

THE WHITE HOUSE

WASHINGTON

May 23, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT
JEFFREY FARROW *Jeff*

SUBJECT: Possible Collapse of the Micronesian Negotiations

In 1977 you authorized resumption of the negotiations to terminate U.S. administration of the Pacific islands of Micronesia assumed through an agreement with the United Nations Security Council in 1947. The four entities which comprise the Trust Territory of the Pacific Islands (the Northern Mariana Islands, Palau, the Federated States of Micronesia and the Marshall Islands) constitute the only remaining U.N. trusteeship. As recently as this week in the U.N. Trusteeship Council we have reiterated your publicly announced objective of a 1981 termination.

We are greatly concerned that the negotiations may now collapse due to the unwillingness of OMB to approve a small amount of vital pre-termination funding. The \$19.6 million requested by Interior would permit the establishment of a Federated States national government and provide critical fuel cost assistance for that government, the Marshall Islands and Palau in FY '80 and '81 and make possible the essential construction of an FSM national capital in FY '82.

As you know, we have already reached agreement with two of the entities for a post-termination relationship: the Marianas are to become a U.S. Commonwealth and the Marshalls have initialed the \$1.9 billion Compact of Free Association that we have hoped to have the Federated States and Palau approve as well.

The Compact--finalized January 14 pursuant to the offer you authorized January 2--would establish the three latter entities as autonomous nations under U.S. protection. Our interest in this is largely strategic: the Marshalls is the site of our missile testing facility at Kwajalein and Defense is interested in developing the option of basing rights in Palau.

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BY *J* PARSLOW 8/21/80

Negotiators for the FSM, a new and fragile federation of four culturally distinct states, are essentially satisfied with the Compact but have indicated that certain pre-termination needs must be met to enable them to initial. President Nakayama met with you February 16 during a visit to Washington to press these needs. At that time you stressed the importance of resolving any remaining differences so as to permit the trusteeship termination in 1981.

The FSM requests have been boiled down to a seemingly irreducible fraction of the original:

- ° \$2.2 million in FY '80 and \$4.1 million in FY '81 to fund the new government. It has almost no buildings, equipment or employees and its funds will shortly be exhausted.
- ° \$7.3 million in FY '80 and '81 for supplementary funding for fuel costs throughout the Marshalls and Palau as well as the FSM. Absent such funding the infrequent sea transportation between the islands and the limited generation of electricity will have to be curtailed.
- ° \$6 million more in FY '82 for the relocation of FSM headquarters functions from the Trust Territory Government in the Marianas to Ponape in the FSM. This represents the redemption of a pledge made by the Ford Administration which we have confirmed.

The Micronesian Interagency Group has supported approval of these requests contingent upon Compact approval by the FSM. OMB has turned them down upon the ground that competing budgetary demands enjoy higher priority.

The following are the most likely consequences of a turndown:

1. The FSM Government will be unable to secure internal concurrence with the draft Compact, thereby bringing the negotiations to a halt.
2. The impasse may produce a crisis in relations with the Marianas, full implementation of whose Commonwealth status awaits termination, and the Marshalls. State advises that piecemeal termination is out of the question.

3. The FSM may fragment if the leaders of the new national government are discredited by an inability to assume their constitutional functions and failure of the status negotiations.

4. A failure of the FSM to initial will alleviate pressure on Palau to seriously negotiate.

5. If the negotiations collapse and the FSM fails, long-term U.S. goals of strategic and political stability in the area will be jeopardized and your goal of a 1981 termination will be frustrated. Intense international criticism can also be expected.

Recommendation

That you direct OMB to approve the Interior request for \$19.6 million in pre-termination Trust Territory funding in view of the possible consequences to the negotiations. The Chairman of the Micronesia Interagency Group; Secretary Andrus; our negotiator, Peter Rosenblatt; NSC Staff and Defense concur in this recommendation.

APPROVE _____

DISAPPROVE _____