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Federated States of Micronesia

KOLONIA, PONAPE, EASTERN CAROLINE ISLANDS
TELEPHONE: 228 CABLE: FSM GOVT.

July 23, 1985

Office of the President

The Honorable Ronald Reagan
The White House
Washington, D. C.

Dear Mr. President:

On September 8, 1983, I had the honor and pleasure of advising you that the people and governments of the Federated States of Micronesia had completed the process of approving the Compact of Free Association signed by our respective representatives on October 1, 1982. I was also proud to have informed you that my people, in a United Nations-observed plebiscite, had voiced their overwhelming support for a continued close relationship with the United States after termination of the 1947 Trusteeship Agreement.

Now, almost two years later, the governments and people of the Federated States of Micronesia are in a state of frustration, shock and despair. Last Thursday, the House Ways and Means Committee repudiated a fundamental principle of the Compact by eliminating the agreed tax and tariff incentives needed for development of our nation's economy in cooperation with the United States.

We had relied on a concerted effort by the administration to have the Compact approved expeditiously and to achieve accommodation of congressional concerns within the framework of the negotiated Compact without amending, or effectively amending the document itself. Indeed, we must recognize those members and staff of the Foreign Affairs and Interior & Insular Affairs Committees in the House who have achieved a consensus to present to the Full House. While we have not had an opportunity to review this consensus, we understand that the Committees considered carefully our comments on the prior versions of the amendments, and hope that deleterious amendments have been either eliminated or revised.

It is nothing short of tragic that on the very day this consensus was reached, the House Ways and Means Committee approved a set of amendments which would repeal the tax and trade benefit sections of the Compact.

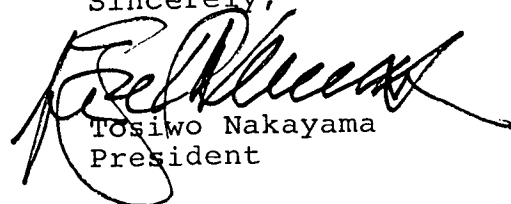
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Incredibly, such actions appear to have been taken with no regard for anything other than the parochial considerations of today's U.S. tax policy. It is bad enough that the Ways and Means Committee gave no weight to the broad policy considerations that guided the Compact negotiations, but it is even worse the Committee's action was openly encouraged by the U.S. Treasury Department, an organ of your administration. We are totally at a loss to understand how this could have been allowed to happen, much less explain it to our people. Questions are now being raised about the good faith of the United States Government, even by some of the most ardent advocates of the Compact during the negotiations and FSM approval process.

The trade and tax benefits package in the Compact is essential if U.S. business is to participate significantly in the FSM's development during the next fifteen years, at costs which maximize the value of Compact dollars. It is just as true today as it was on October 1, 1982 that the future stability of the emerging governments in this region cannot be subordinated to overall tax or territorial policy concerns. Nevertheless, the Ways & Means Committee, in forty-five minutes, destroyed a carefully conceived balance between grants and development incentives which took almost twenty years of planning and negotiations to achieve.

We can only hope that during the final stages of congressional consideration your administration will unite to turn aside the Ways and Means action and resolve any outstanding problems in the House Foreign Affairs/Interior consensus. If that cannot be done, we will be confronted by what had been feared most, fundamental and destructive changes in the Compact as approved by our people. We have come too far to turn back now. We cannot continue to live under the Trusteeship, nor can we accept a free association relationship with the United States, which fully protects United States interests, but denies our people genuine hope for future progress and development. We ask that your administration demonstrate, now before it is too late, your commitment to a continued close relationship with the Federated States of Micronesia.

Sincerely,



Tosiwo Nakayama
President

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