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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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January 20, 1976

MEMORANDUM FOR

THE CHAIRMAN,
UNDER SECRETARIES COMMITTEE

SUBJECT: Review of U. S. Policy on Micronesia's
Future Status

The NSC Under Secretaries Committee is requested to undertake a review of U. S. policy toward the future status of Micronesia, including the negotiating instructions to the President's Personal Representative for Micronesian Status Negotiations. The study should exclude the Northern Marianas district.

The review of the negotiating instructions should be made in light of developments since promulgation of the current instructions on November 14, 1973. The study should develop options for U. S. policy which address the needs and concerns of the nations' populations and preserve U. S. security interests.

The review should take into account:

-- Indications (in particular the new draft Micronesian Constitution) that the Micronesians are not amenable to a free association arrangement which would meet the terms of Ambassador Williams' present negotiating instructions.

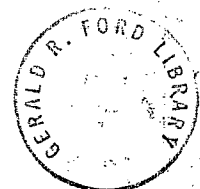
-- Changes in the Asia-Pacific arena that affect U. S. strategic interests in Micronesia.

-- Experience of other Pacific Island entities such as the Cooks and Western Samoa.

-- U. S. Congressional and public attitudes.

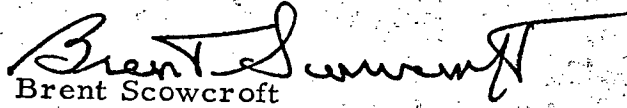
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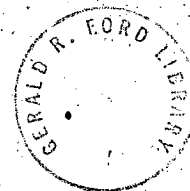


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The study should present a range of options for our negotiating strategy and appropriate recommendations for the President's consideration. The review should be completed and forwarded to the Assistant to the President for National Security Affairs by March 1, 1976.


Brent Scowcroft

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ACTION

January 12, 1976

MEMORANDUM FOR BRENT SCOWCROFT

FROM: THOMAS J. BARNES

SUBJECT: Review of U. S. Policy on Micronesia's Future Status

Tab A
Retyped
1-19
Tab B
re-typed
1/19

The Problem

The President's Personal Representative for Micronesian Status Negotiations, Ambassador F. Haydn Williams, wrote a letter (Tab B) to the President on December 10, 1975. The letter recommended a full review of our policy on the future status of Micronesia excluding the Northern Marianas District. The Ambassador recommended that the review reconsider U. S. basic objectives in Micronesia and submit an updated policy paper with recommendations to the NSC by March 1, 1976 for subsequent transmittal to the President.

I believe such a review would be timely. Micronesians outside the Northern Marianas have recently made clear that they are not amenable to a free association arrangement that would meet the terms of Ambassador Williams' present negotiating instructions. These instructions, dated November 14, 1973 (Tab C), include among U. S. primary objectives: denial of the area for military use by third parties; establishment of U. S. authority over all matters that relate to foreign and defense affairs of Micronesia; and obtaining U. S. rights to land options for military training areas and future bases.

Recent Development

A Micronesian Constitutional convention on November 8, 1975 approved a new constitution of the "federated states of Micronesia" that sets clear parameters for Micronesia's future relationship with the United States. The new constitution provides for a sovereign state and makes clear that a treaty, approved by a complicated ratification process, will have to cover delegation to another government of major powers such as foreign relations and defense.

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The Micronesian Congress held a territory-wide informal status referendum last July. The results were confusing due to public misunderstanding and the possibility of voting for two options. In any event, the two most populous districts, Truk and Ponape, voted overwhelmingly for independence.

Also in the Law of the Sea forum, the Micronesians have claimed a far-flung marine area and have insisted on being a full party to any Law of the Sea treaty.

At the same time, there seems to be rethinking even in DOD of the need for an ironclad "denial" arrangement affecting the non-Marianas districts of Micronesia. The strategic relevance of the Northern Marianas to our unfettered use of Guam as a military base was the main concern of our military planners. The other Micronesian islands were of less concern. Several island entities south of Micronesia have become independent or quasi-independent states in the last few years. Island states, like Fiji, Tonga, and the Solomons, are as likely targets as Micronesia for any future base-hunting foreign power. There seems no compelling need for us to attempt to gain ironclad exclusion rights over all the Micronesian islands if we do not have the same rights in the South Pacific. At the same time, Micronesians clearly expect to negotiate defense arrangements with the United States.

Course of Action

Our goal should be to try to complete the ratification process of the Covenant with the Northern Marianas. Opposition to the Covenant has arisen in the Senate Armed Services and Foreign Relations Committee. There is a possibility some Senators will push an amendment that will delay ratification of the Covenant until we conclude a status agreement with the other districts of Micronesia. We should move ahead with our review of our policy towards these other districts regardless of what the Senate action should be. Showing that we are prepared to offer or even encourage an independence option for these other districts should facilitate approval of the Covenant, which reflects the strong desires of the people of the Northern Marianas for a permanent association. (The 1973 instructions gave Ambassador Williams authority to offer an independence option to the non-Marianas districts, but only as a tactic.) An independent or quasi-independent status for the other districts, including a treaty arrangement with the United States for the handling of foreign and defense affairs, should also facilitate approval in the United Nations of the manner of our termination of the trusteeship. We would also expect to retain our missile tracking facilities on Kwajalein.

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Procedure

We have prepared a memorandum for the Chairman of the Under Secretaries Committee directing that the NSC-USC Inter-Agency Working Group for Micronesia undertake a review of U. S. policy toward the future status of Micronesia. (The study is to exclude the Northern Marianas district unless the Congress acts unfavorably on the Northern Marianas Covenant.)

The memorandum directs that the study review U. S. interests in this issue and present a new range of options in our negotiating strategy and appropriate recommendations for the President's considerations.

RECOMMENDATION:

That you sign the memorandum to the President at Tab I requesting authority to issue the memorandum in his name.

Concurrence: Les Janka ^{path}

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THE WHITE HOUSE

WASHINGTON

Old Executive Office Building
Room 373
Washington, D.C. 20506

December 10, 1975

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

Since my last report to you on June 17, 1975 there have been some important developments which bear on the future political status of the Northern Marianas and on the remaining districts of the Trust Territory of the Pacific Islands.

The Covenant to Establish the Commonwealth of the Northern Mariana Islands in Political Union with the United States of America which you forwarded on July 1, 1975, to the Congress with your request for early favorable action was approved by the House on July 21, without a dissenting vote. Since that time the matter has been before the Senate. The Interior Committee approved the measure on October 22, 1975. It was then referred jointly to the Senate Foreign Relations Committee and to Armed Services. Extensive hearings by these Committees have been completed. The deadline for their final action, originally set for December 3, has now been extended by unanimous consent to January 27, 1976. At that time a joint committee report and recommendation on the Covenant will be filed with the Senate along with the report of the Interior Committee.

Opposition to the Marianas Commonwealth Covenant has heretofore been limited to a very few Senators (Byrd of Virginia, Pell, and Hart of Colorado), but the number is growing. Senator Charles Percy has now taken the lead in calling for deferral of approval of the Administration's bill until the future political status of the remainder of the Territory is determined, and it would appear that Senator Percy prefers that the Covenant not be approved.

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Members of the three committees concerned (Interior, Foreign Relations and Armed Services) and their staffs now believe that passage of the Covenant is in jeopardy and that in the absence of strong support from the Administration, the legislation is very likely to be defeated.

The negotiations with the remainder of the Trust Territory of the Pacific Islands have been in abeyance during the past year. The October 1974 ad referendum agreement on a Compact of Free Association has neither been accepted nor rejected by the Congress of Micronesia; the only formal action by the Congress was a call for renegotiation of the financial provisions of the Compact. Further negotiations were, however, put aside by the Micronesians while they awaited the results respectively of the Law of the Sea meeting in Geneva, a territory-wide informal status referendum and the Micronesian Constitutional Convention. With these events now behind them, the Joint Committee on Future Status is calling for an informal meeting preparatory to a resumption of formal negotiations sometime in the spring of next year.

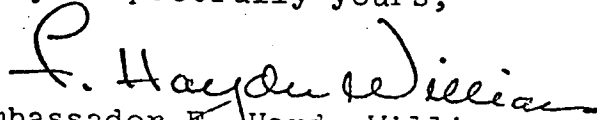
The draft Micronesian Constitution appears to conflict in a number of fundamental respects with the draft Compact of Free Association and my current instructions. In view of this and other related developments, including the Micronesian position on Law of the Sea, I recommend that a full U.S. policy review be undertaken for the purpose of updating the National Security Council, Under Secretaries Committee Micronesian policy paper of November 14, 1973. I believe this review should reconsider United States basic objectives in Micronesia in the context of larger American interests and the Pacific Doctrine which you enunciated during your recent trip to Asia and the Pacific. I recommend that this reassessment be undertaken immediately by the NSC-USC Interagency Group for Micronesia and that an updated policy paper with recommendations be submitted to the NSC-USC by March 1, 1976 for its consideration and subsequent transmittal to you. In the meantime, informal efforts will be made to draw out the Joint Committee on Future Status on a number of important issues relevant to the United States policy reassessment.

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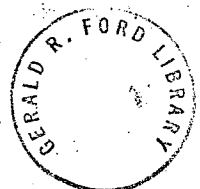
Finally, I respectfully request your assistance in attaining the Senate's early approval of the Northern Mariana Islands Commonwealth Covenant. Failure of this legislation could have a very serious effect not only on future United States-Marianas relations but also on the prospects for attaining minimum U.S. objectives in the status negotiations with the Micronesians and therefore on the position and strength of the United States in the Pacific Ocean area.

Very respectfully yours,



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

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Instructions for the President's Personal Representative

1. General

You are authorized to continue on behalf of the U. S. Government negotiations with representatives of the Marshall and Caroline Islands with the objective of arriving as soon as possible at an agreement satisfying the following U. S. objectives:

Primary Objectives

The fashioning of a new political relationship with Micronesia permitting early termination of the trusteeship in a manner which will protect and serve U. S. strategic and political interests through the following elements:

- Denial of the area for military use by third parties.
- Establishment of a stable and friendly self-governing Micronesian political entity through reasonable satisfaction of the political and economic aspirations of its peoples.
- U. S. responsibility for and authority over all matters which relate to the foreign affairs of Micronesia and to defense in Micronesia.
- The right for the U. S. to maintain certain U. S. Government facilities and to obtain land options that will guarantee use of the training areas and the right to establish future bases in Micronesia.
- Satisfaction of U. S. obligations relating to termination of the Trusteeship Agreement.

Secondary Objectives

- To keep U. S. financial obligations to Micronesia within reasonable bounds and relevant to the character of the future relationship.
- To structure the status arrangements with Micronesia in such a manner as to have maximum favorable impact on the negotiations with the Mariana Islands District of the TTPI.
- To keep U. S. administrative and other relationships with Micronesia as simple as possible while accomplishing the above objectives.

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-- To establish a relationship with Micronesia which will (in addition to meeting U.S. obligations under the Trusteeship Agreement) obtain United Nations approval, or at least that of a majority of the Security Council and of the Trusteeship Council.

2. Status

Since a relationship of "free association" currently appears to be the status alternative best designed both to protect U.S. interests in the Western Pacific and to win broad Micronesian acceptance, you should make every effort to conclude with Micronesian negotiators at an early date a draft compact of free association and a related status of forces agreement, and to win their active support for the compact among the Micronesian people in a subsequent plebiscite. Such a compact should provide for Micronesian autonomy in local matters and U.S. responsibility for and authority over all matters which relate to the foreign affairs of Micronesia and to defense in Micronesia. You should seek as close a U.S. - Micronesian relationship as you think the Micronesians will accept in order to build up vested Micronesian interests in the association -- e. g., participation in federal domestic programs, access to the U.S. judicial system, and rights of U.S. nationality. If the Micronesian negotiators insist, you may agree to a unilateral termination clause in the compact, with the provisos: (a) there will be, as part of the compact, pre-negotiated arrangements providing for denial and basing rights (to be described below) which will survive any termination of the free association relationship by 50 years; (b) there will be a moratorium period of 10 to 15 years before either party may give official notice of its intention to exercise the termination provision; and (c) the compact cannot be terminated until one year after either party has officially communicated its intention to terminate. If the Micronesian negotiators strenuously resist any of the foregoing provisos and show no sign of yielding, you should seek further instructions, while making recommendations thereon.

You are authorized to re-submit to the Micronesian negotiators the earlier U.S. proposal for a modified commonwealth relationship if at any time you think it suits the U.S. interest to do so.

You are authorized to make an independence offer to Micronesia any time you consider it advisable. However, the proposal should provide for the retention of U.S. basing rights in the Kwajalein Atoll in the Marshall Islands for as long as the U.S. interest requires, and for the denial of access to Micronesia by third countries for military purposes.



3. Land

The U.S. military and non-military land requirements should be satisfied by arrangements providing for long-term U.S. Government options to take effect as soon as possible. You should undertake whatever further negotiating efforts are required to confirm Micronesian acceptance of the land requirements already tentatively agreed to by the Joint Committee on Future Status set forth in Annex B of the partially completed draft compact of free association.

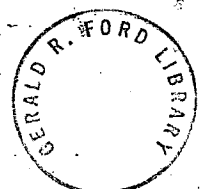
Any adjustments of U.S. land requirements must be coordinated with the concerned department or agency. Should it prove impossible to reach agreement on such adjustments with the department or agency concerned, or should it become apparent at any time that it will not be possible to satisfy through negotiations the general U.S. land requirements, you should seek further instructions.

In the negotiations on land you should continue to maintain the position that following Micronesia's change of status, the new Government of Micronesia should honor current leases. The language of paragraph 303(e) of the partial draft compact reflects the U.S. position in this regard. Should the re-negotiation of current leases become critical to the successful conclusion of the negotiations on free association, however, you may, in close consultation with the Departments of Defense and Interior, undertake re-negotiation on terms which would not unduly distort Micronesian land values or result in the U.S. paying grossly inflated sums.

You should continue to resist the imposition of any restrictions on U.S. military uses of land on which it obtains leases. Paragraph 303(d) of the partial draft compact reflects the U.S. position on this matter.

4. Finance

You should, at your discretion, propose a level of U.S. financial support in the range of \$25-50 million annually, beginning in the lower end of this range and moving upward as necessary to obtain Micronesian acceptance of a free association relationship and agreement to U.S. land requirements. You are authorized to determine the proportion of funds to be in the form of program assistance. You should make it clear that any agreement you and the Micronesian negotiators reach



on the level and nature of U.S. support are subject to approval by the U.S. Congress, [and that none of these funds is to be construed as payment for military base rights].

Should it become apparent at any point in the negotiations that, except for Micronesian resistance to the maximum U.S. financial proposals, an otherwise satisfactory status agreement is in sight, you should seek further instructions.

