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MEETING WITH CONGRESSMAN BENITEZ
MONDAY, JULY 7, 1975

4:00 p.m.

JMC's Office (Jim Falk)



log
Puerto Rico
File

March 27, 1975

MEMORANDUM FOR:

JIM FALK

FROM:

JIM CANNON

SUBJECT:

Meeting with Governor
Hernandez-Colon of Puerto Rico

The attached material from Lynn Coleman follows our meeting with Governor Colon Tuesday afternoon.

Would you and Norm Ross please review this material and provide me with your analysis as well as any recommendations or suggestions for further action.

Many thanks.

Attachment



VINSON, ELKINS, SEARLS, CONNALLY & SMITH

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March 26, 1975

Honorable James Michael Cannon
Executive Director and Assistant
to the President for Domestic Affairs
The White House
Washington, D. C. 20500

Re: Meeting with Governor Hernandez-Colon of
Puerto Rico on March 25, 1975

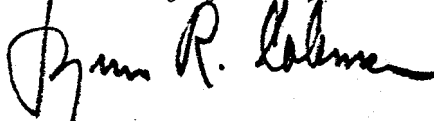
Dear Mr. Cannon:

On behalf of the Governor of Puerto Rico, I enclose a memorandum which briefly describes Puerto Rico's economic and fiscal crisis. I also enclose a copy of a recent report to him by Mr. T. N. Hurd.

The Hurd report provides a description of Puerto Rico's current economic problems, the extreme fiscal difficulties of the Commonwealth government together with a discussion of possible solutions. As you will appreciate from reading the report after the Governor's presentation yesterday, many of the steps mentioned in this report have already been taken. However, even with implementation of drastic cost cutting and new tax measures, as Mr. Hurd concludes, a substantial revenue-expenditures gap will remain in fiscal 1976 which, as a practical matter, can only be met by increased federal assistance. In this connection, I invite your attention to pages 16-17 of the Hurd report.

I enjoyed very much having the opportunity to meet you yesterday and look forward to working with you and your staff on a solution to these problems.

Sincerely yours,


Lynn R. Coleman

LRC:slg
Enclosures

CONFIDENTIAL

TO: Hon. James Michael Cannon
Executive Director and
Assistant to the President
for Domestic Affairs

FROM: Governor Rafael
Hernandez-Colon

RE: Puerto Rico's Economic
and Fiscal Crisis

DATE: March 26, 1975

The Crisis

Puerto Rico is undergoing its severest economic recession since Operation Bootstrap was started 30 years ago. Unemployment has shot up to an official level of 17%. Government resources have fallen, creating a gap for the next fiscal year of over \$300 million in a budget of \$1.4 billion.

The Reasons

The basic reasons for Puerto Rico's economic plight are three:

(1) We are totally dependent on imported oil as our only source of energy. We are without oil, gas, or coal of our own.

(2) The stateside recession has substantially affected the Mainland demand for products of the bootstrap factories and has weakened tourism.

(3) As we purchase over 60% of our products from the Mainland, we have also been importing Mainland recession.

What This Forces Puerto Rico To Do.

-- Over the past two years we have been forced to legislate new taxes or increases to existing taxes in order

to generate nearly 20% of the revenues for our budget. To my knowledge, no tax effort of this magnitude has ever been made by the Federal Government or by any state government over a two year period.

-- Automatic salary increases for next year for teachers and government employees must be repealed by legislation.

-- The government will not purchase any new equipment at all during next fiscal year.

-- The hours of work of government employees will be reduced in order to meet the requirements of the new federal minimum wage law.

-- In addition to all of this, each government agency's budget will be cut by 11%.

-- To illustrate the effect of this 11% cut on one of our agencies -- the Department of Education -- the following measures which will have to be taken:

1. Stop all purchases of equipment, textbooks, and educational material.
2. Stop all training programs including leaves of absence and scholarships -- both for students and teachers.
3. Postpone opening of 17 new schools built this year.
4. Stop all medical services for students.

5. Close down the educational radio and television station.
6. Close down the community education program.
7. Cut in half all travel expenses.
8. Reduce, by nearly half, the adult education program.
9. Lay off about 6,000 employees (not less than 4,000 classroom teachers will have to be laid off).
10. The possibility of closing schools that are now in operation is very real and, of course, the lay off of school lunch employees will also mean that thousands of children will be deprived of this essential service.

