the Constitutional Convention operate within a political status framework approved by the Micronesian people. More fundamentally, they ^{REAL WORRY} ~~are concerned~~ that the Micronesian representatives, although now driven to conclude an early agreement by the fear that the Marshall Islands District might secede, may try to reopen certain provisions of the Compact once they believe ~~they have gotten~~ internal centrifugal forces ^{ARE} under control.

Williams has strong reservations about trying to persuade the Micronesian representatives to hold the plebescite before, rather than after, the Constitutional Convention. First, as a practical matter, Williams notes

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that it would be "virtually impossible" to hold the plebescite before the Constitutional Convention, since the Convention is now scheduled for next April and the Congress of Micronesia must first consider the draft Compact and political education program must first be held for the benefit of the Micronesian voters. Second, the Micronesian representatives [strongly] believe that the plebescite should simultaneously place the draft Compact and the draft constitution before the Micronesian voters. Third, the risk that Micronesian representatives will try to unravel certain provisions of the draft Compact is likely to occur in the Micronesian Congress rather than at the Constitutional Convention.

ESPECIALLY SINCE

I agree with Williams, [First, it will take Micronesian leaders probably the best part of the next year to get Marshallese separatism under control.

Second, [Even if they succeed, and subsequently should try to reopen major provisions of the draft Compact], we have considerable ^{FINANCIAL} leverage to bring

to bear against any ~~such effort on their part -- we could threaten to reconsider the level of financial assistance, which would probably revive Marshallese~~

POSSIBLE EFFORTS TO NEGOTIATE

~~separatism.~~ Looking at the longer haul, however, the risk of unraveling does make it prudent for us to move as quickly as practicable to complete the transitional steps, including U.N. consideration, toward completion of the new Free Association arrangement.

THE RUSSIANS ARE MAKING NOISES IN THE TRUSTESHIP COUNCIL THAT THEY JUST WANT ANY RECOMMENDATION: MICRONESIAN AGREEMENT IN THE SECURITY COUNCIL

That you sign the draft memorandum to the President at Tab A.

BECAUSE IT IS A SO-CALLED STRATEGIC TRUST, BUT WE

DO NOT NEED TO DEAL WITH THIS NOW.



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36

MEMORANDUM FOR

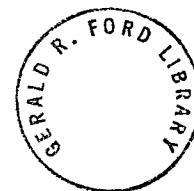
Ambassador F. Haydn Williams
The President's Personal Representative for
Micronesian Status Negotiations

SUBJECT: Supplementary Instructions Concerning
Status Negotiations with the Five Districts
of Micronesia

The President has reviewed the recommendations contained in your letter of April 12, 1974 and the comments of the concerned departments and agencies on those recommendations. The President has in consequence decided the following:

--That, as regards any termination of the Compact of Free Association during the first 15 years after it goes into force, you are authorized to commit the United States to agree to any such termination only by mutual consent. Thereafter, ~~whereas~~ the United States would be willing to agree that the Compact could be terminated unilaterally ^{but?} only after a two-year ^{7. TMSW} waiting period, and ^{CONCLUDE} only if during that waiting period both parties had ^{SUCCESSFULLY} negotiated a mutual security agreement embodying the military rights and uses in lands covered by then-existing leases and rights of denial as set forth in the Compact.

--That you are authorized to commit the United States to a Capital Improvements Program during the transition period in the amounts proposed in your letter of April 12, 1974, contingent during the last four years upon Micronesian approval of the Compact of Free Association. These amounts ^{MAY} [should] be reviewed periodically to consider such adjustments as may be required by changes in the value of the U. S. dollar.



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Handwritten notes at top of page: a line with 'Name - FY' and '2', and the number '30' in the top right corner.



DEPARTMENT OF STATE

Washington, D.C. 20520

NSC UNDER SECRETARIES COMMITTEE

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NSC-U/DM-98D

TO: The Deputy Secretary of Defense
 The Assistant to the President for
 National Security Affairs
 The Director of Central Intelligence
 The Chairman of the Joint Chiefs of Staff
 The Deputy Attorney General
 The Under Secretary of Interior
 Mr. James Wilson, Jr., Office of Micronesian
 Status Negotiations, Department of the
 Interior
 The Associate Director, Office of Management
 and Budget

SUBJECT: Micronesian Future Political Status

The Chairman has forwarded the attached memorandum to the President. A copy is hereby provided for your information.