You may commit the U.S. to assist financially in relocating the Micronesian capital and in meeting other one-time transitional costs you consider appropriate. Again, you should register the caveat that such commitments are subject to the authorization of funds by the U.S. Congress.

[The question of the distribution among the Departments of the responsibility for funding U.S. financial support for Micronesia should be left open, and will be reviewed again at a later date.]

5. Terms of Reference

The President has specifically approved the following as your Terms of Reference:

-- Your negotiating authority is provided by the President's approval of the above positions, of these terms of reference, and of any subsequent negotiating instructions. Your negotiating authority will include tactics, and the composition of the U.S. Delegation and procedural arrangements, taking into account the responsibilities and interests of the Departments of State, Defense, Interior and Justice. All U.S. Government agencies and departments will provide you necessary assistance in seeing these negotiations carried to fruition.

-- You will make recommendations on the negotiations directly to the President through the Office of the Assistant to the President for National Security Affairs and conduct the negotiations on behalf of the U.S. Government.

-- You will consult directly as necessary with the Congress on political status matters in coordination with the Under Secretaries

* The bracketed provisions were included in the President's instructions of August 1, 1972 and were inadvertently omitted from this draft instruction.



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Committee and keep appropriate committees and members of the U.S. Congress informed of significant developments in the negotiations.

-- You will coordinate with the Departments of State, Interior, Justice and Defense and will report back to them, as well as to the President, the progress of the negotiations. You will be administratively supported by the Department of Interior and draw on other agencies and departments as necessary for staff. In effect, you will work more closely with Interior than with the other departments, through their interests will also be protected.

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MEMORANDUM FOR

THE CHAIRMAN,
 UNDER SECRETARIES COMMITTEE

SUBJECT: Review of U.S. Policy on Micronesia's
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The NSC Under Secretaries Committee should undertake a review of U.S. policy toward the future status of Micronesia, including the negotiating instructions to the President's Personal Representative for Micronesian Status Negotiations. The study should exclude the Northern Marianas district.

The review of the negotiating instructions to Ambassador F. Haydn Williams should be made in light of developments since promulgation of the current instructions on November 14, 1973. The study should develop options for U.S. policy which address the needs and concerns of the nations' populations as well as preserving U.S. security interests.

The review should take into account:

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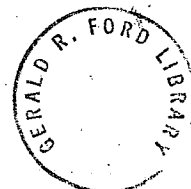
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-- Experience of other Pacific Island entities such as the Cooks and Western Samoa.

-- U.S. Congressional and public attitudes.

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The study should present a range of options for our negotiating strategy and appropriate recommendations for the President's consideration. The review should be completed and forwarded to the Assistant to the President for National Security Affairs by March 1, 1976.

Brent Scowcroft

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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The review should take into account:

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-- U. S. Congressional and public attitudes.

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Brent Scowcroft

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WASHINGTON, D.C. 20506

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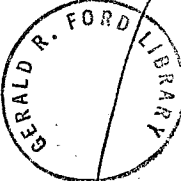
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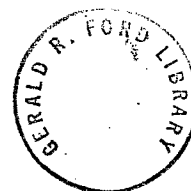


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Assistant to the President for National Security Affairs

Brent Scowcroft



THE WHITE HOUSE
WASHINGTON

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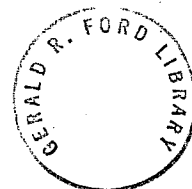
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Brent Scowcroft

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THE WHITE HOUSE

WASHINGTON

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ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: BRENT SCOWCROFT

SUBJECT: Review of U.S. Policy on Micronesia's Future Status

Your Personal Representative for Micronesian Status Negotiations, Ambassador F. Haydn Williams, wrote a letter (Tab B) to you on December 10, 1975. The letter recommended a full review of our policy on the future status of Micronesia (excluding the Northern Marianas district). The Ambassador recommended that the review reconsider U.S. basic objectives in Micronesia and submit an updated policy paper with recommendations for your consideration.

I believe such a review would be timely. Micronesians outside of the Northern Marianas have recently made clear that they are not amenable to a free association arrangement that would meet the terms of Ambassador Williams' present negotiating instructions. These instructions, dated November 14, 1973 (Tab C), include among primary U.S. objectives denial of the area for military use by third parties; establishment of U.S. authority over all matters that relate to the foreign and defense affairs of Micronesia; and obtaining U.S. rights to land for military training areas and future bases.

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At the same time, there seems to be rethinking in DOD and elsewhere that with the expected permanent association of the Northern Marianas with the United States, an independence option for the other districts, including a treaty arrangement with the United States, would sufficiently protect our strategic interests. The strategic relevance of the Northern Marianas to our unfettered use of Guam as a military base was the main concern of our military planners.

Our goal, therefore, should be to try to complete the ratification process of the Covenant with the Northern Marianas. Opposition to the Covenant has arisen in the Senate Armed Services and Foreign Relations Committee. There is a possibility some Senators will push an amendment that will delay ratification of the Covenant until we conclude a status agreement with the other districts of Micronesia.

We should move ahead with our review of our policy toward these other districts regardless of what the Senate action should be. Showing that we are prepared to offer or even encourage an independence option for these other districts should facilitate approval of the Covenant both in the Congress as well as later in the United Nations.

RECOMMENDATION:

That you authorize me to issue, in your name, the memorandum at Tab A directing the NSC Under Secretaries Committee Inter-Agency Working Group for Micronesia to undertake a review of U. S. policy on the future status of Micronesia. The study is to exclude the Northern Marianas district unless the Congress acts unfavorably on the Covenant.

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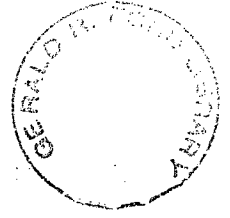
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VIII. CONCLUSIONS AND RECOMMENDATIONS

1. The nature of events since the issuance of the current Presidential instructions regarding the future political status of Micronesia, the Carolines and the Marshalls, leads to the conclusion that several revisions to current instructions are required if the negotiations are to be concluded in a reasonable period of time. These are detailed in the attachment to this section of the study.
2. The basic interests and objectives of the U.S. in Micronesia remain generally as set forth in the previous 1973 study. Although the accession of the Northern Marianas to the U.S. is now assured, the importance of the military facilities in the Marshalls and the potential utility of land in the Palau District have not diminished. Moreover, the crucial importance of these islands and of their denial to the military forces of unfriendly nations has been highlighted by the President's recent re-affirmation of a continuing major U.S. role in the Western Pacific--the Pacific Doctrine.
3. It is evident that other Pacific powers are sensitive to U.S. policies regarding Micronesia, as an indication of U.S. intentions and future strategy in the Western Pacific and of whether these islands merit serious consideration as investment opportunities. Also, since Micronesia is the last U.N. Trusteeship, there will be increasing international interest in the United Nations and pressures for prompt termination on terms consistent with U.N. enunciated principles on decolonization, many of which the U.S. supports.
4. The Micronesian leaders have yet to reach a consensus regarding the precise nature of the future relationship. Some support the draft Constitution and insist that the status agreement conform to it; others seek to conclude separate agreements with the U.S. in the belief that Micronesian

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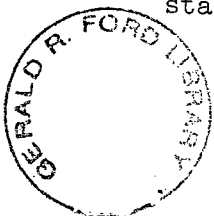
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political unity either is chimerical or would be disadvantageous to their constituencies. There persists an underlying concern in some circles that the U.S. will take advantage of the inherent Micronesian weaknesses, political as well as economic, by forcing a status agreement and terminating the Trusteeship before they are prepared to assume the full responsibilities of government. Recent statements by some Micronesian leaders calling for postponement of the constitutional referendum and deferral of the 1980-81 target date for termination of the Trusteeship, plus the reorganization of the COM's Status Commission, may portend the adoption of a deliberate strategy of delay in future negotiations. Despite these uncertainties, it is clear that the leaders of the Carolines and the Marshalls are sharply divided on the basic issue of future political status and that this militates against an early agreement and feeds the fires of political fragmentation. In this respect, it is probably fair to say that the status quo is obviously less threatening to the Micronesians than any of the several status options which might be acceptable to the U.S.

5. The IAG believes that given the lack of real political unity in Micronesia and the uncertainties regarding the strength and stability of any future government of Micronesia, the independence option is least likely to protect fundamental U.S. security interests. Although the basis of authority under Free Association, based on the draft Compact, would give the U.S. greater freedom of action in the areas of foreign and defense affairs than would an independence option, the same uncertainties regarding political unity and stability apply, although in lesser degree, to free association. Free

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association would also be more expensive to the U.S. A Commonwealth option would clearly minimize and perhaps totally eliminate any security apprehensions but would be much more costly than the other two options.

6. There is evidence that the Micronesians favor independence as defined by their draft Constitution and within the context of a treaty relationship with the U.S. It should be made clear to the new Micronesian status commission at the first appropriate opportunity that the full range of options should be discussed. State and Interior believe that the President's Personal Representative should be instructed to indicate to the Micronesians, at his first formal meeting with their new Status Commission, that the U.S. is prepared to offer them the independence option.*

**State sees great merit in the issuance by the President's Personal Representative as soon as his consultations with Congress have been completed of a public statement of the U.S. position, which would be intended to set forth U.S. intentions clearly and comprehensively and to signal a clear U.S. determination to return to active and conclusive negotiations.*

This statement would be widely disseminated. It might, for example, be sent to all members of the Congress of Micronesia and to the principal traditional and other leaders of each district. It could be made publicly available at each district office and would be furnished to the newspapers of the Trust Territory and Guam. It would be provided to the United Nations Trusteeship Council, if possible at its yearly session early this summer.

The pronouncement would state that the U.S. is anxious to explore current Micronesian thinking on the political status question. It would declare that the U.S. aims to terminate the trusteeship by the end of 1981 and is prepared to offer the Marshalls and Carolines either free association or independence with a mutual security treaty relationship, and is also prepared to discuss any status alternative in which the Micronesian side expressed serious interest. It would assert that the U.S. Government strongly favors Micronesian unity, which it sees as of potential benefit to the people of all districts, and call on the districts to continue their efforts to create a mutually satisfactory political framework for post-Termination unity of a sort which all districts would perceive as in their benefit and hence be able to support.

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The pronouncement would note that from the U.S. side there appears to be potential problem areas in reconciling the draft Constitution to one or another possible future U.S.-Micronesian political relationship, and that the U.S. is prepared to discuss this subject when it resumed negotiations with the new Micronesian status commission. It would call for a resumption of U.S.-Micronesian negotiations within a month, and that the U.S. side hoped to complete the negotiations no later than the spring of 1977, and call on the districts to appoint their representatives to the new status commission expeditiously if they had not already done so.

The pronouncement would note that the High Commissioner tentatively intended to call the referendum on the draft Constitution in the summer of 1977, but that it might be necessary first to call a political status plebiscite, in order that the Micronesian people's act of self-determination be made before they attempted to determine what sort of Constitution was most appropriate to their chosen future political status.

State believes that such a pronouncement would bring the U.S. important advantages:

1. It would almost certainly make the U.S. side's task in the negotiations easier and enhance the prospects for a unified Micronesia in free association with the United States, since it would compel the Micronesian negotiators to face their situation more realistically and thus diminish the likelihood that they would resort to tactics of delay, indefinitely escalating financial demands, and adamant insistence on separate status talks. Basically the pronouncement would achieve these desirable results by leading rather quickly to a negotiating situation where free association would be on the table with a financial assistance package of about \$60 million annually, and independence would be openly on the table at about \$30 million.

State understands and to a degree shares Defense's apprehensions about the possible instability of an independent Micronesia. However, State (a) sees a high probability that, if the Micronesians are able to reach agreement on any unified Marshalls-Carolines termination arrangements at all, then their choice will be free association, both because of the substantially more generous financial assistance entailed in that arrangement and because of a genuine sense of economic and other weakness and of psychological dependency; and (b) if what State sees as the far lesser likelihood should occur and the Micronesians--who almost universally are sharply aware that they have a standard of living not sustainable off their own economy--choose independence notwithstanding its severe financial disadvantage to them, then in State's view this would constitute strong evidence that the Micronesian commitment to free association (supposing that U.S.-Micronesian agreement on free association had been reached without full discussion of the independence option) would have been so shallow

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that there would have been a high probability that the new Micronesian government would have found it politically necessary to repudiate free association soon after the termination of the Trusteeship.

2. Such a pronouncement would also help the U.S. side should the negotiations of the next months fail and political fragmentation become inevitable. In that case the Executive Branch would be able to tell the Congress and the U.N. honestly that the U.S. had made a strong effort to preserve Micronesian unity but that the Micronesians themselves, exercising their right to self-determination, had rejected political unity. From several angles, the U.S. Government would then be in a much better position to--for example-- offer the Marshallese commonwealth status, if it decided that was the best U.S. interest, than if it had not first taken the above-described public position.

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However, actual negotiation of an independence option should be undertaken only if there is a clear indication that the Commission desires to pursue this option. Similarly, the IAG believes that the President's Personal Representative should not indicate that the U.S. is prepared to negotiate the commonwealth option unless the new status commission evidences interest in this alternative.

7. In view of a number of unknowns and the serious divisions with the Micronesian leadership the President's Personal Representative must have the flexibility to make judgments regarding which option might be acceptable or feasible for negotiation and the order of presentation within the limits of his revised instructions.
8. The financial arrangements would be as detailed in the Finance section of this study.
9. It is recommended that no new option or proposal be represented as acceptable to the U.S. until after appropriate consultations with key Congressional leaders and Committees.
10. The U.S. should resume the negotiations at the earliest practicable time.
11. At his discretion, the President's Personal Representative should be authorized to advise the Micronesian leaders that the U.S. is prepared to present status options directly to the people in a plebiscite, if the Micronesian leaders refuse to negotiate on any basis other than the unmodified draft Constitution or if the negotiations have not produced agreement within a reasonable period of time, e.g., Spring of 1977. We

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should reaffirm our intention to terminate the Trusteeship no later than the end of 1981. The Department of the Interior further believes that such a plebiscite must consult the peoples of Micronesia specifically as to both political status options and unity by allowing for individual district preferences.

12. On the question of political unity, the President's Personal Representative should seek to reinforce current U.S. policy favoring the political union of the Carolines and the Marshalls, but without forcing unity upon Micronesia. He should refuse to entertain any requests for separate negotiations prior to receiving further guidance and, in the interim, avoid any United States commitment to guarantee the political unity of Micronesia after Trusteeship termination.

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INSTRUCTIONS FOR THE PRESIDENT'S PERSONAL REPRESENTATIVE
FOR MICRONESIAN STATUS NEGOTIATIONS

1. General

You are hereby given the responsibility and the authority for conducting on behalf of the United States Government negotiations with the duly appointed representatives of the Marshall and Caroline Islands with the objective of reaching an agreement as soon as possible which satisfies the following basic U.S. objectives.

