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Jim -

No in thru us -- no staffing ---

Should it just go back to NSC?

Trudy

*yes - done
10/11/76*

THE WHITE HOUSE

4286

WASHINGTON

SECRETACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: BRENT SCOWCROFT (B)

SUBJECT: Key Issues in Our Base Negotiations
with the Philippines

The Problem

Our military base negotiations with the Philippines (GOP) are stalemated over two issues: whether our Mutual Defense Treaty requires us to come to the aid of Philippine forces if attacked in the disputed Reed Bank area, and the amount of military assistance we will offer in exchange for use of Philippine bases. Secretary Kissinger is scheduled to hold discussions with Philippine Foreign Secretary Romulo on October 6 on these subjects and needs your guidance prior to that meeting. OMB believes there is also a third question regarding the timing of further negotiations with the Philippines on these issues.

Background on the Reed Bank

The Reed Bank is a submerged shelf in the South China Sea about 250 kilometers from the Philippine island of Palawan. The Spratly Islands rest on this shelf (see maps at Tab F). Peking, Hanoi, Taipei and Manila all claim title to the Spratly Islands and to the Reed Bank as an extension of the continental shelf of those islands. The Philippines also claim the Reed Bank as part of its continental shelf running from Palawan Island. All of the countries except the PRC have militarily occupied one or more of the Spratly Islands.

The Philippines recently granted concessions to a private consortium headed by AMOCO to explore and drill for oil in the Reed Bank. Philippine military units in the area have been strengthened to protect these exploration activities, and air and sea patrols in the Spratlys have been increased.

SECRET

DECLASSIFIED

E.O. 12356, Sec. 3.4.

MR 92-66 #2 NSC ltr 9/19/95

By KBH NARA, Date 10/26/95

This stepped-up activity has already produced one situation in which Vietnamese troops on one island fired at a Philippine plane. Peking has also registered a private and public protest over Manila's actions.

President Marcos has asked us for a clear written statement of whether we will respond under the Mutual Defense Treaty if his forces are attacked while operating in the Reed Bank (Tab B). Marcos made clear that a formal answer on this question must precede any further progress on the base negotiations.

Agency Positions on the Key Issues

The Reed Bank Issue

Marcos' request that we give him a written guarantee that we will defend his forces in the Reed Bank area poses a dilemma. The Mutual Defense Treaty requires us to react to attacks against Philippine territory, islands or "on its armed forces, public vessels or aircraft in the Pacific." As disputed areas, the Spratlys and the Reed Bank can be defined as territory to which the treaty would not apply. However, the broader reference to forces, vessels or aircraft "in the Pacific," could be interpreted to cover Philippine units attacked in either the Spratlys or the Reed Bank. We have consistently declined to take a position on any of the claims to the Spratlys and the Reed Bank.

Essentially there are three responses we can give to Marcos on this issue: an affirmative one clearly extending our commitment to cover Philippine units attacked in the Reed Bank; a negative one definitely excluding the area from our defense commitment; or an ambiguous one restating our overall defense commitment to the Philippines but leaving unanswered whether we would respond to all attacks on Philippine units in the area.

A clearly negative response to this issue may at the very least be expected to complicate gravely our current task of renegotiating the bases agreement. It could well lead to tighter restrictions on the use of our bases, e. g., for support of activities in the Indian Ocean.

On the other hand, any strongly affirmative response to Marcos will bear at least equal risks. It would increase the possibility of tensions with the PRC and Vietnam. Congress and the public would probably see such a position as an unnecessary expansion of our defense commitment.

Finally, a forthcoming response might encourage Marcos to pursue his claims to the Spratlys more actively, and to use military force to protect such claims.

State and Defense recommend that, as an opening move, you authorize our making an ambiguous reply. In it we would state that we would consider Philippine units operating in the Reed Bank as covered by our Defense Treaty "as long as their presence is consistent with the provisions of the Mutual Defense Treaty, particularly Article I regarding peaceful settlement of disputes and refraining from the threat or use of force." Such a response would: leave us the flexibility necessary to tailor our responses to attacks upon Philippine craft; neither expand nor contract our current treaty obligations; and allow us to avoid the significant risks that both of the other options present.

