

USG Draft 12 July 74  
G. J. B. S. 7/12/74  
11/15/74

DRAFT LETTER ON TRANSITION:

In conjunction with the signing today of the Compact of Free Association between the United States and Micronesia, I am authorized to confirm that during the transition period before the Compact becomes effective the United States will provide the Trust Territory of the Pacific Islands continuing financial support in the amounts and on the terms which follow.

United States financial support will be provided in two stages during the transition period subject to the approval of the U.S. Congress:

a. Stage I will cover that period of time needed to approve the Compact of Free Association by plebiscite and to draft and adopt by popular referendum, a Constitution for Micronesia. It is expected that these requirements will be met prior to the end of FY 1976.

b. Stage II of transition will commence at the beginning of the first fiscal year following the end of Stage I and will end with the effective date of the Compact. During this period Micronesia will move toward full internal self-government under its own constitution in preparation for the termination of the Trusteeship Agreement. It is now expected that Stage II will begin in FY 1977 and end in FY 1980.

In the event the Compact has not been approved by plebiscite by the end of FY 1976, Stage I will be extended to the end of FY 1977. Stage II would then be limited to three years (FY 1978, 79, and 80), or a shorter period.

On this time basis the levels of annual funding for Government operations and capital improvement programs to be provided the Trust Territory of the Pacific Islands by the United States during the transition period are as follows:



	<u>Operations</u>	<u>CIP</u>	<u>Total</u>
<u>Stage I</u>			
FY 76	55	25	80
<u>Stage II</u>			
FY 77	54	30*	84
FY 78	52	35	87
FY 79	50	20*	70
FY 80	45	15	60

\* In the event Stage I is delayed to FY 1978, these figures will be changed to \$25 million.

The amounts shown in the preceding paragraph will be adjusted annually to reflect changes in the value of the dollar as determined by the official United States retail consumer price index (or the Guam retail price index).

The foregoing amounts cover all the present six administrative districts of the Trust Territory of the Pacific Islands. If during the transition period the Marianas District requests and the U.S. agrees to the separate administration of that district, the annual level of agreed funding for government operations and the capital improvement program would be adjusted according to the attached schedule.

The United States will, in addition to the foregoing, subject also to the approval of the Congress of the United States, contribute the sum of \$ \_\_\_\_\_ million to the Government of the Trust Territory of the Pacific Islands to cover in part the costs of relocating the present Capital to the new site in Micronesia to be chosen by the people of Micronesia. Over and above this contribution, the U.S. will match on the basis of one U.S. dollar, for each dollar made available by the Congress of Micronesia, up to a maximum of \$ \_\_\_\_\_ million, these matching funds to be used to cover the costs of relocation not covered by the basic United States grant of \$ \_\_\_\_\_ million.



United States Government's Contributions to the  
Capital Improvement Program and its Support to Government  
Operations of the Trust Territory of the Pacific Islands  
less the Marianas District

(Millions of U.S. dollars)

	OPERATIONS	CIP	TOTAL
<u>Stage I</u>			
FY 76	48	22	70
<u>Stage II</u>			
FY 77	47	26*	73
FY 78	46	30	76
FY 79	44	18*	62
FY 80	39	14	53

\* In the event Stage I is delayed to FY 1978 these figures will be changed to \$22 million.

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