Federal Response

Puerto Rico does not participate in Federal revenue-sharing programs. Thus, it has no Federal "cushion" in a time when its own revenues are falling sharply. Unlike the Federal government, it cannot engage in deficit spending. Its borrowing authority is stretched virtually to the limit.

The Federal government can help by:

- (1) Assuring that Puerto Rico is given a fair share of Federal spending, both for capital improvement and on-going programs, in all of the anti-recessionary measures being considered by Congress.

Hon. James Michael Cannon

March 27, 1975

Page 4

(2) Reaching agreement with Puerto Rico on the rebate of excise taxes collected on gasoline refined in Puerto Rico and shipped to the U.S. Mainland, both in the past and prospectively.

**COMITE AD HOC SOBRE EL DESARROLLO
DEL ESTADO LIBRE ASOCIADO DE PUERTO RICO**

Edificio Intendente Ramirez -- Oficina 802

San Juan, Puerto Rico 00905

**PROPOSAL OF THE PUERTO RICAN MEMBERS OF THE
AD HOC ADVISORY GROUP ON PUERTO RICO**

APRIL 12, 1975

PROPOSAL OF THE PUERTO RICAN MEMBERS OF THE
AD HOC ADVISORY GROUP ON PUERTO RICO

APRIL 12, 1975

COMPACT OF PERMANENT UNION BETWEEN PUERTO RICO AND THE UNITED STATES

1- The Free Associated State of Puerto Rico

The people of Puerto Rico constitute an autonomous body politic organized by their own, free and sovereign will and in common agreement with the United States under the juridical structure and official name of the Free Associated State of Puerto Rico.

The people of Puerto Rico, a cultural community of hispanic language and tradition, citizens of the United States as well as citizens of Puerto Rico, have repeatedly decided and have expressed --in their Constitutional Convention, in referendums and in a plebiscite specifically held to that effect-- their purpose to live in permanent union with the United States upon mutually satisfactory and just bases.

In fulfillment of the terms of that plebiscite and subject to the approval of the Congress of the United States and the ratification in referendum by the people of Puerto Rico, it is hereby agreed to reaffirm, to consolidate and to improve the relationship already established, by means of this Compact of Permanent Union Between Puerto Rico and the United States.

2- Jurisdiction and authority of the Free Associated State of Puerto Rico. Delegation of certain powers to the United States.

a. The Free Associated State of Puerto Rico has jurisdiction over the population and island of Puerto Rico, its seas, and the population, islands and seas adjacent to Puerto Rico.

b. The right of the Free Associated State of Puerto Rico to govern itself is hereby recognized, as well as the right to exercise all the necessary powers and authority to govern the people of Puerto Rico according to its own Constitution and laws, to represent them, and to make a compact with the United States as to the nature of its present and future political relations.

c. In the exercise of their power of self-government, the people of Puerto Rico now propose:

1- To agree with the United States upon the norms, provisions, and procedures set forth in this Compact

2- To delegate to the United States the powers and attributes specified in this Compact

3- To reserve all other powers and attributes of their political life to the Free Associated State of Puerto Rico or to the people of Puerto Rico

4- To recognize the Supreme Court of the United States as final judge of the scope of this Compact, of the applicable provisions of the Constitution of the United States, and of whether or not the laws conform to its provisions.

d. The United States will have responsibility for and authority with respect to foreign political affairs and defense

affecting the Free Associated State of Puerto Rico. " Nothing herein shall preclude the right of the Free Associated State to participate in international organizations as may be consistent with the functions of the United States, or from making agreements with other countries with respect to educational, cultural, health, sporting, professional, industrial, agricultural, financial, commercial, scientific or technical relations.

3- Legal Title to Crown Lands and Navigable Waters

a. Lands

All property which may have been acquired in Puerto Rico by the United States under the cession of Spain in the treaty of peace entered into on December 10, 1898, and to which the United States holds title, shall become the property of the Free Associated State; Provided, That the United States may continue to use for public purposes that property which is now being used for such purposes; Provided, further, That the President may, from time to time, convey to the Free Associated State of Puerto Rico those lands, buildings or interests in lands or other property now utilized by the United States which in his judgment are no longer necessary for the purposes of the United States. The President of the United States may, from time to time, accept by grant from Puerto Rico, any lands, buildings or other interests or property which may be needed for public purposes by the United States.