Handwritten signature of Brandon Grove, Jr.
 Brandon Grove, Jr.
 Staff Director

Attachment:

As stated

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HR
9/14/99



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DEPARTMENT OF STATE
WASHINGTON

May 24, 1974

NSC UNDER SECRETARIES COMMITTEE~~SECRET~~
NSC-U/DM-98D

MEMORANDUM FOR THE PRESIDENT

Subject: Micronesian Future Political Status

On April 12, 1974 Ambassador F. Haydn Williams, your Personal Representative for Micronesian Status Negotiations, reported to you on his recent informal talks at Carmel, California with the Co-Chairmen of the Congress of Micronesia's Joint Committee on Future Status. As he indicates in his report, Ambassador Williams has reached an referendum agreement with the Co-Chairmen on a Compact of Free Association, and on the transitional arrangements leading to ultimate termination of the trusteeship agreement and implementation of a free association relationship.

Ambassador Williams points out that several elements of these agreements either exceed the letter (but not the spirit) of your previous negotiating instructions to him or are not fully covered by the same instructions.

1. Your instructions state that any agreement to a unilateral termination provision in the Compact must be conditioned on inclusion within the Compact of provisions for survivability of US basing and other defense requirements for at least fifty years beyond the date of any termination of the Compact. The Micronesians were

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unable to accept this provision, but proposed a provision which requires that any termination of the Compact take place only after successful negotiation of a mutual security agreement covering US defense requirements in Micronesia following termination. The effect of this provision is to require mutual consent to termination of a free association relationship between Micronesia and the US. The Ambassador recommends your approval of this proposal.

2. Your present instructions do not authorize specific levels of US assistance to Micronesia following the first fifteen years of the relationship, but leave such assistance to future negotiations. The Micronesians were unable to accept this. A proposed compromise recommended by the Ambassador for your approval is that -- pending any agreement on new levels of assistance -- US financial assistance would continue after the first fifteen years, but at reduced rates following the same descending scale established for the first fifteen years of the Compact relationship.

3. The tentative agreements also provide for a six-year transition period during which there would be an accelerated Capital Improvements Program ranging from \$20 million in FY 1975 up to \$35 million in FY 1978, and down to a low of \$15 million in FY 1980 for six districts. During this same period grants for operations in Micronesia would drop from \$55 million in FY 1975 to \$45 million in FY 1980 for six districts. The Ambassador's most recent instructions on this subject, approved by you on March 29, 1974, provide:

"You may commit the US Government to provide a terminal five-year Capital Improvements Program of no less than \$15 million per annum for the five districts of Micronesia, the program to be developed by the Department of

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the Interior, to begin in FY-75, and to be subject to the approval of the US Congress."

These three proposals are important elements of the ad referendum agreements reached with the Micronesian Co-Chairmen at Carmel.

The Departments of State, Defense, Justice, and of the Interior, the Joint Chiefs of Staff, and the Office of Micronesian Status Negotiations have reviewed the above elements of the agreements tentatively arrived at by Ambassador Williams, and endorse Ambassador Williams' recommendations.

The Departments of State, Defense, Justice, and of the Interior, and the Joint Chiefs of Staff also believe that implementation of these recommendations, if they are approved, should take into account the following important consideration and recommendation.

chun - 1975?

A Micronesian Constitutional Convention is scheduled to convene in 1975. In order to assure that the Convention will operate within an agreed political status framework approved by the people of Micronesia, a major effort should be made to arrange for a plebiscite on the Compact of Free Association prior to, rather than following, that Convention. These agencies, in offering this recommendation, are aware that it may prove impractical to adjust the timing of the plebiscite as desired. In this connection, the Office of Micronesian Status Negotiations notes that, if the Constitutional Convention is held on schedule in April, 1975, there would be insufficient time to complete the Compact negotiations, allow for Congress of Micronesian consideration of the Compact, and to conduct an appropriate political education program prior to a plebiscite preceding the convention.

which would be done before plebiscite?