Compensation Issue

Your decision is also needed concerning the level of military aid we should offer to the Philippines as part of our base agreement. State and Defense propose that you authorize our tabling an initial offer of \$64 million of annual military assistance for 5 years (\$30 million grant -- \$34 million credit). They further request authority to raise this figure, if necessary, during the negotiations up to \$100 million a year, no more than \$40 million of which would be in grant. They point out, moreover, that it may be necessary to settle on a somewhat higher figure in order to get a satisfactory agreement.

OMB believes that the State/Defense position is overly generous in terms of the amount of grants in contrast with the restraint we have placed on other government spending in 1978 and future years and in light of the Congressional mandate to eliminate grant military assistance after fiscal 1977. Moreover, the proposed offer greatly exceeds the levels we provided the Philippines in the last five years. (Largest total of grant and credit has been \$37 million.)

OMB would conduct the discussion with a much lower grant/credit ratio, although the total amount would be the same.

While I do not recommend it, you may wish to consider a third alternative in the event you believe the State/DOD grant figures are too high. This alternative starts out with the State/DOD position but reduces grant MAP annually while raising the overall aid figure.

On a year by year basis, the three options would look as follows:

(\$ millions)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>Total</u>
<u>Alternative #1 (State/Defense)</u>						
Grant	30-40	30-40	30-40	30-40	30-40	150-200
Credit	34-60	34-60	34-60	34-60	34-60	170-300
Total	64-100	64-100	64-100	64-100	64-100	320-500
<u>Alternative #2 (OMB)</u>						
Grant	20	15	10	10	--	55
Credit	44-80	49-85	54-90	54-90	64-100	265-445
Total	64-100	64-100	64-100	64-100	64-100	320-500
<u>Alternative #3</u>						
Grant	30-40	25-35	20-30	15-25	10-20	100-150
Credit	34-60	44-70	54-80	64-90	74-100	270-400
Total	64-100	69-105	74-110	79-115	84-120	370-550

Timing

OMB believes we should not proceed with the negotiations now. Jim Lynn argues that:

-- Since our position does not meet Marcos' request for a clear commitment on the Reed Bank it is doubtful that any reasonable quid offer will be sufficient to overcome Philippine insistence on severely restricting our operating freedom and limiting the terms of the base agreement.

-- A recess would provide time to consider alternative base requirements in the Philippines in light of the NSSM 246 worldwide review of military strategy and bases.

State believes that delays will only serve to harden the Philippine position and may push up the price we have to pay. In addition, should Marcos perceive that we are attempting to stall, he might seek to apply pressure by unilaterally imposing restrictions on our operating rights. The

question of alternative base requirements in the Philippines has already been addressed in March 1976. At that time both Defense and State recommended no change in our basing structure or our force levels. I believe State and Defense are in the best position to judge these issues.

Subject to your decisions, I will issue an appropriate directive to the Departments of State and Defense providing guidance on the level of compensation we should offer to the Philippines, what stand we should take on the Reed Bank defense issue, and the timing of making our approaches.

RECOMMENDATIONS

Reed Bank

That you authorize State and Defense to reply to Marcos on the Reed Bank defense commitment issue by saying our Defense Treaty would apply to Philippine units operating in the Reed Bank region as long as their presence is consistent with the provisions of our Mutual Defense Treaty, particularly Article I regarding peaceful settlement of disputes and refraining from the threat or use of force.

APPROVE WY

DISAPPROVE _____

Compensation

#1 That you authorize a five year security assistance commitment in the range of \$64 million (\$30 million of which is grant aid) to \$100 million per year (of which no more than \$40 million is grant). [State and Defense recommend.]

APPROVE WY

DISAPPROVE _____

OR

#2 That you authorize a five year security assistance commitment in the range of \$64 to \$100 million per year with no more than \$55 million in grant aid over the entire period. [OMB recommends.]

APPROVE _____

DISAPPROVE _____

OR

#3 That you authorize a first year minimum offer of \$30 million grant and \$34 million FMS credits. Following that, the grant element would decline \$5 million each year while the FMS element would increase by \$10 million.

APPROVE _____

DISAPPROVE _____

Timing

That you approve Secretary Kissinger's proceeding with the negotiations using the positions you have approved as his guidelines.

APPROVE WJ

DISAPPROVE _____