b. Navigable Waters

The harbor areas and navigable streams and bodies of water and submerged land underlying the same and around the Island of Puerto Rico and the adjacent islands and waters not reserved by the United States for public purposes nor alienated in any other way, shall become and shall continue to be the property of the Free Associated State; Provided, That the laws

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of the United States for the protection and improvement of the navigable waters of the United States and the preservation of the interests of navigation and commerce, shall continue in force as at present, unless contrary agreed to; Provided, further, That nothing contained in this Act shall be construed so as to affect or impair in any manner the terms or conditions of any authorizations, permits, or other powers heretofore lawfully granted or exercised in or in respect of said waters and submerged land in and surrounding said Island and its adjacent islands by the Secretary of Defense or other authorized officer or agent of the United States.

4- Internal Revenue

a. Except as provided in paragraph b of this article and in articles 6-b and 9 of this Compact, the internal revenue laws of the United States shall not have effect in the Free Associated State of Puerto Rico.

b. The income tax laws of the United States may have effect in Puerto Rico only upon the income of residents of Puerto Rico derived from United States or foreign sources, but income tax payments to the Free Associated State of Puerto Rico upon income derived from United States or foreign sources shall be credited against federal income tax.

5- Reciprocity Provisions

a. There shall exist full reciprocity between the Free Associated State of Puerto Rico and the United States, the States of the Union and any other body politic of the United States, concerning the following:

1- Giving full faith and credit to official certifications, documents and judicial proceedings

2- Accepting and honoring rights of removal and surrender of fugitives

3- Mutually exempting from taxation the official obligations issued under the authority of any of the jurisdictions referred to above.

b. In the interests of cooperation and efficiency, and when compatible with their legal responsibilities and authority, officials of the departments and agencies of the Free Associated State and officials of the departments and agencies of the United States are directed to assist one another in the execution of their respective functions.

6. Common Citizenship - Its Rights and Duties

a. All persons born in Puerto Rico are citizens of the United States and have all the rights, privileges and immunities inherent in that citizenship as well as duties pertinent thereto. While residing in Puerto Rico, they shall also enjoy all the rights, privileges and immunities and shall have all the duties which the Constitution and the laws of Puerto Rico confer and impose on its citizens. In case of a change of residence to any state or other jurisdiction of the United States, the citizens of the Free Associated State of Puerto Rico shall have in addition to their rights and duties as citizens of the United States, all the rights, privileges and immunities, as well as the duties of citizenship established by the Constitution and the laws of that state or jurisdiction. Likewise, any citizen of the United States who changes his residence to Puerto Rico shall, in addition to his rights and duties as citizen of the United States, acquire all the rights, privileges and immunities as well as the duties established by the Constitution and laws of Puerto Rico.

b. The laws of the United States which provide loans and other assistance for the benefit of the health, education, housing, opportunities for employment, and social welfare of the citizens of the United States shall be applicable to the citizens of the United States residing in the Free Associated State of Puerto Rico. When such laws require from the states or the

citizens therein, special contributions in order to receive such benefits, the Free Associated State or its citizens shall make the payments required by such law.

c. The Free Associated State shall contribute to the maximum of its economic capacity to improve the health, education, housing, opportunities for employment, and social welfare of the citizens of the United States residing in Puerto Rico.

d. A system of contributory payments to the Treasury of the United States shall be initiated, at the appropriate time, in gradual ways which will not substantially impede the economic and social development of Puerto Rico, based upon disbursements which shall be made by the Legislature of Puerto Rico from the general fund or any other sources subject to the legislative action of Puerto Rico. (See Annex A.)

7- Security and Common Defense

a. Laws of the United States referring to defense and national security shall apply to the Free Associated State in accordance with their terms. The President and the Governor will consult and cooperate to facilitate objectives of defense and national security.

b. When the President of the United States considers that the security and common defense require the acquisition of properties in Puerto Rico, he shall thus certify to the Governor of the Free Associated State, who shall proceed to acquire by expropriation or by any other means the required property and place it at the disposition of the Government of the United States.

8- Currency

The currency of the United States shall be the exclusive currency of Puerto Rico. The laws of the United States relative to currency, coinage, gold and silver shall apply to Puerto Rico, in accordance with their terms.

9- Common Market

a. Economic, trade and commercial relations between the United States and Puerto Rico shall be conducted within the framework of the common market heretofore established between the United States and Puerto Rico. The United States shall not impose restrictions, tariffs, or taxes of any kind on articles imported into the United States from Puerto Rico, nor shall Puerto Rico impose restrictions, tariffs, or taxes of any kind on articles imported into Puerto Rico from the United States.

