

THE WHITE HOUSE

WASHINGTON

May 22, 1980

MEMORANDUM FOR JIM MCINTYRE

FROM: STU EIZENSTAT /s/

SUBJECT: Micronesian negotiations

This is to urge your reconsideration of a slight but crucial amount of financial assistance for the Trust Territory of the Pacific Islands. The imperative for a favorable decision is the continued viability of the Micronesian status negotiations and the preservation of the nearly-finalized \$ .9 Billion, 15 year agreement which would maintain U.S. strategic interests.

Approval is considered by our negotiators to be a precondition to Federated States of Micronesia approval of the Compact of Free Association. Conversely, they assert that disapproval will result in a probable breakdown in the negotiations.

A commensurate fear is that U.S. unwillingness to meet this vital need could result in a dissolution of the new, fragile FSM national government which lacks the funding necessary for continued existence. Fragmentation would result in the creation of even less viable political entities. That would almost certainly frustrate the President's objective of a 1981 termination of the trusteeship and require greater U.S. financial contributions in the future.

Since the Marshall Islands have already initialed the Compact, FSM approval would increase pressure on Palau to seriously negotiate. Disapproval, however, would create new problems with the Marshalls and the Northern Mariana Islands, which earlier agreed to become a U.S. territory at termination. Since it is highly unlikely that the trusteeship over these four island groups could be terminated piecemeal, the agreements already reached would be subject to insular and international consequences.

The following is considered the minimum essential to secure FSM approval of the Compact. It would be contingent upon their approval of the document.

FY '80

- |  |        |
|--|--------|
| o FSM national government operations                       | \$2.2m |
| o Increased fuel cost assistance for all three governments | \$4m   |

FY '81

- o FSM national government operations \$4.1m
- o Increased fuel cost assistance for all three governments \$4.7m

FY '82

- o Construction of FSM national capital \$6m

NSC concurs in this request. DoD strongly urges approval in view of the important U.S. strategic interests that could be compromised.