The Department of Defense and the Joint Chiefs of Staff additionally comment that, considering the history of the negotiations and the political realities in Micronesia, the

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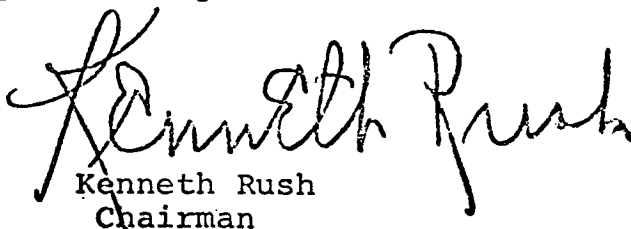


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tentative agreement on a Compact of Free Association reached by Ambassador Williams and the Co-Chairmen of the Micronesian Joint Committee is a remarkable achievement. Nevertheless, a number of difficult obstacles remain to be overcome, such as negotiation of defense land requirements, and of a jurisdictional agreement similar to a status of forces agreement.

It is likely that Ambassador Williams will meet again with the Co-Chairmen of the Micronesian Joint Committee in mid-June. We therefore hope that you will consider and approve new instructions for the Ambassador at an early date. The Ambassador has now made considerable progress toward resolution of Micronesia's future political status in a manner calculated to serve US interests. His ability to conclude these negotiations satisfactorily in the near future will be affected by the decisions stemming from his April 12 report.


Kenneth Rush
Chairman

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OFFICE FOR MICRONESIAN STATUS NEGOTIATIONS
WASHINGTON, D.C. 20240

April 12, 1974

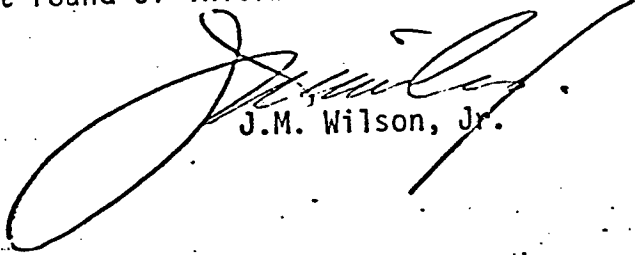
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MEMORANDUM FOR THE CHAIRMAN, UNDER SECRETARIES COMMITTEE

From: U.S. Deputy Representative for Micronesian Status Negotiations

Subject: Report to the President on Micronesian Status Discussions

There is attached for the consideration of the Under Secretaries Committee a letter of today's date to the President from the President's Personal Representative for Micronesian Status Negotiations reporting progress in the latest round of informal talks in Carmel.


J.M. Wilson, Jr.

- CC: The Secretary of the Interior
- The Deputy Secretary of Defense
- The Deputy Attorney General
- The Special Assistant to the President for National Security Affairs
- The Chairman of the Joint Chiefs of Staff

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Authority Interior Dept Guidelines

By HR NLF Date 9/14/99



THE WHITE HOUSE

WASHINGTON

Old Executive Office Building
Room 361
Washington, D.C. 20506

April 12, 1974

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Dear Mr. President:

Your approval of the recommendations contained in my letter of January 25, 1974 and the subsequent amendment of my instructions has enabled Mr. Wilson and me to proceed on schedule with the Micronesian future political status negotiations. A week of private informal talks has just been concluded with the Chairman and Co-Chairman of the Congress of Micronesia's Joint Committee on Future Status (JCFS), and I am pleased to report that we have now reached tentative agreement with them on a complete draft of a Compact of Free Association.

The agreed draft compact is now being referred to the concerned U.S. departments and agencies for comment, and the Co-Chairmen of the Micronesian delegation will be presenting the draft to the full JCFS next week for its approval. Assuming their agreement and your approval, the next steps will include: (1) negotiations for military land usage as set out in the agreement; (2) a final formal round of negotiations to approve the draft officially; (3) the signing of the Compact; (4) referral of the Compact to the Congress of Micronesia; and (5) a status plebiscite. Thereafter final actions will include the approval of the Compact by the Congress of the United States, the formal termination of the Trusteeship Agreement between the United States and the United Nations and, as the last step, a Presidential proclamation announcing the effective date of the Compact.

