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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

RES-117

JAN 09 1986

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MEMORANDUM FOR THE PRESIDENT

SUBJECT: Enrolled Resolution H.J.Res. 187 - Compact of Free Association
Sponsors - Reps. Seiberling (D) Ohio and Solarz (D) New York

Last Day for Action

January 20, 1986 - Monday

Purpose

Establishes a new relationship with the two largest components of the Trust Territory of the Pacific Islands -- the Federated States of Micronesia and the Marshall Islands.

Agency Recommendations

| | |
|---|---------------------------------------|
| Office of Management and Budget | Approval |
| Office of Micronesian Status Negotiations | Approval (Signing statement attached) |
| Department of the Interior | Approval |
| Department of State | Approval (Informally) |
| Department of Defense | Approval (Informally) |
| National Security Council | Approval |
| United States Trade Representative | Approval (Informally) |
| Department of Energy | Approval (Informally) |
| Council on Environmental Quality | Approval (Informally) |
| Advisory Council on Historic Preservation | Approval |
| Department of Justice | Approval |
| Department of Transportation | Approval |
| Federal Emergency Management Agency | Approval (Informally) |
| Environmental Protection Agency | Approval |
| Department of Education | No objection (Informally) |
| Department of the Treasury | No objection (Informally) |
| Department of Commerce | No objection |



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| Department of Labor | No objection (Informally) |
| United States Postal Service | No objection (Informally) |
| Central Intelligence Agency | No objection (Informally) |
| Federal Communications Commission | No objection (Informally) |
| General Services Administration | Defers to Interior |
| Department of Health and Human Services | No comment (Informally) |
| Department of Agriculture | No comment (Informally) |
| Small Business Administration | No comment (Informally) |

Discussion

Since 1947, the United States has exercised political jurisdiction over several islands in the western Pacific under a Trusteeship Agreement with the United Nations Security Council. The Agreement requires the United States to bring about self-government in accordance with the freely expressed wishes of the peoples concerned.

To fulfill this commitment, the Federal Government conducted negotiations with the four component jurisdictions of the Trust Territory of the Pacific Islands: the Northern Mariana Islands (NMI); the Republic of Palau; the Federated States of Micronesia (FSM); and the Republic of the Marshall Islands (MI). These negotiations resulted first in the Covenant to Establish the Commonwealth of the Northern Mariana Islands in Political Union with the United States (Public Law 94-241), under which the NMI will become a Commonwealth of the United States upon termination of the Trusteeship Agreement. Negotiations regarding the future political status of Palau are still underway. After fourteen years of continuous negotiations with the FSM and the MI, the Compact of Free Association was signed for the United States by Ambassador Fred M. Zeder II on October 1, 1982, with the Federated States of Micronesia, and on June 25, 1983, with the Republic of the Marshall Islands. The Compact was approved by the voters of both jurisdictions in plebiscites conducted in 1983, and by the governments of both jurisdictions in accordance with their constitutional processes.

You originally transmitted to Congress a draft resolution to approve the Compact on March 30, 1984. No final action was taken before adjournment of the 98th Congress, and you resubmitted the proposal on February 20, 1985.

Provisions of the Negotiated Compact

The Compact would establish a new political relationship with the FSM and the MI, under which they will become Freely Associated States, essentially independent except that the United States will retain rights and responsibilities to defend them from aggression and maintain United States defense facilities in the area, most notably the Kwajalein missile range. The Compact would also: (1) nullify nuclear claims against the United States, totalling as much as \$5 billion, resulting from nuclear weapons testing at the Bikini and Eniwetak atolls during the 1940's and 1950's; (2) generally terminate the applicability of Federal law to the Freely Associated States; and (3) require the United States to make a series of payments to the Freely Associated States in return for the nullification of nuclear claims and in lieu of the Federal programs to be terminated.

Congressional Consideration

Because of the comprehensive nature of the Compact, it was subject to an exhaustive series of hearings in numerous committees. These hearings resulted in extensive negotiations between members of the Administration, representatives of the Micronesians, and various congressional leaders, principally the chairmen and relevant subcommittee chairmen of the Senate Energy and Natural Resources and Finance Committees and their House counterparts.

