

MEMORANDUM

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THE WHITE HOUSE

WASHINGTON

December 28, 1979

ACTION

MEMORANDUM FOR:

THE PRESIDENT

FROM:

ZBIGNIEW BRZEZINSKI

SUBJECT:

Micronesia Status Negotiations (U)

On November 1, Congressmen Burton, Lagomarsino and Clausen wrote a very critical letter (Tab A) to Ambassador Rosenblatt, the Chief Negotiator for Micronesian Political Status Negotiations calling for postponement of the negotiations for a year. In his position as Chairman of the House Subcommittee on National Parks and Insular Affairs, Burton's support for a negotiated settlement (i.e., a Compact of Free Association) with the Micronesians is considered essential for House approval. In the period since Ambassador Rosenblatt received the letter, various members of the Executive Branch including the Domestic Policy Staff, the NSC, OMB, and the Department of the Interior have consulted with Chairman Burton. He has four conditions he feels must be met before he can support the Administration's position in the negotiations. The first, concerning which Palauan faction the USG should deal with, has already been solved. The other three will require your decision as they represent changes in the negotiating instructions you issued (PD/NSC-49, June 6, 1979). The need to make Decisions II and III depend on your initial decision as to whether or not to continue with the negotiations. (S)

I. The Future of the Negotiations

In their letter the three Congressmen enjoin Ambassador Rosenblatt from concluding the negotiations before the 1980 Presidential elections, and urge him to negotiate only ancillary agreements in the interim. As the ancillary agreements will be based on the Free Association Compact, this is in fact a call for postponing the negotiations for a year. (S)

(A) Interagency Position

The members of the Interagency Group on Micronesia (State, Interior, DOD, DOT, JCS, OMB, Justice, OMSN and the DPS) oppose a one-year suspension of the negotiations by the USG. In their view such suspension:

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- Would increase the cost of a future agreement;
- Would produce political instability and internal fragmentation in Micronesia;
- Would make your declared goal of 1981 for the termination of the Trusteeship virtually impossible.

RECOMMENDATION

The Micronesian Interagency Group and the DPS recommend that we proceed with the political status negotiations. If the negotiations are successful, we recommend that our negotiator initial the text, subject to a final interagency review after all subsidiary agreements are concluded. A formal signing and submission to the Congress would not take place until after the 1980 Presidential election. We would continue efforts to build support in Congress and to deal with Chairman Burton's concerns in this and other areas, in an effort to arrive at some accommodation with him. (S)

APPROVE DISAPPROVE II. The Level of Inflation Adjustment

Chairman Burton and the Micronesians believe that the currently authorized three percent inflation adjustment (which would start after the first five years) is inadequate, and propose formulas which are tied to the U.S. GNP price deflator. The Interagency Group on Micronesia also believes that unless the United States inflation adjustment offer is increased from the present three percent, there is little hope of reaching agreement. (S)

(A) Interagency Group Position

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The Interagency Group, with the exception of OMB, recommends a maximum U.S. offer of a seven percent annual inflation adjustment or the change in the U.S. GNP price deflator (whichever is lower). The maximum average annual increase of seven percent over our present offer is \$24 million or \$362 million over 15 years. Seven percent would demonstrate an understanding for the fears of the Micronesians that a financial package which is acceptable today may be worth very little in the future because of inflation. It would also conform with Administration wage-price guidelines. The Chief Negotiator believes that the Micronesians will accept a seven percent adjustment. (S)

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(B) OMB Position

OMB believes the financial package offered the Micronesian negotiators last summer remains basically equitable. However, it concludes that some increased inflation adjustment is justified because of the diplomatic and political exigencies described above and OMB "best-guess" projections for Trust Territory funding over the next 15 years if a negotiated pact of the trusteeship is not achieved (a total cost of \$2.5 billion, with a present value of \$1.3 billion). Consequently, OMB proposes that a five percent inflation adjustment beginning Year 6 of free association should be authorized (the actual rate applied would be either five percent or the U.S. GNP price deflator, whichever was lower). OMB reasoning is spelled out in Tab C. (S)(u)

*I do not favor
100% indexing.
Let negotiators take
choice: a) 6% or deflator
or b) 7% or 1/3 deflator
(lower)*

(C) RECOMMENDATION

That you authorize an increase in our inflation adjustment offer to the Micronesians to an annual additive seven percent or to the annual change in the U.S. GNP price deflator (whichever is lower).

APPROVE 7% _____ APPROVE 5% _____

III. Extension of Federal Programs

The Micronesians in general and Congressman Burton in particular have long insisted that U.S. economic assistance to Micronesia under free association contain a full complement of federal categorical programs, especially those in the health and education area, which now provide substantial support to the operations of the Trust Territory Government. The Trust Territory budget authorization bill which passed in the House provides for the permanent extension of all federal programs which apply now to the Trust Territory (FY 1979 dollar value for the approximately 60 programs is between \$20 and \$30 million) to Micronesia after termination of the Trusteeship Agreement. PD/NSC-49 does not authorize the extension of federal programs but does provide for a few federal services, e.g., postal service, weather service and disaster relief. (S)

The Federated States of Micronesia will almost certainly hold out for some consideration in this area. Most importantly, unless Congressman Burton is satisfied that (1) the possibility for the extension of Federal programs exists and (2) that he will be able to play a role in determining what these programs are, he will oppose the Compact. (S)

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