



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

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MAY 24 1976

MEMORANDUM TO MR. CHARLES W. ROBINSON
 Chairman, NSC Under Secretaries Committee
 Department of State

SUBJECT: Future Political Status of Micronesia

We have reviewed the memorandum to the President, proposed instructions, and the attached study, and have an appreciation for the complex and difficult political situation in Micronesia which is described in these documents. Further, we have noted that the Department of Defense (page 5, Section IV of the study) expresses concern over the value and life expectancy of any pre-negotiated mutual defense treaty or other security arrangements made with a commission which may not reflect the political interests of a post-trusteeship Micronesian government. However, in order to accommodate this concern, an indefinite postponement of negotiations, with continuation of the trusteehip, or further political fragmentation of Micronesia with increased risks to U.S. interests would result. We agree with State and Interior that these alternatives are unacceptable, and that negotiations should resume to define the future political status of Micronesia, with Free Association the U.S. preferred option.

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You requested our comments and/or our concurrence on a draft memorandum for the President, instructions for Ambassador F. Haydn Williams, and an interagency study on the future political status of Micronesia. We understand the Ambassador expects to commence meeting with Micronesian leaders during the week of May 24 to 28 and, therefore, is requesting early approval for his instructions. Accordingly, our comments and recommendations are stated briefly as follows:

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Instructions

- We concur with the primary objectives as stated in the instructions with the exception that we strongly recommend that the first of the secondary objectives (e.g. "to keep U.S. financial obligations to Micronesia within reasonable limits and appropriate to the character of the future relationship") should be moved to become the third primary objective. We believe that it is essential for the financial assistance offered in these negotiations to be the minimum necessary to achieve the other U.S. primary objectives.
- We strongly concur with the instruction under Finance which states that the maximum dollar levels which include 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 of March 1974, except that the sums will not be expressed in constant dollars. While we concur with this change in instructions to delete the offer of constant dollar adjustments, we wish to point out that the change will result in a huge reduction in the number of dollars available to the Trust Territory government if the constant dollar adjustment provisions are maintained during the transition period up to fiscal year 1980. To illustrate, if one assumes a budget for the Trust Territory, other than the Northern Mariana Islands, in FY 1980 of \$54 million for operations and construction, and if one uses the gross national product implicit price deflator estimates as projected in the FY 1977 budget for FY 1980, the estimated constant dollar adjustments just for that year would total \$48.4 million. Consequently, we are raising with Interior and Ambassador Williams' office a question of whether the constant dollar adjustment provision should not be deleted commencing in FY 1978 to avoid having to make such a huge adjustment later on. We recognize that the Micronesians are certain to realize that withdrawal of the constant dollar adjustments would reduce the amount of annual U.S. financial assistance by nearly 50 percent and that they will resist such a change. If necessary to overcome their objections, we recommend that Ambassador Williams negotiate, Ad Referendum, new annual amounts as close as possible to the annual maximum (\$60 million) permitted under his instructions.

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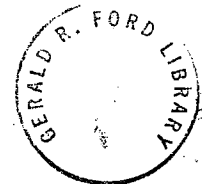
- Also under Finance, we strongly object to the concept that the maximum dollar level to be offered under the Commonwealth option would be equal to that provided for by the Northern Marianas Commonwealth Covenant on a per capita basis plus a full range of Federal programs and services comparable to those provided by the Northern Marianas Covenant. In the study itself (under V Finance, page 7, item c) the IAG itself states: "On a per capita basis (which is not a good comparison), this would mean \$100 million annually for seven years plus a very wide range of Federal grant, loan and entitlement programs." (our emphases). We strongly recommend that some other bases be developed on which to base an amount to be offered under the Commonwealth option.

Terms of Reference

We concur with the terms of reference as stated but feel it is necessary to express our understanding of what those terms mean in the following two cases:

- The Ambassador is to carry out responsibilities "... in coordination with the Departments of State, Defense, Justice and Interior and other involved agencies...". Our understanding is that the Ambassador will be required to have policy level agreement of officials in an affected agency and OMB before he could offer to accept changes in legislation, as it pertains to the Trust Territory.
- The Ambassador is to be "... administratively supported by the Department of the Interior ...". We agree that because of their continuing responsibilities for the Trust Territory, Interior will provide substantial assistance for the Ambassador in carrying on these negotiations; however, our understanding is that the Interior Department will not be expected to seek appropriations to fund the administrative support of the Ambassador's office. Such support will continue to be provided by transfers of funds and staff from the Departments of Defense and State as it has been in the past.

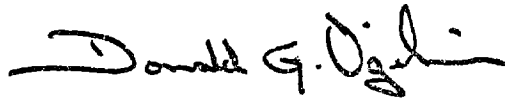
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Issues Yet to be Resolved

We understand consideration is being given to developing some new proposed position regarding participation by Micronesia in foreign affairs and especially their relationship to the U.S. pursuant to Article 136 of the Single Negotiating Text of the Law of the Sea Treaty. We will have a major interest in reviewing the proposed instructions for these topics.

Should you have any questions concerning our comments or recommendations we would be pleased to discuss them with you.



Donald G. Ogilvie
Associate Director

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