It is our hope, and the Micronesians have agreed, that every effort should be made to conclude the status negotiations, to draft a Micronesian constitution and to hold a status plebiscite and a constitutional referendum by the spring of 1976. We have further agreed tentatively that after this two year period a final four year period of transition leading to full self-government and a new political status would be desirable. If this schedule is finally adopted and followed the Trusteeship would come to a formal end in July, 1980.

I believe the terms of the agreed draft Compact satisfy my instructions and meet our basic negotiating objectives. Titles II and III give the United States full responsibility for and authority over both foreign affairs and defense. Annex B meets the Defense

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E.O. 12958, Sec. 3.5

NSC Memo, 11/24/98, State Dept. Guidelines

By 142 NARA, Date 2/14/99



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Department's maximum land requirements as set forth in my instructions and subsequent letters from the Secretary of Defense. The Compact can be terminated only by mutual consent during the first fifteen years after its effective date. Thereafter it may be terminated unilaterally with a two year waiting period during which time both parties would be committed by the Compact to negotiate a mutual security agreement which would embody the military rights and uses in lands covered by then existing leases and the rights of denial as set forth in the Compact. This agreement guaranteeing the survival of U.S. base and denial rights would have to be concluded before termination could become effective, thus in effect making termination possible only by mutual consent even after the first fifteen years.

My agreement on the section of the Compact covering termination and the survival of U.S. defense interests was conditional upon my receiving subsequent approval of the U.S. Government since the new formula exceeded the letter but not the spirit of my instructions. These instructions authorized me to agree to unilateral termination provided that pre-negotiated arrangements were built into the Compact which would guarantee the survival of U.S. base and denial rights for fifty years beyond the date of the termination of the Compact.

If the full JCFS approves the new draft termination formula, I believe U.S. defense interests and the survival of such interests would be amply protected even in the very real unlikelihood of termination of the Compact some time after 1997. This is so because the question of the duration and extent of the U.S. defense rights would have to be met to our satisfaction in the new mutual security agreement before the Compact could be terminated. I recommend approval of the new formula.

The Micronesian Co-Chairmen accepted without counter proposals a new U.S. fifteen year plan for financial assistance in the post-trusteeship period starting at \$55 million annually for the first five years and decreasing to \$42 million annually during the last five years. Their response was most surprising in view of their earlier high dollar demands and their threats of what would happen if their levels were not met. The amounts which we offered, excluding the payments for military land which have yet to be negotiated, were below the new maximum of \$60 million per annum for fifteen years that you authorized last month. The U.S. proposal covers support for government operations, Capital Improvement Programs, development loans and the provision of certain U.S. federal services for five districts on a gradually descending scale and in constant dollars. The average annual payment for the first fifteen years in the above categories is \$48.7 million.

The Micronesians were concerned about the level of assistance following the first fifteen years of free association and were not satisfied with our proposal that such amounts be left to later

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negotiations. They asked that the assistance be kept at the fifteenth year level until a new "mutually acceptable" agreement was reached. We objected to this proposal on the grounds that it would empower them to freeze U.S. financial support indefinitely at the fifteenth year level and suggested as a compromise that U.S. financial assistance continue pending a new financial agreement but at reduced rates following the same descending scale that was established for the first fifteen years of the Compact.

I made it clear that this counter-proposal went beyond my instructions and that it was therefore tentative in nature and subject to change. It was agreed to with that understanding. I feel that the compromise is fully consistent with the statement of our primary objective of building a lasting relationship with Micronesia set forth in my instructions, and I recommend that it be approved.

Our success in getting the Co-Chairmen of the JCFS to agree to our financial proposals and to the new termination provision was made possible in large measure, we believe, by their enthusiastic response to our presentation of a new U.S. six year plan for transition covering the period beginning with FY 1975 and ending with FY 1980. This plan was based in part on Secretary Morton's message to the Micronesian people of January 1974 in which he outlined in broad terms his views on the need for an accelerated program to complete the basic physical infrastructure in Micronesia before the end of the Trusteeship.