The principal issues in these negotiations were: (1) the tax and trade incentives included in the Compact; (2) the perceived need to compensate the Micronesians for deleting some of these incentives; (3) procedures for Federal implementation of the Compact; and (4) unsuccessful attempts, principally by Senators Thurmond and Hollings, to add unacceptable textile import restrictions, and equally unsuccessful efforts by Senator Hatch to add an unacceptable rider to provide compensation for domestic nuclear test claims. The Administration's goals in these negotiations were to minimize the changes made to the Compact, so that: (1) the negotiated tax and trade incentives could foster economic development in the Freely Associated States; (2) additional funding would not be needed to compensate the Micronesians for the loss of these negotiated development incentives; (3) the Micronesians would not have to resubmit the amended Compact to their public and governmental approval processes; (4) the Compact could be effectively and efficiently administered; and (5) "killer" riders (e.g., textile import restrictions) could be avoided. While the Administration had to compromise somewhat on some of these objectives, the overall package finally adopted adheres closely to the aims of the negotiated Compact.

Congress did reduce some of the tax and trade incentives. It also authorized additional Federal programs to remain available in the Freely Associated States, including those of the Legal Services Corporation, the Public Health Service, the Farmers Home Administration, the Federal Deposit Insurance Corporation, the Small Business Administration, the Economic Development Administration, the Rural Electrification Administration, and the Job Corps, as well as those programs conducted under the Job Training Partnership Act and the tourism and fisheries development programs of the Department of Commerce. Appropriations for all such programs would be made to the Department of the Interior, which would also be responsible for overall program supervision. Finally, Congress required creation of loan funds totalling \$30 million to foster economic development in the Freely Associated States, as compensation for the reduction in tax and trade incentives.

Numerous other amendments were incorporated into the final version of H.J.Res. 187, which the Administration supported as it reached the floor in each House for final enactment. Ambassador Zeder has enclosed a summary of the enrolled resolution's provisions as an attachment to his letter recommending approval of H.J.Res. 187.

Budget Impact

H.J.Res. 187 would require assistance to the Freely Associated States totalling about \$2.3 billion over the 15-year period of the Compact.

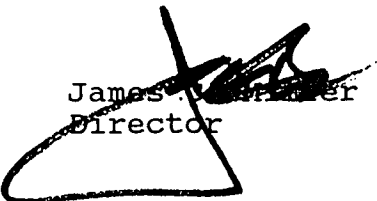
Conclusion

The Administration would have preferred to have the Compact approved without any amendments. In most cases, however, the changes are less objectionable than the Congress' initial reactions to the Compact, and allow the Administration sufficient flexibility to limit potential adverse impacts.

We believe that the final version will prove acceptable to the Micronesians, and that formal reapproval by local voters will not be necessary. Moreover, the central features of the Compact -- establishment of a new political relationship with the Freely Associated States, retention of United States defense rights, and expungement of nuclear claims -- were not changed. Adoption of these features is essential to fulfill our trusteeship



responsibilities to bring about self-government, to allow for termination of the Trusteeship Agreement, and to preserve our strategic position in the Pacific. We recommend, therefore, that you approve H.J.Res. 187, which passed both Houses of the Congress by voice vote.


James A. Callaghan III
Director

Enclosures



WHITE HOUSE STAFFING MEMORANDUM

DATE: 1/9/86 ACTION/CONCURRENCE/COMMENT DUE BY: January 13th

SUBJECT: H.J.RES. 187 - Compact of Free Association

| | ACTION FYI | | | ACTION FYI | |
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| REGAN | <input type="checkbox"/> | <input checked="" type="checkbox"/> | POINDEXTER | <input type="checkbox"/> | <input type="checkbox"/> |
| MILLER | <input type="checkbox"/> | <input type="checkbox"/> | RYAN | <input type="checkbox"/> | <input type="checkbox"/> |
| BUCHANAN | <input checked="" type="checkbox"/> | <input type="checkbox"/> | SPEAKES | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| CHAVEZ | <input checked="" type="checkbox"/> | <input type="checkbox"/> | SPRINKEL | <input type="checkbox"/> | <input type="checkbox"/> |
| CHEW | <input type="checkbox"/> | <input checked="" type="checkbox"/> | STEELMAN | <input type="checkbox"/> | <input type="checkbox"/> |
| DANIELS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | SVAHN | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| FIELDING | <input checked="" type="checkbox"/> | <input type="checkbox"/> | THOMAS | <input type="checkbox"/> | <input type="checkbox"/> |
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| LACY | <input type="checkbox"/> | <input type="checkbox"/> | _____ | <input type="checkbox"/> | <input type="checkbox"/> |

REMARKS: Please give your recommendations to my office by January 13th. Thanks.

RESPONSE: