



THE PRESIDENT'S PERSONAL REPRESENTATIVE
FOR MICRONESIAN STATUS NEGOTIATIONS
WASHINGTON, D.C. 20240

OMSN-C06-80

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March 21, 1980

MEMORANDUM FOR UNDER SECRETARY JAMES JOSEPH

From: Peter R. Rosenblatt

Subject: Response to FSM Economic Requests (U)

(U) I consider it essential that our responses to President Nakayama's economic requests contained in his letter to you dated January 25, 1980, and subsequent discussions with you on February 12, 1980, be integrated into a comprehensive USG position on pre-and post-termination economic aid to the three Micronesian states.

(C) The dynamics of the status negotiations with the FSM require that we have a coordinated view by the time the FSM delegation headed by Vice President Petrus Tun arrives to attend the April 1-3 budget hearings. Reports from the Status Liaison Officer, Saipan, public statements of the FSM leadership and a recent meeting with FSM counsel described below render it absolutely clear that the FSM is withholding its initials on the Compact as a bargaining lever to increase transition funding in the last pre-termination budget.

(C) It is therefore vital that the Executive Branch agencies and, to the extent possible, the Legislative Branch, present a united front to the Tun group. These are my thoughts.

1. Many FSM leaders are genuinely worried about some aspects of the financial package contained in the Compact, particularly the 7% ceiling on inflation. Since Kona, the marginal acceptability of the 7% inflation adjustment ceiling has been subjected to additional strains because of the increased severity

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of our inflation problem. However, I think that the FSM now genuinely believes that the Compact represents the Carter Administration's last word on post-trusteeship financing and have therefore given up trying to improve the economic package in the Compact. Instead, they are withholding their approval of the Compact in an effort to get more out of us during transition (FY 1981).

2. Our ability to resist this effort and to continue holding the line on the Compact provisions has undoubtedly been enhanced by the President's successes in the primaries and the increased likelihood that the only alternative to the President's reelection will be Reagan, whom the Micronesians can hardly regard as an improvement from their perspective. On balance, therefore, I think there is a good chance that the FSM leadership will initial the Compact even in the absence of much more transitional funding if they can be convinced that our package of pre- and post-termination funding represents the best obtainable from the Carter Administration, though there are undoubtedly strong voices in the leadership that will argue in favor of further delay.

3. Having said this, I must point out that many of the specific transitional requests made by the FSM are justifiable in terms of our obligations to them and of our self-proclaimed trusteeship objectives. Moreover, I believe that it is essential, on moral, economic and negotiating grounds, that we offer the FSM (and the other Micronesians) some satisfaction in three of their key current categories of requests (references are to the FSM discussion paper prepared for President Nakayama's visit and dated 1/25/80):

(a) Modest additional funding for national capital relocation (Issue No. 4);

(b) A functioning communications system (Issue No. 5);
and

(c) Most importantly, sufficient transitional funding to support the establishment and maintenance of the FSM Government at some reasonable negotiated level (not necessarily the level requested) from now until the end of the trusteeship (Issue Nos. 1, 2 and 3).

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Each of these items is already covered, to some extent in the FY 1980 and proposed FY 1981 budgets. However, I think that the amounts allocated may be insufficient on a fair reading of actual need and require careful review and reexamination jointly with FSM and other Micronesian governmental officials. If we should agree that currently projected levels of expenditure need to be increased, I can't imagine that the additional cost would exceed a few millions. The remaining issues raised by President Nakayama are, I believe, already attended to (viz., indefinite land use cases-- Issue No. 8), are not primarily money issues and can be discussed, or are completely out of the ballpark (viz., Second Level CIP, Issue No. 7).

4. The TTPI transitional budget for the last fiscal year of the trusteeship could not possibly be large enough to make up for years of neglect of the Micronesian economy; the claim which underlies the big-ticket items President Nakayama seeks. Even if it could otherwise be contemplated, however, there are two factors which place the kinds of huge requests made by the Nakayama mission beyond the pale of realistic contemporary discussion, whatever our view of the requests' justice:

(a) The Administration's and Congress' budget balancing objective.

(b) The very expensive U.S. Compact undertaking to continue high levels of support for national development and governmental operations for a minimum of 15 years after the termination of our legal trusteeship obligations.

5. Once Interior's position on the foregoing has been determined, I believe that it is essential that the Administration coordinate its approach to the FSM in the context of the FSM's current determination to withhold initialling of the Compact. I urge that you convene a series of meetings within the Executive Branch to coordinate the Administration's response to each of President Nakayama's requests and that the Administration's agreed position be discussed ASAP with appropriate congressional committees.

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6. The timing of our response is not less important than the substance. The visit of the Tun delegation presents the appropriate occasion for a response to the Nakayama mission. Vice President Tun is sufficiently high level to be given high level responses all over town and to carry them back credibly.

7. The Administration's position on President Nakayama's requests, once determined, should be conveyed to Vice President Tun firmly with high level statements that this, together with the fully negotiated Compact already before the FSM (which remains open-ended on federal health/education programs), represents the Carter Administration's final position on pre-and post-termination economic aid, and that we expect a prompt response.

(C) Finally, I held a meeting yesterday with Jim Stovall, the lawyer representing the FSM in the status negotiations, Asterio Takesy, the FSM's Washington representative and Alan Burdick a lawyer employed by the FSM Government in Ponape. The following will be of particular interest. Stovall confirmed the FSM's strategy of accepting the Compact virtually as negotiated at Kona if they can get some more transition money. I told him that in my personal opinion the chances were very poor because of the budgetary climate which he can perceive for himself. Asterio chose to make an issue of the Second Level CIP request, pointing out that it must at one time have been an Administration project, else the High Commissioner would never have announced it at the Trusteeship Council. I reexplained what happened and said that it was the HiCom's own idea and that he never had Administration authorization.

(C) I told my visitors that the predictions Matt Nimetz and I have been making to the FSM of declining possibilities for the Compact as this year progresses were beginning to be felt; the onset of the political season was creating its impact, the economy drive was turning our rich Compact into a target and the departure of individuals in the USG who are committed to the Compact could be expected. Stovall replied that he did not want to mislead me as to the Compact's chances if the transition requests weren't met, moreover, what did the FSM position matter if Palau's

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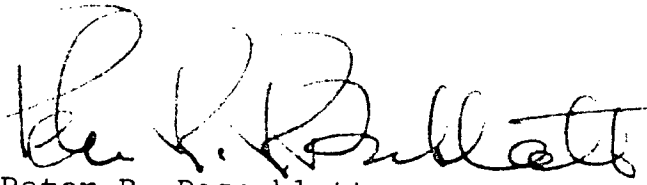
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foot-dragging prevented conclusion of this multilateral agreement? I replied that the FSM and Marshalls vital interests in the Compact would not be held hostage to Palau. He asked if that meant that we would sign the Compact with only two Micronesian parties. I replied that if there seemed to be no choice, we would. Asterio then asked if we would sign it only with one and I answered, "Yes."

(C) You should note that this is the first such indication I have given and that I don't want to use it as an overt threat or, indeed, even to advert to it, except in well-selected circumstances.

(U) I will look forward to discussing this with you further at your earliest convenience.



Peter R. Rosenblatt

cc: Wallace Green
Curt Hessler
Jeff Farrow
Roz Ridgeway
Walt Slocombe

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