

Jeff: Congratulations!
JF

THE WHITE HOUSE
WASHINGTON

MEMORANDUM FOR JIM McINTYRE

FROM: STU EIZENSTAT
JEFFREY FARROW *JF*

SUBJECT: Finalization of the Micronesian Negotiations

We are advised by Ambassador Rosenblatt that the completion of the Micronesian negotiations is at hand. Their success is said to be dependent upon your approval of a minor amendment to the final offer to the three Pacific Island entities authorized by the President last month.

Because it could lead to the desired conclusion of the 11-year talks within a matter of days, we endorse Acting Secretary of State Christopher's strong request that the Kwajalein land use payments be subject to the inflation adjustment provision of the Compact of Free Association. We do so mindful of the importance of the agreement to our self-determination policy, our international commitments, and our Pacific defense strategy.

However, we concur in Secretary Christopher's recommendation with a reservation that is consistent with the President's directive that the final offer to the Micronesian parties be conditional: we suggest that the inflation-adjustment be withdrawn if it does not result in prompt Marshallese acceptance of the Compact.

The actual budget impact of the application of the Compact inflation-adjustment formula to the Kwajalein payments - estimated at \$59.6 million - is minimized by two factors:

- (1) unused but already recognized authority can cover all but \$23 million of the addition to the two and a quarter billion dollar agreement; and
- (2) the amount is backloaded over the 15-year agreement period.

In considering this request you will want to keep in mind the following recent development in the talks:

- (a) negotiators for all parties have indicated to us their fear of a Reagan Administration and their intention to adhere, if at all possible, to the President's November 1 timetable;
- (b) although negotiations lagged after the change in government in Palau, their negotiators are now committed to initial the Compact after their November 4 election;
- (c) a Federated States of Micronesia delegation is to arrive in Washington tomorrow prepared to initial; and
- (d) Marshall Islands President Kabua, who initialed the draft Compact in January prior to the adjustments which will apparently make agreement possible with the other entities, has reduced demands developed over the course of this year to just this one.

In view of the above, in furtherance of the President's objective of a 1981 termination of our administration of the Pacific Islands Trusteeship, and to effect our separate agreement with the Northern Mariana Islands which is contingent upon termination, this final adjustment seems prudent and imperative.

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Handwritten notes: "M", "OK", "11's", and "B".

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