PRIMARY OBJECTIVES

An agreement which will establish a post-Trusteeship political relationship with Micronesia in a manner which will fulfill our international obligations and which will protect and further U.S. political and strategic interests through the accomplishment of the following:

- The establishment of a stable, self-governing and progressively more self-sufficient political entity embracing all of the Carolines and Marshalls by satisfying the legitimate political and reasonable economic aspirations of the people.
- The establishment of a sound basis for a close, friendly and enduring special relationship between the future government and people of Micronesia and the United States.
- Access to Micronesian land, water and air space through a continuation of current land use arrangements and provisions for the negotiation of additional land use agreements as may be needed to meet future U.S. defense requirements.
- Continued denial of the area to the military forces of third countries.
- Protection of U.S. access and denial rights in the event of termination of any future political relationship through a pre-negotiated arrange-

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ment or arrangements.

- Satisfaction of U.S. obligations relating to termination of the Trusteeship Agreement.

SECONDARY OBJECTIVES

- To keep U.S. financial obligations to Micronesia within reasonable limits and appropriate to the character of the future relationship.
- To limit future U.S. responsibilities for Micronesian affairs including administrative and other responsibilities, to those required to achieve primary U.S. objectives.
- To preserve a Micronesian vested interest in maintaining a special political relationship with the U.S. through, for example, the provision of U.S. support or services as appropriate.

2. Future Status Options

Negotiations leading to any of the following acceptable options must satisfy at a minimum those objectives relating to U.S. security interests-- e.g., access and denial and the guaranteed survivability of such rights in the event of changes in the future U.S.-Micronesian relationship.

Commonwealth: You are authorized to offer a Commonwealth relationship along the lines of the Northern Marianas Commonwealth Covenant if you believe that such a status would be preferred by the people of both the Marshalls and the Carolines, and if prior consultation with the Congress indicates that such a course of action would have a good chance of approval by the Senate and House.

Free Association: You are authorized to pursue further this alternative on the basis of the text of the October 1974 draft Compact of Free Association. Modifications may be made to meet some of the Micronesian objections so long as the U.S. retains basic authority over and responsibility

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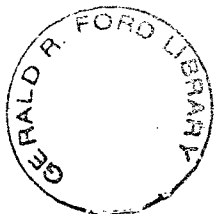
for foreign affairs and defense matters. U.S. agreement on a free association compact must be based on the principle that it will be the instrument which governs the future United States-Micronesian relationship and that the future Constitution of Micronesia cannot be in conflict with the Compact. An updating of previous Congressional briefings would also be required.

Independence: You are authorized to offer an independence option on the basis of a pre-negotiated mutual security treaty which incorporates the substance of applicable provisions found in Title III and Annex B of the draft Compact of Free Association, provided that the treaty be with a single political entity for all of the Carolines and Marshalls and that the duration of the treaty be no less than 50 years. Under this option a sovereign Micronesia will have authority over its foreign and defense affairs, elements of which would be delegated under the treaty. The treaty should contain provision for survivability of U.S. base rights in the event of political fragmentation of the Micronesian political entity. Prior to the offer of this option there must be consultation with Congress to determine current Congressional attitudes toward independence. However, actual negotiation of an independence option should be undertaken only if there is a clear indication that the Micronesians desire to pursue this option.

3. Unity.

You should strive to reach a single future status agreement for all of the districts of the Carolines and the Marshalls while avoiding any U.S. commitment to guarantee the political unity of Micronesia in the post-Trusteeship period. In the event a common future political status for all of Micronesia becomes impossible and before any commitment is made for separate negotiations with any district you should seek further instructions

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from the President.

4. Timetable

You are authorized to inform the Micronesians that as set forth two years ago at Carmel the U.S. intends to terminate the Trusteeship by the end of 1981.

You are authorized to negotiate simultaneously more than one of the above options with the representatives of the Carolines and the Marshalls.

At your discretion you are authorized to advise the Micronesian leaders that the U.S. is prepared to present status options directly to the people in a plebiscite if the Micronesian leaders refuse to negotiate on any basis other than the unmodified draft constitution or if the negotiations have not produced agreement within a reasonable period of time, e.g., Spring 1977. In such a case you should seek further guidance regarding the nature and timing of the plebiscite.

5. Finance

- The maximum dollar levels, which includes federal programs and services and payments for military lands identified in these instructions, to be offered for a Free Association relationship will remain as authorized by the instructions to the President's Personal Representative of March 29, 1974, except that the sums will not be expressed in constant dollars.

- The maximum dollar level to be offered under an independence option and as an integral part of a pre-negotiated treaty of 50 years duration, will be \$30 million annually for each of the first 15 years, after which the level of aid would be reexamined. This dollar level will include the costs for leasing lands specifically required for defense purposes.

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- The maximum dollar level to be offered under Commonwealth would be equal to that provided for by the Marianas Commonwealth Covenant on a per capita basis. In addition, the Commonwealth option would include as full a range of federal programs and services as would operate under the Northern Marianas Covenant.

- You are authorized to commit the U.S. Government to provide up to \$25 million for one-time costs of moving the capital of Micronesia, with up to an additional \$10 million above that figure being provided on a matching basis of two U.S. dollars for every dollar provided by Micronesia.

- You should make it clear that all financial provisions under any of these options are subject to the approval of the U.S. Congress.

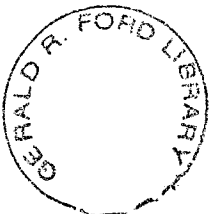
6. Land

The minimum U.S. land needs in Micronesia to be protected by any one of the three authorized options include: (1) all of those lands currently covered by lease agreements in the Marshalls; (2) continuing rights to occasional or emergency use of all harbors, waters and airfields throughout Micronesia; and (3) continuing rights to use existing Coast Guard facilities.

To meet current U.S. defense land needs any agreement negotiated should include a commitment to negotiate in good faith for those land options in Palau outlined in Annex B of the draft Compact. An effort should be made to assure that future land requirements will be met in accordance with the provisions dealing with future land requirements similar to those contained in Section 303(c) of the draft Compact.

In the negotiations on land you should continue to maintain the position that following Micronesia's change of status, the new Government of Micronesia, including its political subdivisions, must honor current leases

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for land utilized by the United States. The language of paragraph 303(e) of the draft Compact reflects the U.S. position in this regard. Should the renegotiation of current leases become critical to the successful conclusion of the negotiations, however, you may in close consultation with the Departments of Defense and Interior agree to renegotiations on terms which would not unduly distort Micronesian land values or result in the U.S. paying grossly inflated sums.

You should continue to resist the imposition of any restrictions on U.S. military uses of land on which it obtains leases. Paragraphs 303(a) and 303(d) of the draft Compact reflect the U.S. position on this matter.

7. Terms of Reference

The President has specifically approved the following as your Terms of Reference:

-- You are authorized to conduct the negotiations on behalf of the U.S. Government. Your authority derives from the President's approval of these instructions, these terms of reference, and any subsequent guidance from the President. Within these Presidential guidelines, your authority will include responsibility for determining negotiating strategy and tactics, the composition of the U.S. Delegation, and all procedural arrangements, taking into account the responsibilities and interests of the Departments of State, Defense, Justice and Interior and other agencies to the extent their responsibilities and interests are affected.

-- You will make recommendations on the negotiations directly to the President through the Office of the Assistant to the President for National Security Affairs.



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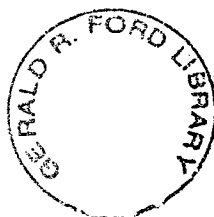
-- You will consult directly as necessary with the Congress on political status matters in coordination with the NSC Under Secretaries Committee and keep appropriate committees and members of the U.S. Congress informed of significant developments in the negotiations.

-- You will carry out the above responsibilities in coordination with the Departments of State, Defense, Justice and Interior and other involved agencies and will report back to them, as well as to the President, the progress of the negotiations.

-- You will be administratively supported by the Department of the Interior and draw upon other agencies and Departments as necessary for staff. In effect, you will work more closely with Interior than with the other departments, because of its on-going Administrative responsibilities for the Trust Territory of the Pacific Islands.

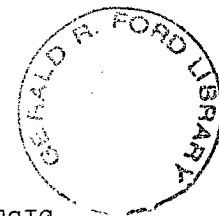
-- All U.S. Government agencies and departments will provide you and the Office for Micronesian Status Negotiations necessary assistance in seeing these negotiations carried to fruition.

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ANNEX A

DEPARTMENT OF DEFENSE STATEMENT RE UNITED STATES STRATEGIC INTERESTS

The United States has long-range strategic interests in Micronesia, notwithstanding present irritants in U.S.-Micronesian relations and a situation elsewhere in Asia which appears to be relatively stable. We must look beyond the present, because there is no other way to prepare a Pacific defense posture which will serve our interests in the 1980's and beyond.

U.S. objectives in the Trust Territory are influenced strongly by the uncertainties we face in Asia, where the security interests of four great powers (U.S., PRC, USSR, AND Japan) intersect. The Soviet Union and the People's Republic of China have decided to face their future uncertainties from a position of military strength. We can hardly afford to do otherwise. As the President has stated, "An equilibrium of military power in the Pacific is absolutely essential to the United States... American strength will remain basic to any stable balance of power in the Pacific."

The manner in which we approach termination of the Trusteeship Agreement will be watched closely by Japan, our most important ally in Asia and a nation that depends heavily upon the U.S. security umbrella. Recently, the Japanese have expressed concern that a divisive Micronesia may emerge in the not-too-distant future, as opposed to a coherent, non-hostile entity which we and they hope for. They believe that a solution to the Micronesian dilemma will be unlikely without a firm lead by the United States Government. Thus, what we do in Micronesia cannot be viewed apart from our interest in a close relationship with Japan and the role they expect of us in the

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political status negotiations which lie ahead.

Other factors to consider in this assessment of long-range U.S. interests and objectives in Micronesia are the changing pattern of U.S. trade and the maritime balance.

Total American imports topped the \$100 billion mark in 1975, over four times the Soviet figures. Moreover, our trade with East Asia is now increasing by more than 30 percent annually, reaching \$46 billion last year. No less than 98 percent of world trade by volume moves by sea today, and this will be the case for the indefinite future. From a strategic materials point of view, the United States has moved from a "have" to "have not" status in a very few years.

At the same time, there has been a dramatic change in the maritime balance, brought about by a decline in the number of U.S. naval combatants since World War II and a heavy concentration on shipbuilding by the Soviet Union following the Cuban Missile Crisis of 1962. The United States had 1,098 naval combatants in commission and 385 under construction at the outset of World War II. Today, the numbers are 483 and 54 respectively. Since 1962, the Soviets have built a total of 1,323 ships of all classes compared with 302 for the U.S. In general, Soviet designs emphasize light weight, high maneuverability and great offensive firepower--all characteristics of a fleet intended to deny control of the seas.

These factors--our growing interest in trade with Asia, the growth of Soviet maritime power, the capability of the Soviet Pacific Fleet to interdict our lines of communication, and the smaller number of U.S. naval combatants available to control the seas--all argue strongly for the retention of rights we currently have to establish bases and station forces in Micronesia. In many respects, the case is stronger today than it was at the end

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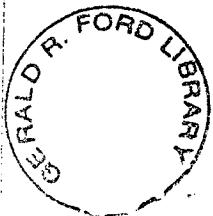
of World War II when the United States insisted upon a strategic trusteeship agreement.

Equally important, all of Micronesia must have the authority to deny to the armed forces of third countries--most particularly the Soviet Union. We must be especially concerned about Soviet efforts to establish political and military footholds in various parts of the world and the situation in Micronesia at the outset of any hostilities initiated by the Soviet Union in Europe, Asia or elsewhere.

Defense Requirements

1. Kwajalein Missile Range. Between 1965 and 1975, Soviet strategic offensive forces increased from 224 to 1,600 ICMB's from 29 to 730 SLBM's, and from 450 to 2,500 strategic warheads and bombs. Qualitative improvements continue, such as, the development of four new ICBM's, the production of a new generation of ballistic missile submarines, accuracy improvements which give their ICBM's a significantly reduced circular error of probability, large MIRV's with high-yield warheads, and the development of a mobile IRBM. Virtually all testing is accomplished within the vast open expanses of the Soviet Union. On the American side, the Kwajalein Missile Range remains essential for the development, operational test, and evaluation of ballistic missile defense programs, including staying abreast of technological developments as permitted by the SALT agreements. It is the only area under American control where both offense and defensive strategic missile weapon systems can be tested, exercised in a realistic environment, and recovered. The U.S. Government and defense contractors have invested \$750 million in this installation. The rapid rate of Soviet strategic force modernization and the vital interests we have in an effective deterrent require unrestricted U.S. control over the facilities at Kwajalein Missile Range, under arrange-

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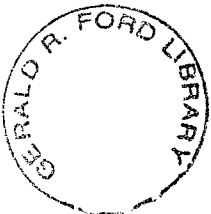
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ments which will leave no doubt about the firmness of our position or the length of our tenure there.

2. Micronesian Land Options. A favorable equilibrium of power in the East Asia and Pacific Region will continue to depend on the forward deployment of our forces from the United States and a supporting base structure--either the essential elements of what we have today or a new base structure which might require many years to develop. Today, our forward deployments and our ability to respond to contingencies are heavily dependent upon bases and stockpiles located in Korea, Japan, the Philippines, Taiwan and Thailand. From a long-range perspective, it would be dangerous to assume that we are going to maintain all of these foreign bases, with the same rights we have today. In all of these countries, there are trends which seem likely to reduce the number of bases available to support our forward deployments during peacetime and the flexibility to support contingency operations from these bases. This problem cannot be dismissed with the simple statement "no bases--no commitment" because the loss of base and operating rights is apt to evolve gradually over a period of 10 to 15 years; the United States may not desire to place its relations with the host country on the line in each instance; and our need for the type of support provided by these bases usually goes beyond defense of the host country.

(a) Korea. While no one can predict when our forces might be withdrawn from the Korean Peninsula, without destabilizing the military balance, it is generally agreed that they will not remain there forever. Conceivably the ROK force improvement program and the international situation could permit substantial withdrawals over the next 5, 10 or 15 years. Concurrently, it would be necessary to relocate some of our contingency

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stockpiles and some of the facilities which currently support U.S. forces deployed to Northeast Asia. The long-range disposition of our ground and tactical air forces is an unresolved issue. Yet, these forces contribute significantly to the equilibrium of power in Asia.

(b) Japan. It is unlikely that the United States will be able to significantly expand its base areas or operating rights in Japan, while making changes elsewhere in Northeast Asia. In fact, trends point toward future base reductions as a result of population growth, urban expansion, community development, agricultural pursuits, and other pressures on land currently used for military purposes.

