

**[5/24/80-Not Submitted-DF]**

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THE WHITE HOUSE

WASHINGTON

*5/27* *Hold - per Farrow*

*1/28*

Date: 5/24/80

MEMORANDUM

FOR ACTION:

Jim McIntyre

FOR INFORMATION:

Vice President  
Frank Moore

*[Signature]*  
*per Reed*

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Eizenstat memo reMicronesia Negotiations and  
Territorial Initiatives Funding

YOUR RESPONSE MUST BE DELIVERED  
TO THE STAFF SECRETARY BY:

TIME: 12:00 noon

DAY: TUES

DATE: 5/27/80

ACTION REQUESTED:

Your comments

Other:

STAFF RESPONSE:

I concur.

No comment.

Please note other comments below:

**PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.**

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE

WASHINGTON

May 24, 1980

MEMORANDUM FOR THE PRESIDENT

FROM:

STU EIZENSTAT *Stu*  
JEFFREY FARROW *JFF*

SUBJECT:

Possible Collapse of Micronesian Negotiations  
and Territorial Initiatives Funding

Micronesia 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 (FSM) 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 FSM 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 FSM 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.

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 trusteeship termination in 1981.

Senator Jackson has scheduled hearings on the issue for June 3.

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

- o \$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.
- o \$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.
- o \$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.

Federal assistance is essential since U.S. administration has failed to develop an economic base that could be taxed to support these needs.

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 \_\_\_\_\_

Territorial Initiatives

On February 14 you sent a Message to Congress proposing the nation's first comprehensive territorial policy. The policy outlined was based on a Domestic Policy Review including an interagency task force headed by Interior Under Secretary Jim Joseph.

In your December 27 decisions on the policy options you concurred with the recommendation that they would become a part of the FY '81 budget when costed out. The one element that was priced

at the time -- the \$26 million territorial budget management program -- was included in the FY '81 budget request. A month later, as part of our revision of the budget, we decided to postpone that initiative until FY '82.

In the interim we have submitted legislation to authorize other initiatives as well as take administrative actions to implement them. These steps include selecting an assistant secretary as a part of the Interior reorganization. A proposal for technical assistance was passed by the House May 19, one week after it was submitted.

Secretary Andrus recently requested OMB approval for the department to carry out the other elements of the territorial mandate assigned February 14. These responsibilities include:

- o conducting political development talks and making recommendations on political status change;
- o coordinating a commission on the applicability of Federal laws;
- o facilitating territorial economic development, including studying Federal constraints to development;
- o coordinating Federal grants;
- o developing a test proposal for the replacement of categorical aid with block grants;
- o establishing guidelines for the selective waiver of territorial matching requirements; and
- o designing a program for Federal assistance for private sector investment.

The \$5.8 million request was denied due to the budgetary situation as was the issue of the Micronesia negotiations described above.

Because Congress is unlikely to authorize the Federal laws commission until late in the session and may substantially restructure the proposal, it may be more prudent now to hold off on the \$2.5 million requested for this purpose. Thus, after conferring with Secretary Andrus, we strongly urge your favorable consideration of the remaining \$3.3 million of the request.

Although \$3.3 million would only represent a tenth of the FY '81 commitment contemplated February 14, the amount would allow the Administration to deliver on most of the initiatives which make up your new territorial policy.

In evaluating this request it is important to keep in mind the principal reason that you seek to replace the contradictory ad hoc policies of the past with a comprehensive policy: to increase territorial self-reliance through planned economic and capital development. That goal -- with implications for the hundreds of millions of dollars spent annually in the territories -- would be greatly facilitated by the use to which this \$3.3 million would be put. In fact, the amount is considerably less than the approximately \$5.7 million which would be saved in FY '81 by the application of another of the initiatives -- the 90/10 cost-sharing of capital improvement projects which are now generally 100 percent Federally funded.

