



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

September 11, 1980

NOTE FOR KATHERINE P. SCHIRMER

Prior to the preparation of this memorandum, I met on September 8 with Messrs. Weiher, Crabill and Cogswell of your staff. They are aware of most of my recommendations as well as the relationship of the recommended authority to the Micronesian requests.

I would like to meet with you to discuss this memorandum as early as possible, since any expansion in my negotiating authority must be accomplished prior to September 18.

Please note also that subsequent to the preparation of the attached I learned that Interior has begun work on a draft federal programs paper along the lines of item 3 on page 6 of the attached

A handwritten signature in black ink, appearing to read "Peter R. Rosenblatt".

Peter R. Rosenblatt
Ambassador



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OMSN-33-80

September 11, 1980

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MEMORANDUM FOR KATHERINE P. SCHIRMER

Subject: Economic Assistance Issues in the Micronesian Status Negotiations (U)

(C) Successive bilateral negotiating sessions with Palau and the Federated States of Micronesia (FSM), followed by a multilateral round with them and the Marshall Islands, are now scheduled for the period September 22 - October 4, 1980. The three general categories of issues which require resolution if the Compact of Free Association is to be initialed by the FSM and Palau and reinitialed by the Marshalls at the forthcoming multilateral are 1) treatment of the Marshallese-Senate proposal on permanent strategic denial; 2) U.S. military land requirements and constitutional issues in Palau; and 3) the levels of United States economic assistance to the freely associated states. This memorandum addresses on the last of these three.

(C) All three Micronesian entities are, of course, participating with us in discussions on the denial issue and while the Palau land and constitutional questions have not yet been entirely buttoned down, both Palau and the FSM see U.S. economic assistance as the major open issue requiring resolution if there is to be an initialing at this round. If we do not initial the Compact at this next session it will not be possible to complete negotiation of subsidiary agreements, hold a plebiscite and obtain U.S. Congressional and United Nations approval in time to meet the President's objective of Trusteeship termination in 1981.

The Negotiating Posture

(C) The FSM and Palau have been informed categorically that the draft Compact's economic provisions exhaust the financial negotiating authority which I now possess or am likely to possess through the end of President Carter's current term of office.

(C) Formulation of a financial negotiating position by the new Palauan political leadership has been held up by internal disagreements and by a delay in selecting an economic consultant. It will be presented to us by September 15. We have been informally advised that the Palauan position

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is likely to be fully compatible with the Compact bottom line for Palau except that it will probably propose some sort of relief from the unanticipated burdens imposed by escalating fuel costs. This fact, and the associated Palauan observation that we are even now spending more money on Palau than we propose to spend under the Compact, were addressed in my memorandum of July 23 (copy attached).

(C) When the U.S. economic position was last negotiated with the FSM at Kona last January, they accepted our statement that it was final. Hence, they focussed their subsequent efforts on getting the USG to agree to undertake some developmental tasks during the pre-termination "transitional" period which they felt they would not be able to fund out of the Compact (full construction of the new nation's capitol, construction of a College of Micronesia campus, outer-island development, etc.). When they had to settle for a more modest transitional supplement which addressed only their minimum current operational needs (a budget line for the new FSM national government and an allowance for rising fuel costs) plus a modest FY 1982 supplement to our previously pledged contribution towards construction of their capitol, their negotiating efforts were redirected towards the Compact.

(C) They understand that we will offer them no further relief on inflation adjustment and are very unlikely to increase the cash offer. Therefore, perhaps sensing the support this posture is likely to receive from the Hill, they are suggesting a variety of ideas such as federal programs and a special indexing scheme for fuel costs which would obscure the real dollar cost to the USG. I believe that the FSM would like to obtain "insurance" against a change of U.S. administrations by coming to terms with the Carter Administration at the forthcoming round, but they fear that unless they obtain relief in the key areas of fuel cost/energy substitution, health/education and outer-island development, any Compact they initialed would subsequently be disapproved by the hard-pressed FSM Congress or state governments or be disapproved by the people at plebiscite.

The Economic Assistance Issues

(C) The primary problem is the increase in the cost of fossil fuel for electricity. Because of unanticipated cost increases, we are spending more on Palau government

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operations in FY 80 than the Compact would provide for operations in FY 82. The Palauans therefore believe that to agree to the current Compact economic provisions would be to agree to cripple government services. The situation in the FSM is almost as severe. Trust Territory Government operations in both entities, as well as the Marshalls, have been put into deficit as a direct result of fuel cost increases, and Interior estimates that fuel costs will continue to increase at 20% per year. In response to the fuel cost problem, the FSM and Palau have variously suggested A) that a special "fuel index" be added to the Compact which would adjust the grant amounts upward proportionally with fuel cost increases and B) the extension of Department of Energy programs, services and technical assistance for the development of alternate energy sources. HR 7330, now pending before the Senate, would initiate such programs.

(C) An almost equally important problem for the FSM is that present TTPI health care and education systems are heavily dependent on federal program funding. The FSM fears that if health and education programs are drastically cut back from their present levels (FY 1980 dollar values of \$10.7 million for education and \$3.2 million for health for the FSM, Palau and the Marshall Islands) these two governmental systems will either collapse or absorb a large part of the Compact funds earmarked for development. Under these circumstances the FSM has not felt able to respond to our request that they identify which programs they believe should continue under Compact Section 221(b), since to do so would require them, in effect, to suggest the discontinuation of programs not so identified. We, on the other hand, have not been able to formulate a final USG position on health and education programs since such a position must enjoy the acquiescence of interested Congressional committees, at least one of which takes a much more expansive view than do we. Progress on this issue will be necessary, however, in order to achieve initialing at the next round.