(c) Philippines. The U.S.-Republic of the Philippines Base Agreement currently is under renegotiation. A major objective of the GOP is to establish firm political control over the bases. While this may not affect our operating rights during the present period of peace, the long-term impact of GOP policy is far from clear. It could include growing pressure on the U.S. to make the bases available for joint military or joint civil-military use, future requests to release military land, and, under contingency situations, a refusal to support certain combat operations. Moreover, should the domestic political situation in the Philippines take a turn for the worse, the United States may not want its posture in the Southwestern Pacific and Indian Ocean to be as dependent upon Clark and Subic as it is today.

(d) Taiwan. In accordance with terms mutually agreed upon by the U.S. and the PRC in the Shanghai Communique, the United States probably will continue to remove all military forces (combat and combat support) from the Republic of China.



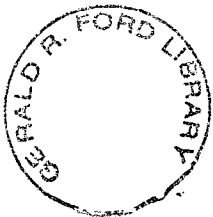
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(e) Thailand. U.S. force levels in Thailand, which peaked at about 48,000 in 1968-69 at the height of the Vietnam conflict, have declined over the past several years to about 3,000 at present. Concurrently, most major U.S. facilities have been closed or returned to the Thais. This is not a country where we can plan to maintain a significant military presence in the future or to support our forces at will. Quite to the contrary, political realities may require the future relocation of war reserve materiel now stockpiled in Thailand and, a complete phase-out of our military activities in that country.

None of the foregoing suggests that we are going to abandon or be forced to relinquish all of our foreign bases in the near future. Over the long terms, however, the flexibility and continuity of our defense posture in the region will depend increasingly upon Guam, the Northern Marianas and the rest of Micronesia and the firmness of our relations with the rest of Micronesia.

To some extent, the uncertainties we face in the Western Pacific are hedged by our based on Guam and the 18,182 acres of land which will be leased in the Northern Marianas. But, we will have to decide whether Tinian is to be used as a training area for elements of III MAF, as a major, multi-service operating base, or as a logistic support base consisting primarily of ammunition and petroleum storage sites. It is doubtful that we can do all three in any substantial way, given the criteria which apply to operations, safety, and environmental protection. Future options also will be influenced by Congressional action which may limit the amount of war reserve material which can be stored on foreign soil and the possible need to develop contingency stockpiles which are not earmarked in advance for any specific recipient. In short, we cannot expect the Guam-Tinian complex of support

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facilities and training areas to support all the requirements we may face in the future as a result of our security interests in East Asia, the various contingencies which might arise, the long-term consolidation and reduction of bases in Korea, Japan, the Philippines, Taiwan and Thailand, and the constraints Congress may place on our management of war reserve materiel. Together with the Marianas, Palau continues to be important as long-range limited alternative to bases elsewhere in the Western Pacific. The amount of land sought (a mere 2,040 acres) is small, but this is more a reflection of the scarcity of land on Palau than an assessment of what we might require over the next 10 or 20 years to support our ground, naval, and air forces in the Western Pacific and Indian Ocean areas.

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ANNEX B

POLITICAL FRAGMENTATION

One of the major issues confronting U.S. decision-makers in their review of current instructions is what policy the U.S. should pursue vis a vis the problem of political fragmentation among the remaining districts of the Trust Territory.

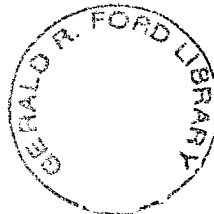
As indicated by the previous study political unity in Micronesia is a comparatively recent and shaky phenomenon. The ethnic, historical and cultural differences among the districts comprising the Carolines and the Marshalls are not insignificant.

The following comments by a politically astute Micronesian are particularly pertinent to this question: "Many people in Micronesia take for granted that Micronesia is united. On the surface, it may seem that way, but further down the pyramid of Micronesian history and culture, it is not. There are deep resentments and feelings of antagonism among the six major ethnic groups of Micronesia. The pride of one district comes first, it is almost always unacceptable by the other districts. There is very little national pride in Micronesia, and it exists mainly among the younger generation who went to school together first in Micronesia and later in schools outside of Micronesia..."^{1/}

The present situation is marked by contradictions--the success of the CONCON is an outstanding example of the ability of leaders with diverse backgrounds and interests to compromise differences for the sake of political unity. On the other hand, there are recent indications of growing discord.

^{1/} Carl Heine's paper "An Analysis of the Micronesian Dilemma" April 1973

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based on conflicting political views on status and the unwillingness to sacrifice for the "common good".

There is little doubt that the success of the Marianas initiative has had widespread effects in the other districts, despite U.S. references to the uniqueness of the Marianas case for a separate status agreement and our official statements favoring the continued unity of the Carolines and the Marshalls. It is likely, however, that despite our lack of responsiveness, leaders in both of these districts will press more vigorously for U.S. recognition of their right to negotiate separately with the U.S., citing the Marianas precedent, lack of general agreement between the districts regarding the status options or the structure of the new Federation, and the right of self-determination.

Recent evidence suggests that the proposed Constitution will be supported by only three of the five remaining districts--Yap, Truk and Ponape. Since the referendum will probably not be held until after Kusaie gains full status as a separate district, January, 1977, it is conceivable that a stand-off, 3-3, could occur, which would mean the Constitution could not take effect. This assumes that Kusaie will vote against the Constitution, unless it is amended to make it acceptable to the leadership in the Marshalls. It appears, however, that only a few Micronesian leaders favor amending the draft Constitution prior to the referendum.

Recent statements by certain Palauan leaders indicate that Palau will not be content to wait for the Constitutional referendum before petitioning for a separate status accord and early separation from the other districts, a la the Northern Mariana Islands. Senator Tmetuchl told Ambassador Williams in early March that Palau opposed the proposed Constitution and indicated

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their intention to press for a separate status arrangement with the U.S. This visit followed a petition to the Palau District Legislature from Palauan officials on Saipan, including their Congressional delegation, calling for Palau separatism. This petition is likely to receive favorable consideration in the Palau District Legislature during its next session this month, and could precipitate an early referendum on the Constitution in Palau unless the United States takes action to preclude such an event. Although such a referendum held only in Palau would not fulfill the requirement for a simultaneous referendum in all districts as specified in Trust Territory law.

The situation in the Marshalls is a bit less clear. The leaders there, particularly Amata Kabua, have not yet come out publicly against the Constitution nor have the Marshallese formally approached the U.S. for a separate status agreement. The Marshallese achieved their main objective in the CONCON a commitment to observe the 50% revenue sharing formula and a provision protecting the rights of the traditional leaders plus a strong declaration of basic rights which had been advocated by such "young turks" as Carl Heine.

However, there are indications that the Marshallese are preparing to request separate status talks and that their schedule might have been accelerated by Palauan initiatives and final U.S. approval of the Covenant with the Northern Mariana Islands.

U.S. Interests

Faced with strong Micronesian tendencies toward political fragmentation, the U.S. has potentially conflicting interests.

On the one hand, we would prefer not to abandon the policy favoring the political unity of the Marshalls and the Carolines. Also, there is consider-

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able merit in avoiding multiple status negotiations. In this regard, it would be far easier to win Congressional and U.N. approval for a unity solution than a fragmented one.

The U.S. strategic interest in denying Micronesia to the military forces of political adversaries would probably be more safely assured if there were one political entity than if there were several, in which the prospects of political instability might well multiply.

Fragmentation would potentially present the U.S. with a situation requiring the negotiation of several status agreements, including one with Truk, Ponape and Yap in which we have no military land requirements. We would be faced with the unenviable choice either of continuing indefinitely to give them substantial financial assistance or risking the chance of their falling under the influence of an unfriendly power.

Lastly, we have long asserted publicly that we favor Micronesian unity; to reverse that position too readily would open us to charges of bad faith--that with the Marianas safely split away, we then turned to disintegrating the rest of the Trust Territory.

On the other hand, Micronesia's centrifugal impulses are so strong that it is entirely possible--some would say highly probable--that even a determined U.S. effort on behalf of Micronesian unity will fail. In these circumstances, an unrealistic U.S. adherence to the cause of unity could carry important disadvantages:

-- During the brief tenure of a central government, it might be so weak vis a vis the district governments as to present the U.S. with difficult problems of what entity or entities possessed the authority to negotiate and assure U.S. basing and associated land rights in Kwajalein and Palau.

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-- Once fragmentation occurs, U.S. base rights in Kwajalein and Palau might be jeopardized.

As indicated in the section on land requirements, the importance of the facilities on Kwajalein argues for a close continuing political relationship with the people of the Marshalls.

Our military interests in Palau are of a different nature. The options we seek there would provide a valuable hedge against future uncertainties elsewhere in Asia, but are not sufficiently vital as to warrant a positive response to their requests for a separate political relationship along the lines of the Marianas Commonwealth Covenant.

The Policy Issue. The immediate policy question is what U.S. policy should be between now and the next 12-15 months. During this period, the choices before us are (1) should we continue our present practice of limiting our action on unity/fragmentation to occasional essentially pro forma statements of support of unity, or (2) should we pursue a more activist policy re unity, and if so what? The IAG's views on this matter are set forth in the Chapter on Conclusions and Recommendations.

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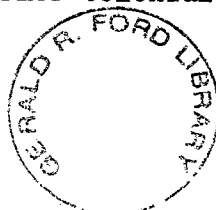
ANNEX C

South Pacific and West Indian Experience

An examination of the process by which former British, Australian, and New Zealand territories in the South Pacific and elsewhere have reached independence or semi-independence reveals certain common characteristics:

-- The principal impetus for change in the territories' political status came from the administering power. Following a decision in the metropolitan capital to increase self-governing or grant independence, the administering authority in consultation with the leaders of the governed territory established a phased timetable which progressively increased the degree of self-government. More often than not many of the leaders and people of the governed territory responded with confused protestations that the territory was unprepared and could not advance into self-government or independence as rapidly as the metropolitan government proposed. The metropolitan powers at times reacted by relaxing the schedule--for example, the Australians twice permitted Somare to put off the date of Papua New Guinean independence--but at the same time made it clear that the timetable was not being abandoned or substantially delayed.

-- In most of not all cases, a crucial element was the financial assistance of the metropolitan government both before and after the territory's attainment of independence or self-government. In the less economically viable territories, financial assistance has in general taken the form of regular subsidies to help meet the operating costs of the new governments. Less consistently, the former colonial powers have also granted project aid after independence.



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-- The retiring colonial powers have all wanted their former territories to be politically stable and unified after independence, but otherwise they have not had substantial political aims in the former territories. There has been no real parallel to the U.S. requirement that its security interests be protected in post-Trusteeship Micronesia. As a result, the administering powers in the South Pacific have in effect been free to establish unilaterally a self-government timetable and have not needed to engage in negotiations comparable in difficulty to the U.S.-Micronesian negotiations.

Specific comments following on Papua New Guinea, the largest and most populous newly-independent South Pacific nation and a former U.N. Trust Territory; Fiji, the next largest and most populous recently-independent South Pacific nation; the Cook Islands, of interest because their relationship with New Zealand is "free association"; certain West Indian islands, of interest because their relationship with the United Kingdom is that of "associated state"; and the British Cameroons because of the precedent for dividing a Trust Territory and offering separate political options reflecting traditional and cultural interests.

Papua New Guinea. Australian pressure for rapid PNG independence began in 1971. Certain government discussion pointed in this direction, and Gough Whitlam, as opposition leader, called for a timetable leading toward PNG independence which Papua New Guinean leaders protested was unrealistically rapid.

Whitlam became Australia's Prime Minister in 1972 and in the same year PNG elections resulted in the formation of a Ministry headed by Chief Minister Michael Somare, who pledged to lead the country to self-government and then to independence prior to the next scheduled elections in 1976. After two postponements, independence was achieved in September 1975.



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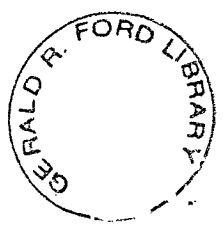
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New Guinea (in contrast to Papua) was a U.N. Trust Territory. Trusteeship termination was accomplished without significant hitch. The final Trusteeship Council report recommended that when PNG achieved independence, the General Assembly simultaneously recognize the independence of PNG and acknowledge that the Trusteeship had been terminated. The General Assembly did so.

Papua New Guinea is the only South Pacific nation facing separatist tendencies in some respects comparable to those in Micronesia. (Fiji's Fijian-Indian problems are different in nature and have not had any component of territorial separatism.) Prior to independence, the principal separatist group in this country of hundreds of different tribes, groups, islands, and languages was the Papua Besena, which advocated a politically separate Papua. They never attained serious proportions, however, because Somare, a highlander, "outclassed" them (in the words of an Australian Embassy official); because the Australians never countenanced them; and because Papua alone lacked financial credibility. Since independence, a separatist movement has arisen in Bougainville, site of the copper mine which is the only important source of PNG government revenue apart from Australian assistance. As of March 1976, Somare has indicated a willingness to make concessions designed to provide greater provincial governmental autonomy and possibly also a greater share of mine revenues, and the movement has quieted down at least for now.

Australia's massive financial aid to PNG continues in the independence period and is a central element permitting fiscal solvency and supporting political stability and unity. In March 1976 Prime Ministers Fraser and Somare jointly announced that Australia had agreed to provide PNG a minimum of \$1,158 million in financial assistance over the next five years. Aus-

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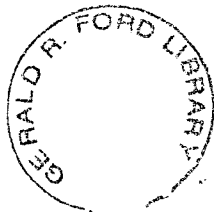
lian aid consists primarily of operational assistance rather than infrastructure or project aid. The political significance of this aid is suggested in Embassy Port Moresby's comment on the Fraser-Somare announcement: "Politically, the announcement strengthens considerably Somare and the coalition government. It should also serve as a reminder to separatists on Bougainville that ... the good will and interest of the Government of Australia provides far more to PNG than the mine revenues ever will."

Fiji. Although the Fijians initially did not want independence, the British in effect forced it on them, softening the psychological impact by giving public prominence to the fact that Queen Elizabeth would remain the head of state of both countries and that Fiji would be within the Commonwealth. In April 1970 a constitutional conference in London agreed that Fiji should become independent in October of that year, and Fiji did.

A key element in the independence equation was the handling of the Fijian-Indian question, ethnic Fijians comprising about 42% of the population and Indians 50%. The Constitution provides that of the 22 Senators, eight are nominated by the Council of Chiefs, seven by the Prime Minister, six by the Leader of the Opposition, and one by the Council of an outlying island peopled by Polynesians. The House of Representatives has 12 Fijians, 12 Indians, and three general members elected on national rolls. To date the government has been formed by the Alliance Party, which draws support from the ethnic Fijians, the European and Chinese Communities, and about 25% of the Indian community. The opposition National Federation Party gains almost all of its support from rural and urban working-class Indians.

Another major issue is land tenure. About 83% of the land is owned by ethnic Fijians and cannot be alienated. It is administered on behalf of the owning village groups by a land trust board which is an agency of the

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government.