An unwillingness to seek funding for the low-cost territorial initiatives would reduce your new comprehensive territorial policy to an empty Presidential statement. In view of the small amount of funds involved (primarily needed to enable Interior to staff the February 14 commitments,) this must be viewed as very embarrassing in both the Caribbean and the Pacific where our initiatives have received much attention.

Recommendation

That you direct approval of \$3.3 million of the Interior request for the territorial initiatives (Secretary Andrus concurs in this recommendation.)

APPROVE \_\_\_\_\_

DISAPPROVE \_\_\_\_\_

A letter from Secretary Andrus to you on these issues is attached.



THE SECRETARY OF THE INTERIOR  
WASHINGTON

May 23, 1980

The President  
The White House  
Washington, D. C. 20500

Dear Mr. President:

I am personally appealing the negative decision of the Director of the Office of Management and Budget with respect to additional funding for the Trust Territory of the Pacific Islands and for this Department. The latter to enable us to begin to implement the new policy toward the United States territories that you announced in mid-February.

We had requested \$16.9 million for fiscal 1980 and 1981 to meet fuel cost escalation beyond the ability of the Trust Territory to absorb; to meet operating costs of the newly established national government of the Federated States of Micronesia, to fund the enhanced territorial affairs function in Interior, and to assist the new Micronesian governments in establishing facilities for their new governments.

It is absolutely essential that \$9.1 million of this request be obtained for fiscal year 1980. We would devote \$3.6 million to increased fuel costs. The Trust Territory has instituted a number of energy conservation steps, but it is dependent upon diesel fuel to provide essential power production. Despite cutbacks in consumption and other energy conserving actions, the territory will be short at least \$3.6 million for this purpose in the current fiscal year.

We need \$2.2 million for the national government of the Federated States of Micronesia. This government was established a year ago. Many functions formerly provided by the High Commissioner's office have been transferred to the new governments. There is, however, a remaining unfulfilled need for funds for such items as salaries, housing, office facilities, and communications. Without these funds in 1980, the national government will be severely handicapped and it is entirely possible that negotiations with the United States to terminate the trusteeship agreement will collapse.

For the newly established office of the Assistant Secretary for Territorial and International Affairs, we need \$3.3 million. In your February 14 policy statement for the territories, you said that the office in Interior charged with territorial liaison and assistance responsibilities would be enhanced organizationally and would play a greater role in supporting territorial political and economic development. It will not be possible to carry out this commitment without the additional funds. We had originally proposed an additional amount to pay for a commission to review the application of Federal laws to all of the territories; that can be deferred.

The new territorial policy has created substantial interest in the Pacific and the Caribbean and failure to begin to implement it will leave us in the position of appearing to promise much but to deliver little. In terms of the funding for the Trust Territory, we have been charged with failure to live up to our commitments in this area. While I do not agree with these charges, we do have a need to support the emerging governments and to enable them to establish themselves with a reasonable expectation of survival.

At the Trusteeship Council meeting this week the representative of the Federated States made a strong appeal for United States assistance and said that his position is to favor early termination, but not before the trusteeship obligations of the United States are met. I am sorry to burden you with these kinds of problems at this time, but I am convinced that the political advantages accruing from approving this \$9.1 million fund request will more than offset the costs.

Sincerely,

CECIL D. ANDRUS

WHITE HOUSE  
MAIL ROOM

1980 MAY 23 PM 6 12

**Electrostatic Copy Made  
for Preservation Purposes**



THE SECRETARY OF THE INTERIOR  
WASHINGTON

May 23, 1980

The President  
The White House  
Washington, D. C. 20500

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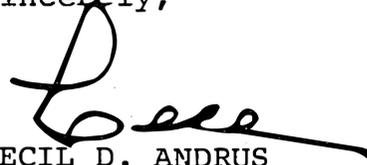
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Sincerely,

A handwritten signature in black ink, appearing to read "C. Andrus", with a long horizontal flourish extending to the right.

CECIL D. ANDRUS