(C) A third issue concerns the inability of the FSM which has the largest and most widely dispersed population, the least developed economy and the most limited prospects, to see how it can achieve self-sufficiency and real economic development based on the levels of economic assistance contained in the Compact. They have been at a loss to suggest any specific solutions to this problem

though they are encouraged by U.S. suggestions of more Military Civic Action Teams (CAT), and the indications are that they are looking for fairly marginal increases when compared to the size of the U.S. assistance package as it now stands. The FSM also wishes to be assured of access to no-cost USG technical expertise in a variety of developmental areas; this is analogous to the interest in alternate energy programs. Non-government environmental groups have also been pressing hard for assured cost-free Micronesian access to USG advice on the preservation of their environment.

USG Negotiating Authority--Present Situation

(C) My negotiating authority has been exhausted save for one small amount for the conversion of navigational buoys. I am therefore without authority to deal with the remaining economic issues. My July 23 memorandum to the IAG recommended an increase in my negotiating authority of about \$2M per year for each of the three Micronesian entities and a new analysis of the federal programs situation. The Departments of State, Interior, Justice and Defense and the Organization of the Joint Chiefs of Staff concurred. Subsequent discussions with the FSM have led me to conclude that this additional authority would probably be insufficient to achieve an initialing with the FSM.

(C) I also require additional authority to negotiate continuing U.S. rights to use the Coast Guard station located on Yap Island, for which the FSM has belatedly sought a Use and Operating Rights Agreement. If we are to retain this station, I will need authority to negotiate such an agreement with the FSM Government based on fair market value (now fixed by the Trust Territory Government at approximately \$15,000 per year).

USG Negotiating Authority--Recommended Amendments and Relations to Negotiating Strategy

(C) From my perspective as chief negotiator, I conclude that we are unlikely to initial the Compact with Palau and the FSM if I am unable to supplement the Compact's economic assistance provisions to some as yet unascertainable extent. Since we are at such a late stage in the negotiations, I propose to draw on any such enhanced authority with the clear understanding that any additional

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offers are made only in contemplation of an initialing, as part of an overall settlement package, and that they are to be considered withdrawn if the Compact is not initialed. It should also be understood that the negotiating scheme on which we and the Micronesians are now operating envisions the completion of negotiations with one or another or all of the parties on some detailed matters carrying fiscal consequences after the Compact has been initialed. These include the subsidiary agreement on Northern Marshalls nuclear claims, final agreement on the federal health and education programs which are to continue under the Compact and possibly the details of the revised infrastructure program which Palau is likely to advance next week (the indications are that it would cost the USG about the same as our current offer). The new authority I am seeking here, however, is restricted to that which I believe is necessary for the purpose of meeting minimum Micronesian requirements for a Compact initialing.

A. Cash Grant Authority.

A total of \$8M annually for the fifteen-year period, subject to the Compact Section 217 provision for inflation adjustment, probably to be divided \$2 million for Palau, \$2 million for the Marshalls and \$4 million for the FSM. I seek maximum flexibility in allocating such additional authority to such specific purposes (or none) as may seem advisable.

B. Yap Coast Guard Station.

Authority to negotiate and enter into a use and operating rights agreement with the Government of the FSM covering our continued use of the Coast Guard facility on Yap Island at an annual fair-market rental value.

C. Federal Programs.

1. A preliminary, non-binding Administration position on the identity of those health and education federal programs which may continue under the Compact, with the understanding that these are subject to negotiation with the Congress prior to their formal presentation by

the USG. My recommendation for that position is that we indicate a range, the maximum of which would be those programs which now apply (less the current Compact provision for \$2 million in health assistance), and the minimum of which would be some lesser number comprising only the major programs critical to the continued viability of the Micronesians' education and health systems. This position should also allow us to agree to an overall level of programs, as opposed to a set of particular programs, under a grant consolidation system.

2. Authority to agree to a new Compact section pledging that the United States will continue any activities and programs in the alternate energy area which are commenced prior to Trusteeship termination.

3. An Administration position on federal programs during the transition period. I would urge formal Administration acquiescence in the state of affairs which has actually pertained since the publication of the unsuccessful Interior/TTG federal programs containment policy of November 1978 and the enactment of PL 96-205, Section 104 which freezes health and education programs:

(a) Existing programs to continue except as set forth below.

(b) Welfare-type programs to be discontinued where legally possible, in consultation with the Micronesian governments.

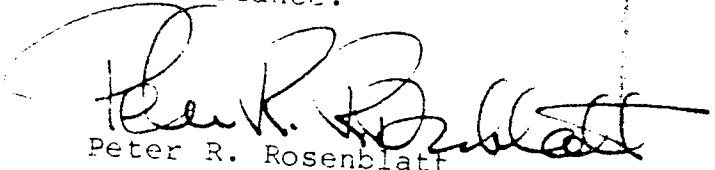
(c) Initiation of new programs not to be precluded (assuming legal discretion in the matter by the TTG or Executive Branch) where these could be expected to deliver significant developmental assistance to Micronesia prior to Trusteeship termination (viz., alternate energy programs).

(d) Upon termination of the Trusteeship, all programs to be discontinued other than those whose continuation is provided for under the Compact.

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4. Authority to undertake to the Micronesians that, upon termination of the Trusteeship, the freely associated states will qualify for USG technical assistance on much the same basis as foreign governments under existing law, but with priority over foreign governments in the granting of such assistance.


Peter R. Rosenblatt
Ambassador

cc:
Ambassador Rozanne Ridgway, State

bcc:
Don Gregg, NSC
Jeffrey Farrow, DPS
Ron Cogswell, OMB

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