Cook Islands. The Cooks have been internally self-governing since 1965. Their relationship with New Zealand is called "free association", and like the free association proposed in the U.S.-Micronesian draft Compact, this means that New Zealand controls Cooks foreign affairs and defense. Other aspects of the relationship are that New Zealand to a considerable extent controls Cooks finances, since the islands are largely dependent on the New Zealand annual subsidy and on additional grants. To carry out these responsibilities, New Zealand has a High Commissioner stationed in the Cooks capital, Rarotonga.

The Government of New Zealand is increasingly concerned at the scale of financial aid required by the Cooks. Aid apparently will continue indefinitely to be a necessity, notwithstanding that the Cooks economic problems are to a considerable extent eased by the free emigration of the islanders to the New Zealand job market. The 20,000 Cook Islanders, like the original inhabitants of New Zealand a Maori people, are New Zealand citizens owing allegiance to Queen Elizabeth.

West Indies. Five West Indian "associated states"--Antigua, Dominica, St. Lucia, St. Vincent, and St. Kitts-Nevis-Anguilla--are former British colonies which are now internally self-governing but rely on the UK for defense and foreign relations. The defense function consists of a touring frigate which is considered splendid duty in the Royal Navy. Any of the "associated states" can request independence (which the UK would be delighted to grant) at any time it can show popular support, which is understood to mean either a referendum result or a resounding general election victory where independence was a campaign issue. UK economic aid, technical assistance, and government budget subsidies continue.

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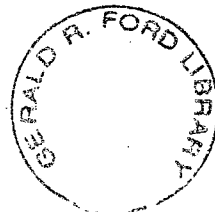
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British Cameroons

The German Cameroon Territory was divided at the end of WW I into separate trusteeships under British and French administration. The British portion of the territory was subsequently divided into two areas--northern and southern sections--reflecting differing traditional and political loyalties. Both sections were administered as a part of the adjacent British territory of Nigeria. In the late 1950's a U.N. Visiting Mission noted the cultural and traditional similarities between the people of Northern Cameroons and the people of Nigeria and recommended that separate plebiscites be held for the Northern and Southern Cameroons.

In 1959, the General Assembly recommended that separate U.N. supervised plebiscites be held in each area to decide the future of the Cameroons. The first plebiscite permitted the Northern Cameroons the option of going with Nigeria or continuing the trusteeship. After voting for the status quo, the Northern Cameroons were offered a second plebiscite in 1961 and voted to join with Nigeria. The Southern Cameroons voted in a separate plebiscite in 1961 to join with the Republic of the Cameroons, with which it had in pre-colonial times been an integral part and which in the trusteeship period had been under French administration.

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ANNEX D

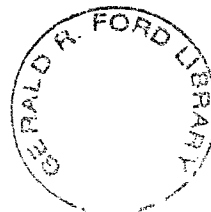
TRANSITION

The interest of the United States in the transition of the Trust Territory of the Pacific Islands from its present political status to a future negotiated status is in seeing that the political and economic components of the change invest the Micronesians with a positive residual attitude toward the United States. The policies which the United States should attempt to pursue in connection with the transition are those policies which will, in concert with Micronesian desires, effectuate a governmental and social infrastructure which can be managed within the means the Micronesians will have available and which will fulfill the development obligations undertaken by the United States in the Trusteeship Agreement.

These two aspects of transition have remained substantially the same from the United States point of view since 1973, when the previous study concerning Micronesia's future political status was transmitted to the President.

The three intervening years have, however, necessitated some changes in what can be defined as the program components of transition. The former study identified the major component of transition as the movement of the capital of Micronesia away from its Saipan setting to a new location of Micronesian choosing. The President's Personal Representative was authorized to commit up to \$25 million in direct U.S. aid to this project along with an additional \$10 million matched on a one for one basis with local contributions.

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New program components of transition have been identified since that time. The identification has been the result of private meetings between the President's Personal Representative and the Chairman of the Joint Committee on Future Status, the drafting of the Micronesian Constitution and, for the first time, a focused conviction on the part of the Congress of Micronesia that economic development should precede political development (self-government or independence). Other important transition policies have been identified and translated into programs as the result of concern by the U.S. Congress. Finally, new program components should be designed with a view toward completion by the end of 1981 when the Trusteeship Agreement is terminated.

The new program components are the following:

1. The putting in place of an infrastructure which will provide the basic services for an acceptable post-termination Micronesian standard of living. The cost to the United States was estimated at the Carmel Round of private talks as \$145 million spread over five years. This amount will be reduced somewhat starting in FY 1978 to reflect the budgetary separation of the Northern Mariana Islands.

2. The decentralization of the Trust Territory headquarters government. This proposal is the result of the Director of Territorial Affairs report to the Jackson Oversight Committee on the management of public programs in the TTPI. The concept of the proposal is to shift program management responsibility and capability to the district level. Certain functions of the Trust Territory Government will be relocated to districts where natural

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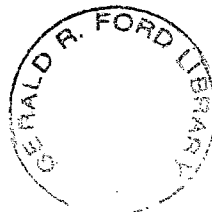
and human endowments are most suitable. The headquarters will be trimmed in size so that the Micronesians can assume most functions and responsibilities at the central level when the Trusteeship Agreement is terminated.

3. During the transition period U.S. policies regarding foreign-- particularly Japanese--investment in and development assistance to Micronesia should be tailored to create as beneficial a post-trusteeship environment as possible. However, appropriate adjustment of transition policies cannot be undertaken until it is determined which future political status is foreseen for Micronesia.

4. During the transition process, the U.S. will actively work to achieve a program of economic development in Micronesia which is designed to expand the private sector and increase the base for local revenue generation. Components of this include foreign and U.S. investment, identification of industrial potential and revised legal codes for zoning.

5. The Conclusions and Recommendations Chapter of this study recommends that the political status negotiations be resumed early and that, to the extent possible, the existence of the draft Constitution not be a consideration of the negotiations. Nevertheless, late in the negotiations and prior to the plebiscite, arrangements will have to be made with the Commission on Political Status and Transition for the amendment of the draft Constitution so that it is consistent with the political status alternative(s) which result from the negotiations. The political status plebiscite will occur in advance of the draft Constitution's revision or the constitutional referendum. At the present time, the proposed constitution is a draft and

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there are no contrary indications in the COM enabling legislation for the CONCON which would prevent the COM from calling another CONCON prior to the referendum. With regard to the timing of the referendum, the U.S., in consultation with the COM, should seek as late a date as possible, preferably in the last half of 1977 in order to give adequate time to the negotiation and status plebiscite process.

Since the new COM negotiating Commission does have responsibility to consider transition measures, the subject of transition should be made a part of the negotiations as fully as possible once their direction again becomes clear. The U.S., through the Department of the Interior, should then consider establishing a joint transition group which will, with the Micronesians, make recommendations as to (1) the implementation of a revised Micronesian Constitution prior to the termination of the Trusteeship; (2) changes in Trust Territory law and provision for the carry-over of same into the new Micronesian government; (3) adjustments in U.S. administration policy in light of a political status agreement (to include such matters as pre-termination budgets, expanded authority for the Congress of Micronesia, and foreign relations); and (4) provisions for the new capital of Micronesia if such action has not by that time taken place. In the latter connection, this study recommends that the authority of the President's Personal Representative to commit, subject to Congressional approval, the sum of \$25,000,000 to defray the construction costs of the new capital remain unchanged.



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ANNEX E

UNITED NATIONS ISSUES

The 1973 study's discussion of U.N. issues remains comprehensive and generally valid. However, the Trusteeship Council considerations have further evolved. While the Council may remain reluctant to participate in status definitions (especially of "free association"), it can be expected to be increasingly desirous of information with regard to United States Government-Trust Territory of the Pacific Islands political status negotiations, goals, and intent. The longer the Trust Territory of the Pacific Islands remains under Trusteeship Council scrutiny, the more the United States Government will need to "explain" its administration of the Trust Territory of the Pacific Islands, especially with regard to what the Council would in all likelihood increasingly tend to see as: a) excessive delay in effecting termination, and b) efforts to preempt or discourage the acceptability to Micronesians of an independence option. The United States Government is on record before the Trusteeship Council as a) favoring the unity of the Marshalls and Carolines; b) intending to seek termination of all of the Trust Territory of the Pacific Islands simultaneously; and c) intending to seek United Nations Trusteeship Council and Security Council approval for the termination of the Trusteeship Agreement.

Papua New Guinea has become independent since the 1973 study. Accordingly, it is now correct to say that in the ten previous cases of trusteeship termination, the administering authorities sought and received

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United Nations General Assembly approval before termination.

A fuller statement of the relevance of the Southwest Africa precedent to the Trust Territory of the Pacific Islands is that in its 1950 and 1962 opinions on the Southwest Africa case the International Court of Justice specifically decided that the South African Mandate over that territory had not lapsed just because one party said the conditions of the agreement were fulfilled. That position was reaffirmed by the ICJ in 1971, and the United States formally supported the Court's position in each case. If the United States Government were to unilaterally proclaim its obligations under the Trusteeship Agreement as fulfilled, and to assert that the Trusteeship Agreement was therefore terminated, then the United States Government would be in a similarly illegal position. The United States could expect appropriate international condemnation in addition to the continued scrutiny in the United Nations of the Trust Territory of the Pacific Islands as the last remaining Trust Territory on the agenda of the Trusteeship Council.

In all foreseeable cases the U.S. would be in a better political and legal position having sought Security Council approval of termination of the trusteeship even if we failed to obtain it. Accordingly, it is vital to avoid actions now which would preclude the possibility of seeking such approval.

Conclusions

Whether or not it will ultimately be possible to obtain U.N. Security Council approval of termination of the trusteeship, State believes that it

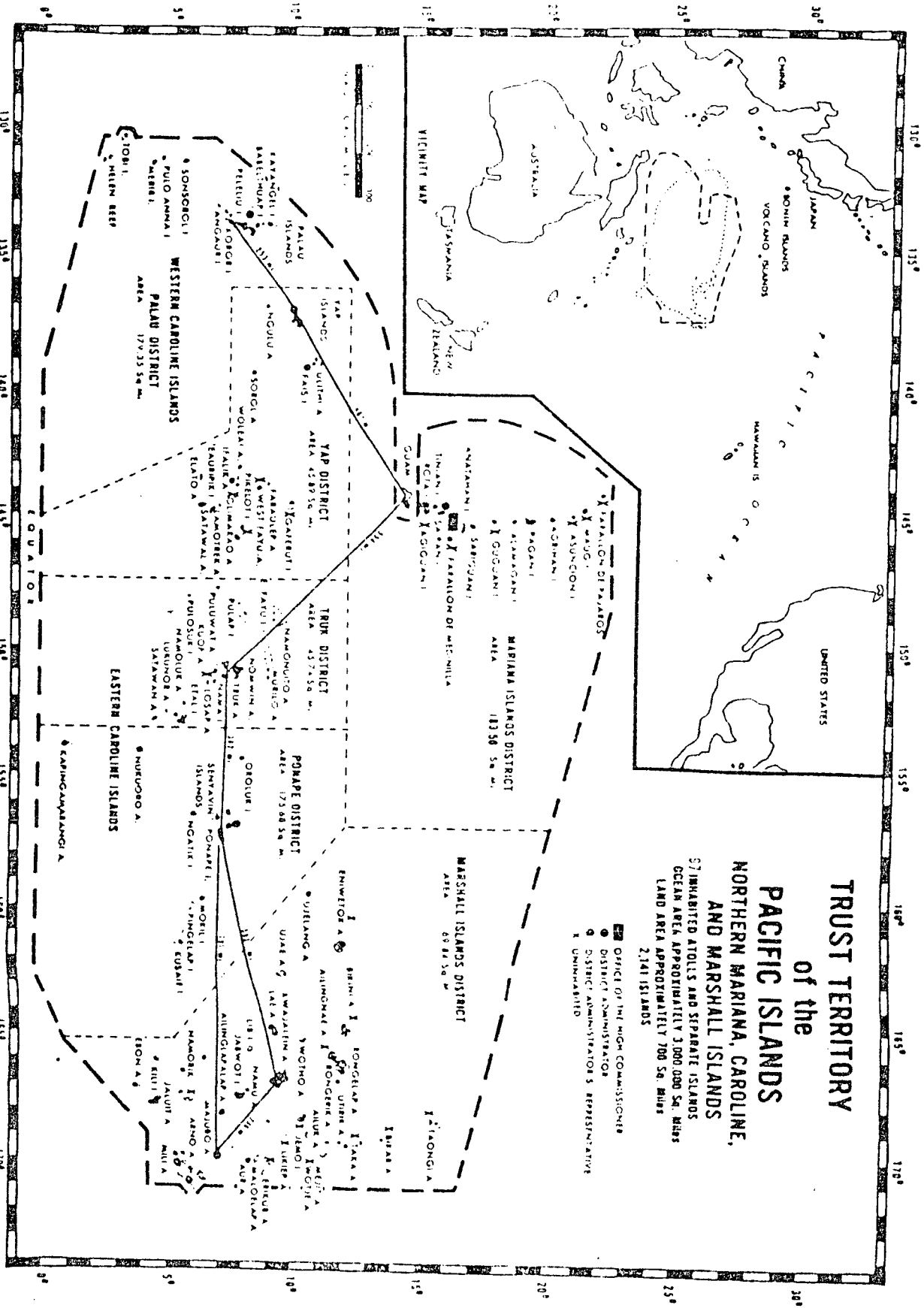
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ANNEXES





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THE WHITE HOUSE
WASHINGTON~~SECRET~~

July 10, 1974

MEMORANDUM FOR

Ambassador F. Haydn Williams
The President's Personal Representative for
Micronesian Status NegotiationsSUBJECT: 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, the United States would be willing to agree that the Compact could be terminated unilaterally, but only after a two-year waiting period, and then only if during that waiting period both parties had successfully concluded 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

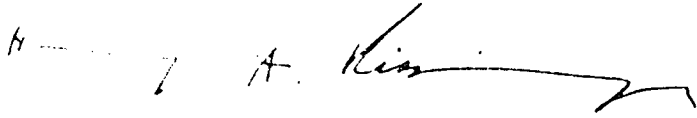
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during the last four years upon Micronesian approval of the Compact of Free Association. These amounts should be reviewed periodically to consider such adjustments as may be required by changes in the value of the U.S. dollar.



Henry A. Kissinger

- CC: The Secretary of the Treasury
- The Secretary of Defense
- The Secretary of the Interior
- The Deputy Secretary of State
- The Director, Office of Management and Budget

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THE WHITE HOUSE
WASHINGTON

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March 29, 1974

MEMORANDUM FOR

Ambassador F. Haydn Williams
The President's Representative for
Micronesian Status Negotiations
Department of Interior

SUBJECT:

Supplementary Instructions Concerning
Financial Arrangements with the Five
Districts of Micronesia

After reviewing the recommendations contained in your letter of January 25, 1974 and the Under Secretaries Committee memorandum of February 23, 1974, the President has decided on the following:

-- That the ceiling of \$50 million in annual financial assistance for the five districts of Micronesia authorized by the President's instructions of November 14, 1973 should be raised to \$60 million. This ceiling will include grants, loans, federal programs and services, and payments for military land, and will extend for up to 15 years. This financial assistance will be contingent upon continued Micronesian agreement to U. S. rights in foreign affairs and defense as presently specified in the Compact.

-- This financial assistance will be subject to reviews periodically and at the end of the 15 year period, with the objective of negotiating such adjustments as may be supportive of a continuing Free Association relationship. A second major objective of these reviews should be to make a gradual reduction in U. S. financial assistance to Micronesia, in order to help Micronesia reduce its financial dependence on the United States. The reviews should also consider such adjustments as may be required by changes in the value of the U. S. dollar.

-- You may commit the U. S. Government to provide up to \$25 million for one-time costs of moving the capital of Micronesia from

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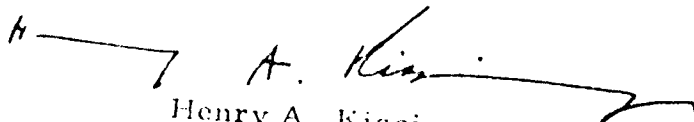
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Saipan to another district, subject to the approval of the U.S. Congress, with anything above that figure being provided on a matching basis of two U.S. dollars for every dollar provided by Micronesia and with an absolute U.S. ceiling of \$35 million.

-- You may commit the U.S. 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 Interior, to begin in FY '75, and to be subject to the approval of the U.S. Congress.


Henry A. Kissinger

- cc: The Secretary of the Treasury
- The Secretary of Defense
- The Secretary of the Interior
- The Deputy Secretary of State
- The Director, Office of Management and Budget

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THE WHITE HOUSE
WASHINGTON

November 14, 1973

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MEMORANDUM FOR:

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

SUBJECT:

Instructions for Micronesian Status
Negotiations

The President has approved the attached instructions for your continuing negotiations with the Micronesians.

With regard to the offer of an independence option, it is understood that your authority to offer such an option is discretionary, to be used only if tactically necessary.

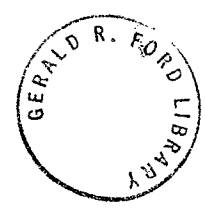
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Henry A. Kissinger
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Attachment

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~~SECRET~~Instructions for the President's Personal Representative1. General

You are authorized to continue on behalf of the U. S. Government negotiations with representatives of the Marshall and Caroline Islands with the objective of arriving as soon as possible at an agreement satisfying the following U. S. objectives:

Primary Objectives

The fashioning of a new political relationship with Micronesia permitting early termination of the trusteeship in a manner which will protect and serve U. S. strategic and political interests through the following elements:

- Denial of the area for military use by third parties.
- Establishment of a stable and friendly self-governing Micronesian political entity through reasonable satisfaction of the political and economic aspirations of its peoples.
- U. S. responsibility for and authority over all matters which relate to the foreign affairs of Micronesia and to defense in Micronesia.
- The right for the U. S. to maintain certain U. S. Government facilities and to obtain land options that will guarantee use of the training areas and the right to establish future bases in Micronesia.
- Satisfaction of U. S. obligations relating to termination of the Trusteeship Agreement.

Secondary Objectives

- To keep U. S. financial obligations to Micronesia within reasonable bounds and relevant to the character of the future relationship.
- To structure the status arrangements with Micronesia in such a manner as to have maximum favorable impact on the negotiations with the Mariana Islands District of the TTPI.
- To keep U. S. administrative and other relationships with Micronesia as simple as possible while accomplishing the above objectives.

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-- To establish a relationship with Micronesia which will (in addition to meeting U.S. obligations under the Trusteeship Agreement) obtain United Nations approval, or at least that of a majority of the Security Council and of the Trusteeship Council.

2. Status

Since a relationship of "free association" currently appears to be the status alternative best designed both to protect U.S. interests in the Western Pacific and to win broad Micronesian acceptance, you should make every effort to conclude with Micronesian negotiators at an early date a draft compact of free association and a related status of forces agreement, and to win their active support for the compact among the Micronesian people in a subsequent plebiscite. Such a compact should provide for Micronesian autonomy in local matters and U.S. responsibility for and authority over all matters which relate to the foreign affairs of Micronesia and to defense in Micronesia. You should seek as close a U.S. - Micronesian relationship as you think the Micronesians will accept in order to build up vested Micronesian interests in the association -- e.g., participation in federal domestic programs, access to the U.S. judicial system, and rights of U.S. nationality. If the Micronesian negotiators insist, you may agree to a unilateral termination clause in the compact, with the provisoes: (a) there will be, as part of the compact, pre-negotiated arrangements providing for denial and basing rights (to be described below) which will survive any termination of the free association relationship by 50 years; (b) there will be a moratorium period of 10 to 15 years before either party may give official notice of its intention to exercise the termination provision; and (c) the compact cannot be terminated until one year after either party has officially communicated its intention to terminate. If the Micronesian negotiators strenuously resist any of the foregoing provisoes and show no sign of yielding, you should seek further instructions, while making recommendations thereon.

You are authorized to re-submit to the Micronesian negotiators the earlier U.S. proposal for a modified commonwealth relationship if at any time you think it suits the U.S. interest to do so.

You are authorized to make an independence offer to Micronesia any time you consider it advisable. However, the proposal should provide for the retention of U.S. basing rights in the Kwajalein Atoll in the Marshall Islands for as long as the U.S. interest requires, and for the denial of access to Micronesia by third countries for military purposes.

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3. Land

The U.S. military and non-military land requirements should be satisfied by arrangements providing for long-term U.S. Government options to take effect as soon as possible. You should undertake whatever further negotiating efforts are required to confirm Micronesian acceptance of the land requirements already tentatively agreed to by the Joint Committee on Future Status set forth in Annex B of the partially completed draft compact of free association.

Any adjustments of U.S. land requirements must be coordinated with the concerned department or agency. Should it prove impossible to reach agreement on such adjustments with the department or agency concerned, or should it become apparent at any time that it will not be possible to satisfy through negotiations the general U.S. land requirements, you should seek further instructions.

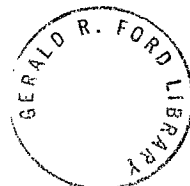
In the negotiations on land you should continue to maintain the position that following Micronesia's change of status, the new Government of Micronesia should honor current leases. The language of paragraph 303(e) of the partial draft compact reflects the U.S. position in this regard. Should the re-negotiation of current leases become critical to the successful conclusion of the negotiations on free association, however, you may, in close consultation with the Departments of Defense and Interior, undertake re-negotiation on terms which would not unduly distort Micronesian land values or result in the U.S. paying grossly inflated sums.

You should continue to resist the imposition of any restrictions on U.S. military uses of land on which it obtains leases. Paragraph 303(d) of the partial draft compact reflects the U.S. position on this matter.

4. Finance

You should, at your discretion, propose a level of U.S. financial support in the range of \$25-50 million annually, beginning in the lower end of this range and moving upward as necessary to obtain Micronesian acceptance of a free association relationship and agreement to U.S. land requirements. You are authorized to determine the proportion of funds to be in the form of program assistance. You should make it clear that any agreement you and the Micronesian negotiators reach

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on the level and nature of U.S. support are subject to approval by the U.S. Congress, and that none of these funds is to be construed as payment for military base rights.

Should it become apparent at any point in the negotiations that, except for Micronesian resistance to the maximum U.S. financial proposals, an otherwise satisfactory status agreement is in sight, you should seek further instructions.

You may commit the U.S. to assist financially in relocating the Micronesian capital and in meeting other one-time transitional costs you consider appropriate. Again, you should register the caveat that such commitments are subject to the authorization of funds by the U.S. Congress.

The question of the distribution among the Departments of the responsibility for funding U.S. financial support for Micronesia should be left open, and will be reviewed again at a later date.

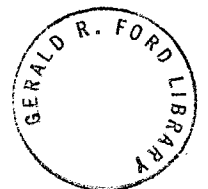
5. Terms of Reference

The President has specifically approved the following as your Terms of Reference:

-- Your negotiating authority is provided by the President's approval of the above positions, of these terms of reference, and of any subsequent negotiating instructions. Your negotiating authority will include tactics, and the composition of the U.S. Delegation and procedural arrangements, taking into account the responsibilities and interests of the Departments of State, Defense, Interior and Justice. All U.S. Government agencies and departments will provide you necessary assistance in seeing these negotiations carried to fruition.

-- You will make recommendations on the negotiations directly to the President through the Office of the Assistant to the President for National Security Affairs and conduct the negotiations on behalf of the U.S. Government.

-- You will consult directly as necessary with the Congress on political status matters in coordination with the Under Secretaries

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Committee and keep appropriate committees and members of the U.S. Congress informed of significant developments in the negotiations.

-- You will coordinate with the Departments of State, Interior, Justice and Defense and will report back to them, as well as to the President, the progress of the negotiations. You will be administratively supported by the Department of Interior and draw on other agencies and departments as necessary for staff. In effect, you will work more closely with Interior than with the other departments, through their interests will also be protected.

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PREAMBLE

THE UNITED STATES OF AMERICA AND THE PEOPLE OF MICRONESIA,
Recognizing that among the responsibilities of the United States as Administering Authority of the Trust Territory of the Pacific Islands is the obligation to promote the development of the people of Micronesia toward self-government or independence, in accordance with their freely-expressed wishes and as appropriate to the particular circumstances of Micronesia, and

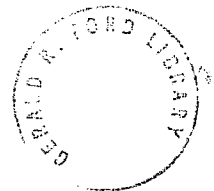
Recognizing their common interests in the development of a new political status for the people of Micronesia to replace the present Trusteeship,

NOW, THEREFORE, AGREE that the approval of this Compact of Free Association by the people of Micronesia, through an exercise of their sovereign right of self-determination, and by the Government of the United States, shall determine the respective rights and responsibilities of the Government of the United States and the Government of the Federated States of Micronesia, hereinafter known as the Government of Micronesia.

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TITLE I
Internal Affairs

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Section 101

The people of Micronesia have the sovereign and inherent right to adopt their own constitution and form of Government and to amend or change any such constitution or form of Government at any time provided that the Constitution and laws of Micronesia shall not infringe upon the responsibilities and rights vested in the Government of the United States and the Government of Micronesia and its States as a result of the approval of the Compact by the people of Micronesia, and by the Government of the United States.

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Section 102

The duly constituted Government of Micronesia shall have full responsibility for and authority over the internal affairs of Micronesia.

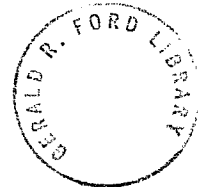
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Section 103

The people of Micronesia, in the exercise of their rights of self-determination, may in the event of termination of this Compact freely choose their own future political status in accordance with Title XI of this Compact.

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TITLE II
Foreign Affairs

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Section 201

(a) The Government of the United States shall have full responsibility for and authority over the foreign affairs of Micronesia.

(b) The Government of the United States and the Government of Micronesia shall consult at the request of either of them on matters of mutual concern relating to foreign affairs.

(c) Without derogating from its powers under this Title, the United States will respect the principle that the Government of Micronesia has full responsibility for and authority over the internal affairs of Micronesia.

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Section 202

The authority of the United States under Section 201 includes the right to apply to Micronesia any appropriate treaty or other international agreement to which the United States is a party provided, however, that no treaty or other international agreement, or provision thereof, which in its effect relates exclusively to Micronesia, or predominantly to Micronesia rather than to the United States, will be applied to Micronesia if the Government of Micronesia objects to such application.

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Section 203

In the exercise of its authority under Section 201, the Government of the United States undertakes the following responsibilities:

(a) The Government of the United States will extend consular assistance and diplomatic protection to citizens of Micronesia traveling outside of Micronesia and of the United States.

(b) The Government of the United States will give sympathetic consideration to applications by foreign countries for the establishment of Consulates in Micronesia, subject in each case to assurance from the Government of Micronesia that it would welcome the establishment of such a Consulate. The Government of the United States and the Government of Micronesia shall establish arrangements for the joint accreditation of foreign consular officers in Micronesia.

(c) The Government of the United States will facilitate Micronesian activity in the areas for which the Government of Micronesia may exercise responsibility under Annex A, which is an integral part of this Compact.

Section 204

In accordance with the terms of Annex A, the Government of Micronesia may undertake the activities specified therein.

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TITLE III

Defense

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Section 301

The Government of the United States shall have full responsibility for and authority over defense matters in Micronesia.

Section 302

(a) The defense responsibility and authority of the United States Government provided for in Section 301 include:

- (1) The defense of Micronesia, its people and territory, from attack or threats thereof;
- (2) The right to prevent third parties from using the territory of Micronesia for military purposes; and
- (3) The use of United States military bases which are established in Micronesia for the security of the United States, and to support its responsibilities for the maintenance of international peace and security.

(b) The Government of the United States may conduct the activities and operations within the lands, waters and airspace of Micronesia necessary for the exercise of its responsibility and authority under Section 302(a).

Section 303

(a) The Government of the United States shall have the exclusive right to establish, maintain and use military areas and facilities in Micronesia pursuant to Paragraphs (b), (c) and (d) of this Section, the unencumbered right to protect all United States military facilities

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in Micronesia, and full freedom of use and access to all facilities and areas used for the conduct of military activities.

(b) The Government of Micronesia, and its States and subdivisions thereof, shall assure the United States the rights and uses in the lands and waters specified in Paragraph I of Annex B, which is an integral part of this Compact.

(c) The Government of Micronesia, and its States and subdivisions thereof, shall establish suitable procedures to provide a prompt response to a request by the United States Government for those rights and uses specified in Paragraph II of Annex B, and the State or subdivision thereof directly concerned shall negotiate in good faith to achieve on reasonable terms an agreement for such rights and uses within one year after the effective date of this Compact.

(d) If in the exercise of its authority and responsibilities under this Title the United States Government requires the use of areas within Micronesia in addition to those specified in Annex B, requests may be made of the Government of Micronesia to satisfy these requirements. The Government of Micronesia and its States and subdivisions thereof, shall establish suitable procedures to provide a prompt response by the State or subdivision thereof directly concerned to any such request by the United States, and such State or subdivision thereof shall negotiate in good faith to achieve on reasonable terms an agreement for the use of such areas.

(e) The agreements for the lands and waters listed in Annex B shall conform with the provisions of this Compact and such agreements shall not

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contain any limitations on the use of such lands and waters which conflict with the basic authorities and responsibilities of the United States under Sections 301, 302 and 303 of this Title.

(f) The rights and uses specified in this Compact and in agreements existing upon the entry into force of this Compact, shall at the option of the United States extend in full force and effect for the period of this Compact, unless a particular agreement provides for a shorter or longer term. Whenever agreements are extended, the terms of such agreements relating to payments shall continue until agreement on new terms is reached.

Section 304

(a) No country other than the United States shall enjoy the right to conduct military activities or to establish and maintain military facilities and areas within the territory of Micronesia at any time, except as provided in Paragraph (b) of this section.

(b) The United States Government may invite military units of other countries acting in conjunction with and under control of United States forces to utilize such military facilities and areas.

(c) The rights accorded the United States in Paragraphs (a) and (b) may not be assigned to any other country.

Section 305

The legal status of United States military personnel, of United States citizen civilian employees, and of their dependents, while present in Micronesia, shall be established by mutual agreement between the Government of Micronesia and the Government of the United States. That jurisdictional agreement shall come into force simultaneously with the Compact.

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Section 306

Citizens of Micronesia who are otherwise qualified in accordance with United States law shall be eligible to volunteer for service in the Armed Forces of the United States, but shall not be subject to involuntary induction into military service unless they become permanent residents of the United States, as determined by United States law.

Section 307

The Government of the United States and the Government of Micronesia shall consult at any time requested by either of them on matters relating to defense. While not derogating from its full responsibility and authority in this area, the United States will to the extent possible without prejudice to its fulfillment of its defense responsibilities accommodate the expressed wishes of the Government of Micronesia.

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TITLE IV

Finance

Section 401

(a) The Government of the United States, in order to advance the economic and social welfare of the people of Micronesia and in recognition of the special relationship that has existed and continues to exist between the United States and Micronesia, agrees to provide on a grant basis to the Government of Micronesia and its States \$48 million annually for the first five years of this Compact, \$45 million annually for the next five years, and \$42 million annually for the next five years.

(b) Of the funds provided under Section 401(a), \$6 million annually will be allocated to the national Government of Micronesia to assist in providing common and essential services to the people of the States of Micronesia.

(c) The remainder of the funds provided under Section 401(a) will be allocated equitably to the States of Micronesia in accordance with the following formula:

These funds will be for the use of the State governments in support of government operations, capital improvements, and other programs within each State.

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Section 402

(a) The Government of the United States will also make available to the Government of Micronesia and its States financial assistance on a grant basis for a Micronesian Loan Fund to promote economic development throughout all of Micronesia in an annual amount of \$9 million for the first five years of this Compact, \$7 million for the next five years, and \$5 million for the next five years.

(b) Of these amounts one-half will be allocated equitably among the State governments for loans for business, agriculture, and marine development, on the basis set forth in Section 401(c).

(c) The remaining one-half will be retained by the Government of Micronesia to increase the operating capital of Micronesian financial institutions involved in loan or equity financing for larger scale loans than those encompassed by the small business loan funds at the State level.

Section 403

(a) The Government of the United States shall provide the Government of Micronesia, and its States, without compensation, the services of the U.S. Postal Service, the U.S. Weather Service and the U.S. Federal Aviation Administration. The level of such services in each State shall be that extended to that State during United States Fiscal Year 1976. The Government of Micronesia, and its States and subdivisions, shall make provision for the use of land necessary for such purposes at no cost to the United States Government.

(b) The Government of the United States and the Government of Micronesia from time to time may agree upon the extension of additional federal programs and services to Micronesia.

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(c) Neither the Government of Micronesia nor any State thereof may impose taxes or other levies upon United States property or personnel, or the personal property of such personnel, present in Micronesia in connection with a service or program furnished by the United States under Section 403(a) of this Compact.

Section 404

The Government of Micronesia and the Government of the United States shall negotiate in good faith as to the amounts of economic assistance, as provided for in this Title, for periods subsequent to the first fifteen years after the effective date of this Compact. Pending agreement on new amounts of such assistance the United States will continue assistance to the Government of Micronesia and its States under Section 401(a), (b) and (c) and 403(a) subject to the gradually descending five year scales established in Section 401(a) as may be adjusted pursuant to Section 405(b) of this Compact.

Section 405

(a) If in any year the funds to be provided for that year under Section 401 are not completely used, the unused balance shall remain available to the Government of Micronesia and the States in addition to the funds to be provided in subsequent years.

(b) Sections 401 and 402 will be reviewed by the Government of Micronesia and the Government of the United States at the time of the effective date of the Compact and at five year intervals thereafter or more frequently at the request of either government to take into account changes in economic conditions and in the purchasing power of U.S. currency since the beginning of U.S. Fiscal Year 1976.

(c) The Government of Micronesia and the U.S. General Accounting

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Office shall determine procedures for the periodic audit of all grants, loans and funds expended for federal services and programs as stipulated in this Title.

TITLE V

Applicable Laws

Section 501

Agreement
~~Protocol~~

(a) Except as provided in the ~~Protocol~~ pursuant to Section 605, the treaties and international agreements applicable to the Trust Territory of the Pacific Islands on the day preceding the effective date of this Compact shall be applicable to Micronesia, as well as the treaties and international agreements made applicable to Micronesia pursuant to Section 202 of this Compact.

(b) The statutory law of the United States applicable to the Trust Territory of the Pacific Islands on the day preceding the effective date of this Compact shall not be applicable to Micronesia except as otherwise provided in this Compact or in other agreements between the United States and Micronesia.

Section 502

(a) Treaties and international agreements applicable to Micronesia shall have the force of internal law in Micronesia without the need of implementing legislation if they are self-executing, regardless of whether such treaties or international agreements became

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or shall become applicable to Micronesia prior to or after the effective date of this Compact. A treaty or international agreement shall be presumed to be self-executing if the United States has not enacted implementing legislation for itself at the time of its proclamation by the President of the United States.

(b) The Government of Micronesia and its States and subdivisions thereof will enact whatever domestic legislation is appropriate or required to enforce or implement those treaties and international agreements applicable to Micronesia pursuant to Section 501(a) of this Compact which are not self-executing. Pending the enactment of such legislation, the Government of Micronesia and its States and subdivisions thereof shall apply as internal law the principles of the implementing legislation enacted by the United States.

(c) The Government of Micronesia and its States will undertake to comply with and to enforce faithfully the treaties, international agreements and laws set forth in subsections (a) and (b) of this section.

Section 503

(a) The Government of Micronesia and its States will adopt and enforce such measures as may be necessary (1) to protect the personnel, property, installations, services, programs and official information maintained by the Government of the United States in Micronesia pursuant to this Compact, and (2) to ensure the effective implementation of the services and programs provided by the Government of the United States in Micronesia pursuant to this Compact. Such

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measures shall include appropriate and adequate civil and criminal remedies against:

- (1) Fraud against the Government of the United States.
- (2) Theft, embezzlement or destruction of property belonging to or in the custody of the Government of the United States; or the theft or unauthorized use of official information of the Government of the United States.
- (3) Interference with the operation of installations, programs or services maintained by the Government of the United States in Micronesia pursuant to this Compact.

(b) In the event the Government of Micronesia or its States do not adopt and enforce the measures required by subsection (a) of this section, the related programs or services extended by the United States to Micronesia under Section 403 may then be withheld to the extent that the implementation or operation of such programs or services is thereby seriously and unreasonably impeded.

(c) The Government of the United States may, with the approval of the Government of Micronesia, provide investigative and enforcement services to insure compliance with the laws and regulations relating to services and programs extended to Micronesia by the United States pursuant to this Compact.

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Section 504

Except as otherwise provided in Title X:

(a) Nothing in this Compact shall be construed as constituting a submission of either the Government of Micronesia or the Government of the United States to the jurisdiction of the courts of the other.

(b) The Court of Claims of either of the governments shall not have jurisdiction over any claim against either of the governments growing out of or dependent upon this Compact.

(c) The provisions of Section 1346(b) and of Chapter 171, Title 28, United States Code shall not be applicable to any claim arising in Micronesia.

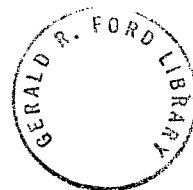
Section 505

The Government of Micronesia and the Government of the United States will cooperate with each other in the pursuit, capture, imprisonment and delivery to appropriate authorities of fugitives from justice who have fled from the jurisdiction of one Government to that of the other. The precise terms of this mutual obligation shall be the subject of a later separate agreement between the Government of Micronesia and the Government of the United States.

Section 506

In the conduct of its activities in Micronesia the Government of the United States will endeavor to protect the surrounding environment from permanent or irreparable damage by adherence to standards no less restrictive than those established by United States law, except as otherwise may be agreed.

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TITLE VI

Trade and Commerce

Section 601

The Government of Micronesia will have the authority to establish, change or eliminate import and export duties and other regulations, including internal charges, laws and conditions governing the importation and exportation of and commerce in goods to and from Micronesia, except as otherwise provided in this Compact or as otherwise agreed.

Section 602

(a) In order to promote the development of the Micronesian economy the United States will, to the greatest extent feasible, give sympathetic consideration to requests for preferential conditions for the importation of goods of Micronesian origin into the United States.

(b) The United States and Micronesia will each accord to products of the other treatment no less favorable than that accorded like products of any foreign country with respect to customs duties and charges of a similar nature and with respect to laws and regulations relating to importation, exportation, taxation, sale, distribution, storage and use, except as otherwise agreed.

Section 603

(a) The Government of Micronesia shall have the power to regulate domestic air and maritime commerce between points each of which is within Micronesia to the extent that such regulation does not conflict with the treaties and international agreements applicable to Micronesia

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pursuant to Title II of this Compact and does not conflict with appropriate regulations of the Federal Aviation Agency.

(b)) The Government of the United States shall obtain the consent of the Government of Micronesia before granting any new authority to any United States or foreign air carrier for international air commerce to or from Micronesia, except for aircraft operated for or under the control of the Government of the United States in connection with activities under Title III.

Section 604

The currency of the United States will continue to be the official legal tender for Micronesia until such time as the Government of Micronesia acts to institute its own currency. The terms and conditions of an appropriate currency transitional period shall be as mutually agreed.

Section 605

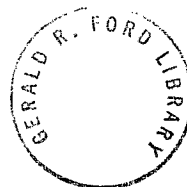
TITLE VII

Citizenship and Nationality

Section 701

Every person who is a citizen of the Trust Territory of the Pacific Islands on the day preceding the effective date of this Compact, or who thereafter becomes a citizen of Micronesia by birth, and who has not taken any affirmative step to preserve or acquire any citizenship or nationality of any country other than Micronesia or the United States, shall be given the privileges of a national of the United States for the purposes of entry, exit, and establishment of residence in the United States, as set forth in Section 801(b), and for the purpose of engaging in occupations in the United States.

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Section 702

Any person described in Section 701 who is a citizen or national of a country other than Micronesia or the United States shall cease to have the privileges of a national of the United States within one year after the effective date of this Compact, or within six months after becoming 18 years of age, whichever comes later, unless he renounces that citizenship or nationality.

TITLE VIII

Immigration and Travel

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Section 801

(a) The Government of Micronesia shall have the power to regulate immigration and entry of persons who are not citizens of Micronesia, except as provided in this Compact or as otherwise agreed.

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(b) Citizens and nationals of the United States who are not citizens of Micronesia shall be free to enter and exit Micronesia but not to establish residence in Micronesia except with the consent of the Government of Micronesia. Citizens of Micronesia who have the privileges of nationals of the United States shall be free to enter

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and exit the United States, its territories and possessions, but not to establish residence in the territories or possessions of the United States except with the consent of the Government of the United States. Citizens of Micronesia who are not United States citizens or who do not have the privileges of nationals of the United States shall be accorded treatment as aliens.

(c) Micronesian provisions applicable to entry and exit to and from Micronesia by citizens and nationals of the United States and personnel sent to Micronesia pursuant to Section 403 of this Compact shall not be more restrictive than the comparable United States regulations governing those Micronesian citizens who have the privileges of United States nationals.

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TITLE IX

Representation and Consultation

Section 901

The Governments of the United States and of Micronesia agree to establish at the central seat of Government of Micronesia and in Washington, D.C., respectively, Resident Offices for the purposes of maintaining close and regular consultations on matters of mutual interest. The privileges and immunities respecting the Resident Offices shall be set forth in Annex C, which is an integral part of this Compact.

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TITLE X

Dispute Settlement

Section 1001

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(a) In the event of a dispute which relates to the interpretation or application of the provisions of this Compact, the Government of Micronesia and the Government of the United States shall negotiate in good faith in an effort to settle the dispute.

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(b) If the negotiations provided for in Section 1001(a) do not result in a settlement of the dispute in a manner satisfactory to both Governments within a reasonable period of time, then either Government may resort to litigation as provided in Section 1001(d) below, or both Governments may agree to refer the dispute to arbitration in accordance with Section 1001(c).

(c) In accordance with Section 1001(b) the Governments of the United States and of Micronesia may agree to refer a dispute to an Arbitration Board. Those Governments may decide to request either an advisory or a binding decision of the Board. Unless the two Governments otherwise agree, the Arbitration Board shall consist of five (5) persons, two members to be selected by the Government submitting the dispute to the Arbitration Board, two members to be selected by the other Government within twenty (20) days after notification of the selection by the Government submitting the dispute, and the fifth member, who shall act as chairman, to be selected by a majority decision of the four members selected by the Governments. If the members initially appointed are unable to agree on the fifth member within sixty (60) days after the selection of the fourth member, the fifth member shall be selected by the

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Chief Judge of the United States Court of Appeals for the Ninth Circuit. All members of the Arbitration Board shall be citizens of the United States or of Micronesia. The costs of the Arbitration Board shall be shared equally by the two Governments.

(d) In accordance with Section 1001(b), either Government may submit a dispute arising under the interpretation or application of this Compact, at its election, to the United States District Court for the District of Hawaii, to the United States District Court for the District of Columbia, or to the United States Court of Claims if the subject matter of the dispute is within the general competence of that court. Those courts shall have jurisdiction to hear these disputes and to issue the necessary processes, and the Governments of the United States and the Government of Micronesia agree to submit themselves to such jurisdiction and processes for the purposes of this Section 1001(d). It is intended that any such disputes will constitute cases or controversies which are justifiable in those courts and that the undertakings of the Government of the United States and the Government of Micronesia and its States provided for in this Compact will be enforceable in those courts.

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TITLE XI

Amendment and Change of Status

Section 1101

This Compact may be amended at any time by mutual consent of the Government of Micronesia and the Government of the United States.

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Section 1102

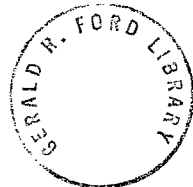
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(a) This Compact may be terminated at any time by mutual consent of the Government of Micronesia and the Government of the United States.

(b) After the expiration of the first fifteen years following its entry into force, this Compact may also be terminated unilaterally

(1) by the Government of the United States in accordance with its constitutional processes, such termination to be effective on a date not earlier than two years following receipt by the Government of Micronesia of notice of the Government of the United States' intention to terminate; or (2) by the Government of Micronesia by referring the issue to the legislatures of the States. The legislature of each State shall determine the manner in which the vote of the people of that State shall be taken. If at least 55% of the vote shall favor termination in at least two-thirds of the States of Micronesia, the Government of Micronesia shall upon certification of the results of the vote on this issue give notice thereof to the Government of the United States and may take action to terminate the Compact effective on a date not earlier than two years following such notice, subject to the provisions of Section 1103. The action of the Government of Micronesia and the termination of the Compact shall not be applicable to any State of Micronesia in which at least 55% of the vote has been against termination.

(c) During the period of two years prior to the effective date of termination set forth under the provisions of Section 1102(b), any State in which at least 55% of the vote has been against termination shall be given the opportunity to negotiate with the United States with respect to

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that State's future political status. Upon the effective date of termination, if an agreement has not been concluded with respect to the future political status of any such State, all relevant provisions of this Compact shall continue in full force and effect with respect to the State except that by agreement between the United States and that State an appropriate adjustment will be made in the level of financial aid to be provided to that State by United States under Title IV.

Section 1103

(a) In the event of the termination of this Compact pursuant to Section 1102(b), the rights and uses of the United States in the lands and waters of Micronesia covered by then-existing leases and use agreements shall continue for the terms thereof, and the rights of denial set forth in Section 302 and the jurisdictional agreement set forth in Section 305 of this Compact shall continue in force until changed or terminated by mutual consent.

(b) In the event the Compact is terminated pursuant to the provisions of Section 1102(b), the Government of Micronesia and the Government of the United States shall negotiate in good faith for amounts of economic assistance to be provided thereafter. Until such agreement is reached, but for no longer than a two-year period, the amounts of assistance provided under Sections 401(a), (b), (c) and 403(a) shall continue in effect, as adjusted equitably to reflect the decision of any State not to terminate, and the provisions of Section 404 shall not apply.

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TITLE XII

Approval of the Compact and Effective Date

Section 1201

(a) This Compact will be approved by Micronesia if at least 55% of those voting in a plebiscite to be held in Micronesia vote in favor of the Compact, including a majority in at least four of the six States of Micronesia. All persons who would be eligible to vote in elections for the Congress of Micronesia, if such elections were held on the date the plebiscite is conducted, shall be eligible to vote in the plebiscite. In determining whether the required majority has voted for or against the Compact, only the affirmative and the negative votes shall be counted. The Compact shall not become effective, however, in any State in which at least 55% of those voting have voted against the Compact. The provisions of the Compact shall be adjusted appropriately by agreement to be applicable only to the remaining States of Micronesia.

(b) This Compact will be approved by the United States in accordance with its constitutional processes.

Section 1202

The President of the United States shall issue a proclamation announcing a date mutually acceptable to the Governments of the United States and Micronesia at which the Compact will come into effect, when he finds:

1. That the Compact has been approved as provided for in Section 1201; and that

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2. The people of Micronesia have adopted a Constitution pursuant to Section 101 of the Compact; and that
3. The Trusteeship Agreement between the United States and the Security Council of the United Nations for the former Japanese Mandated Islands has been terminated or will terminate on the day on which the Compact becomes effective.

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ANNEX A

I. The Government of Micronesia may undertake the following activities pursuant to Section 204 of the Compact.

(a) The Government of Micronesia may seek associate or other appropriate membership for which Micronesia may be eligible in regional organizations, United Nations Specialized Agencies, or their subsidiary bodies, of which the United States is a member. The Government of the United States will sponsor such applications and will give sympathetic consideration to requests from the Government of Micronesia to apply for appropriate membership in any other such organizations in which the United States is not a member. The Government of the United States will assist Micronesia in training personnel to participate in these organizations.

(b) The Government of Micronesia may negotiate and conclude in the name of Micronesia agreements of a cultural, educational, financial, scientific or technical nature that apply only to Micronesia with any international organization in which Micronesia is a member.

(c) The Government of Micronesia shall be consulted in the negotiation of agreements specified in Paragraph I(e) of this Annex, and shall be afforded an opportunity to participate in the negotiation of international agreements entered into by the United States to the extent that Micronesia could object to the application of such agreements under Title II, Section 202, of this Compact.

(d) The Government of Micronesia may establish temporary or permanent representation of Micronesian trade or other commercial

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interests in foreign countries, or accept foreign trade or commercial representation in Micronesia.

(e) The Government of Micronesia may request the Government of the United States to negotiate with foreign countries agreements of a commercial, cultural, educational, financial, scientific or technical nature which shall apply to Micronesia. The Government of the United States shall give sympathetic consideration to such requests.

II. In advance of undertaking any initiative pursuant to its discretion under Paragraph I of this Annex, the Government of Micronesia shall inform the Government of the United States of its proposed action and shall keep the Government of the United States fully informed of the progress and conduct of such activities.

III. The Government of the United States will promptly notify the Government of Micronesia if it appears that any proposal or activity of the Government of Micronesia pursuant to this Annex conflicts with the international obligations or responsibilities of the Government of the United States or if it is likely to lead to such conflict. In accordance with Section 201(b) of this Compact the Government of the United States will consult as requested with the Government of Micronesia and will seek to consult before issuing a notification pursuant to this paragraph.

IV. Upon notification by the Government of the United States that an activity proposed or engaged in by the Government of Micronesia pursuant to this Annex conflicts or is likely to conflict with the exercise of

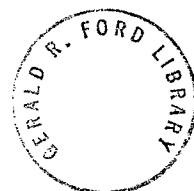
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responsibilities assumed by the U.S. under this Compact, or under its international obligations or basic security interests, the Government of Micronesia will refrain from or promptly discontinue such activity.

V. Any disputes arising with respect to the application of Annex A shall be subject to the dispute settlement procedure of Title X.

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ANNEX B

I. Pursuant to Sections 302 and 303 of the Compact, the parties agree that the rights and uses of the United States in lands and waters of Micronesia include:

(a) Marshall Islands

- (1) Within the Kwajalein Atoll, continuing rights for the use of those lands and waters associated with and currently controlled as part of the Kwajalein Missile Range, the land portion of which encompasses approximately 1,320 acres.
- (2) In the Bikini Atoll, continuing rights for use of 1.91 acres of Ourukaen and Eniman islets, and to use the pier, airfield and boat landing on Eneu Island.
- (3) In the Eniwetok Atoll, retention of such rights as may be negotiated upon return of the atoll.

(b) Continuing rights to occasional or emergency use of all harbors, waters and airfields throughout Micronesia.

(c) Continuing rights to use of existing Coast Guard facilities.

II. Pursuant to Sections 302 and 303 of the Compact, the following specified rights and uses in the Palau Islands shall be negotiated in good faith.

(a) Access and anchorage rights in Malakal harbor and adjacent waters, together with rights to acquire 40 acres for use within the Malakal harbor area, composed of submerged land to be filled and

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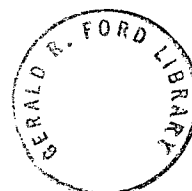
adjacent fast land.

(b) Rights for the joint use of an airfield capable of supporting military jet aircraft at Babelthuap airfield/Airai site, the right to improve that airfield to meet military requirements and specifications and the right to develop an exclusive use area for aircraft parking, maintenance and operational support facilities.

(c) On the island of Babelthuap the right to acquire 2,000 acres for exclusive use, along with the right for non-exclusive use of an adjacent area encompassing 30,000 acres, for intermittent ground force training and maneuvers.

III. All future agreements concluded for the use of lands and waters in Micronesia and all modifications to any agreement under this Title, shall conform to the provisions of this Compact.

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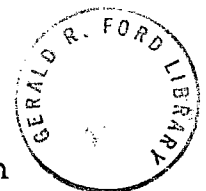


ANNEX C

I. The Governments of Micronesia and of the United States, and the heads of their respective Resident Offices, shall be exempt from all national, regional or municipal dues and taxes in respect of the premises of their respective Resident Offices, whether owned or leased, other than such as represent payment for specific services rendered.

II. Any person employed by the Government of Micronesia in its Resident Office who is neither a citizen nor a permanent resident of the United States, or any person employed by the Government of the United States in its Resident Office who is neither a citizen nor a permanent resident of Micronesia, shall be exempt from income and social security taxes levied under the laws of the host Government or any of its States with respect to income which is paid from funds provided by the employing Government or any agency thereof and upon which they are subject to the income or social security tax laws of the employing Government or any other other Government and from taxes on the purchase, ownership, use or disposition of personal movable property (including automobiles) intended for their own use. Such employees and members of their families shall receive the same treatment with respect to the payment of customs and import and export duties on personal effects, equipment and supplies imported into the territory of the other Government for their own use, and with respect to other duties and fees, as is accorded by the Government of the United States to diplomatic personnel of foreign countries resident in the United States, subject only to the limitation

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that continuous customs free entry shall be limited to personnel, including their families, of comparable grade to the diplomatic personnel accorded continuous customs free entry by the United States.

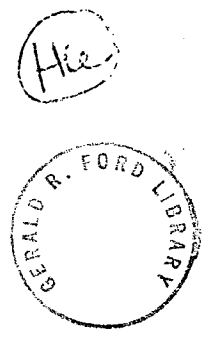
III. The premises of the Resident Offices including the residences of the Heads of the Resident Office shall be inviolable. Neither the agents of the Government of Micronesia nor those of the Government of the United States may enter the premises of the other Government's Resident Office except with the consent of the head of that Resident Office or someone authorized to act on his behalf.

IV. The premises of each Government's Resident Office, their furnishings and other property thereon and the means of transport of the Resident Office shall be immune from search, requisition, attachment or execution, except insofar as such immunity is expressly waived by the head of the Resident Office or someone authorized to act on his behalf.

V. Any person employed by either the Government of Micronesia or the Government of the United States in its Resident Office who is also a citizen of the employing Government shall enjoy immunity from the criminal jurisdiction of the other Government or its States. This immunity shall extend to all members of the family of such a person forming a part of his household, if they are not citizens of the receiving Government.

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Initialed on June 2, 1976 at Saipan, Mariana Islands

For Joint Committee on Future Status
of the Congress of Micronesia:

Personal Representative of
President of the United States:

LAZARUS E. SALII
EKPAP W. SILK
PETRUS TUN
ISIDORO RUDIMCH
BAILEY OLTER
RESIO MOSES
TOSIWO NAKAYAMA
JOHN MANGEFEL
AMBILOS IEHSI

F. HAYDN WILLIAMS

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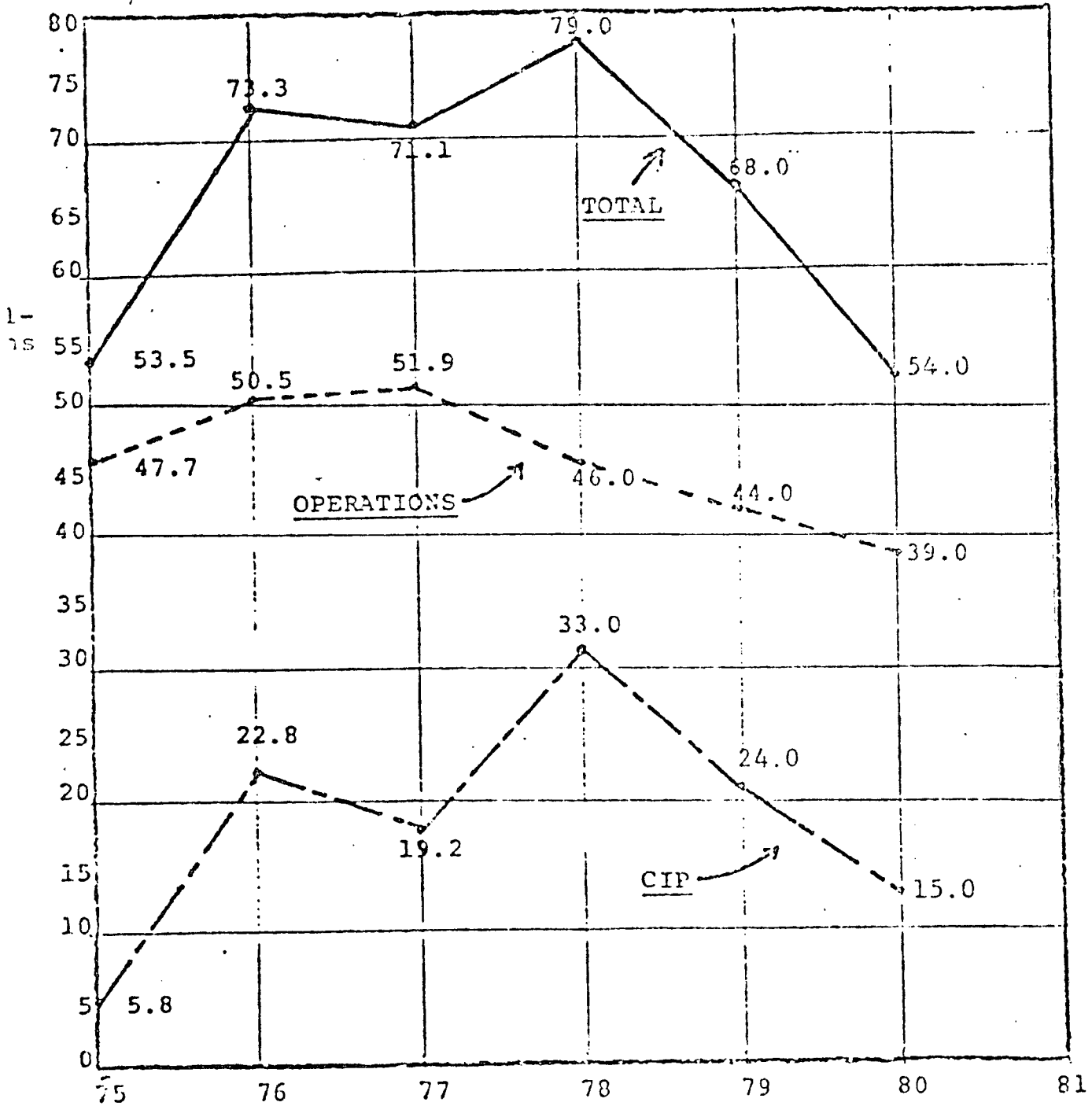
United States Department of the Interior

ANNEX D
UNCLASSIFIED

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

Add \$10-20 million per year for non-Interior Department federal programs.

FEDERAL FUNDING FOR THE TRUST TERRITORY OF THE PACIFIC ISLANDS (excluding Northern Marianas)



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FISCAL YEAR

FY's 78, 79 and 80 are amounts proposed by Department of the Interior and are expressed in FY-75 dollars (not adjusted for inflation). Terr-