Our transition plan worked out earlier with the Department of the Interior calls for an increase in funds for CIP during the next four years as suggested in Secretary Morton's statement and then tapers off during the last two years of the Trusteeship. Proposed figures range from \$20 million in FY 1975 to a high of \$35 million in FY 1978 and drop to \$15 million in FY 1980 for six districts. This proposal for an accelerated CIP program during the period of transition is fully consistent with my instructions.

It was also agreed that a determined effort would be made to hold the line and then to begin a reduction in the cost of government operations in Micronesia before the end of the Trusteeship. During the past five years the number of personnel employed by the TTPI Government has increased by 50%, average salaries by 113% and over-all personnel costs by 220%. It was agreed that this trend had to be gradually reversed and that the process should begin during the transition period. Proposed levels for Government operations subsidies went from their present high of \$55 million per year in FY 1975 and 76 to a low of \$45 million in FY 1980 for six districts.



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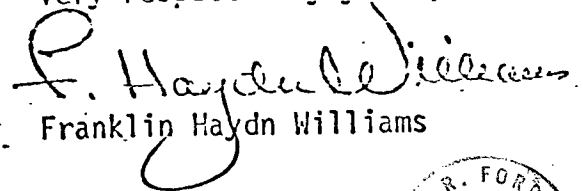
It is clear that the Micronesians have linked the transition plan with the terms and the levels of U.S. assistance proposed in the draft compact, and they will certainly make the implementation of the proposed six year transition plan a condition for their final acceptance of the new draft compact. I therefore believe that this plan should be approved and recommend that I be authorized to commit the United States to providing these amounts in constant dollars contingent during the last four years upon Micronesian approval of the Compact of Free Association.

In summary the Co-Chairmen of the JCFS have now agreed to a complete draft Compact and a tentative timetable for the termination of the Trusteeship. Rather than taking their usual contentious and hard line they were very conciliatory and conceded on one point after another. I am inclined to believe that the main reason for the abrupt "turn around" in their attitude stemmed from a recognition on their part that an early and congenial settlement of the future political status question with the United States was the only thing that would counter and check growing Micronesian political disunity.

The question now is whether the two Co-Chairmen can win the approval of the full JCFS for the draft compact. They seemed confident on this score. We are not so sanguine since the JCFS in the past has broken ranks and repudiated its leadership and also its own tentative agreements with respect to future political status issues. The meeting next week in Saipan is therefore of the greatest importance. If their committee were to reject the draft compact it would be a most serious setback for the negotiations and would raise serious questions including whether the U.S. should consider various alternatives to continuing to negotiations with the Congress of Micronesia. On the other hand if the JCFS approves the agreements in principle reached last week I then see the likelihood of an early and successful conclusion of the Micronesian status negotiations.

I can also report that since my letter of January 25th a series of private talks with the leadership of the Marianas has been successful in laying the groundwork for the next formal round of negotiations with the Marianas Political Status Commission, which is now scheduled to begin on May 15, 1974.

Very respectfully yours,


Franklin Haydn Williams



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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 INSTRUCTIONS

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:

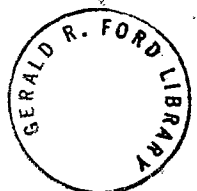
1. Require that any termination of the Compact of Free Association could take place only after successful negotiation of a mutual security agreement covering U. S. defense requirements in Micronesia following termination.
2. Provide that, pending any agreement on new levels of U. S. financial assistance, 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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Authority OMB Guidelines, May 3, 1979

By HR 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.

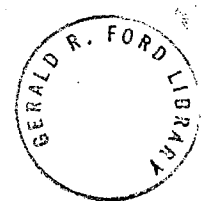
We do object, however, to the proposal that within the overall total amounts for each year from FY 1975 through FY 1980, the U. S. would commit to fixed annual allocations for CIP and Operation and Maintenance (O&M) without any further review of the practicality of the proposed allocations by both the 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.

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.

in Parenthesis necessary

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



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