In recognition of the reciprocal benefits the United States and Puerto Rico have derived from expanding trade within the common market, but in recognition, also, of worldwide interest in trade expansion, of United States international obligations and interests with regard to foreign trade liberalization, and of Puerto Rican interest in the expansion of its foreign trade, it shall be the purpose of the United States and of Puerto Rico to pursue policies of foreign trade expansion and liberalization in a manner compatible with the continued expansion of trade and commerce within their common market economic community.

b. Except as hereinafter provided, laws and tariff provisions of the United States on articles imported from foreign countries shall be applicable in Puerto Rico.

c. The income from customs duties, licenses for imports,

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tariffs and taxes collected in Puerto Rico, as well as internal revenue taxes which may be collected on articles transported from Puerto Rico to the United States, shall be paid into the Treasury of Puerto Rico, after deducting the expenses of such collections. The terms "income" and "taxes" referred to in the preceding sentence shall not be understood in any limited way and they extend to every kind of revenue, direct or indirect, of any nature.

d. Notwithstanding the provisions in Section a. and b. of this article, Puerto Rico shall continue to enjoy the right to levy tariffs upon or otherwise to restrict the import of coffee from foreign countries or the United States; and in a manner consistent with the international obligations of the United States and after prior consultation and coordination with the federal authorities concerned, Puerto Rico may levy, increase, reduce or eliminate tariffs on finished, semi-finished, agricultural or raw materials imported directly from foreign countries or transshipped through the United States; Provided, That any article containing material from foreign sources imported into Puerto Rico at a tariff rate lower than the tariff rate applicable in the United States shall not be sold or shipped to any other point in the United States customs territory unless the appraised value on sale or shipment of said article contains at least 35 percent in value added in Puerto Rico. The same principle shall apply to articles containing material from

foreign sources exported to Puerto Rico from the United States.

e. The consultation and coordination alluded to in Section d. shall be undertaken with the purpose of facilitating internal customs procedures, proposed trade agreements and commercial arrangements with foreign countries which Puerto Rico may be interested in making that may involve tariff adjustments, as well as international trade negotiations undertaken by the United States referred to in Section f.

f. In international trade negotiations that the United States may undertake, account shall be taken of the commercial and industrial interests of the Free Associated State, as well as of its stage of economic development. With regard to commercial treaties it may enter into, the United States, in agreement with the Free Associated State, shall seek to have extendend to the exports of Puerto Rico the most favorable consideration. Should the Free Associated State so desire, and after consultation and agreement, the United States shall seek to have Puerto Rico accepted as an associated developing state which the developed countries recognize as qualifying fully to participate in all benefits from any regional or worldwide system of preferences for developing countries.

10- Entry of Aliens into Puerto Rico

a. Immigration rules, regulations and procedures of the United States shall apply to Puerto Rico in accordance with their terms, except when the President of the United States and the Governor of the Free Associated State may from time to time agree, in the light of economic and demographic considerations applicable to the Free Associated State, to limit the number of aliens who may be admitted to Puerto Rico or to increase the quota of aliens who may be admitted to Puerto Rico as resident aliens to meet the needs of the Free Associated State for scientific, professional, technical, sporting, cultural, industrial, agricultural, and educational purposes, or for reasons of hospitality to political refugees.

b. Nothing included in any of the provisions of this article shall be applicable nor shall affect in any way the citizens of the United States and their right of free transit between the United States and Puerto Rico.

11- Representation of Puerto Rico

a. The Free Associated State shall be represented in the Senate and the House of Representatives of the United States by one representative in each House, who shall be elected for that position according to the laws of Puerto Rico. They shall have a seat in the Senate and in the House of Representatives of the United States and shall receive official acknowledgement from all the departments of the Government of the United States upon presentation by the Department of State of a certificate of election issued by the Governor of Puerto Rico. Such representatives shall have the qualifications established for members of the Senate and the House of Representatives, respectively.

b. In case of a vacancy in either of these positions, it will be filled for the rest of the term according to the laws of Puerto Rico.

12- Applicability of Federal Laws

a. The laws of the United States applicable to the Free Associated State on the date of approval of this Compact shall continue in effect except and to the extent repealed or modified by this Compact, or incompatible with it, and except as hereafter modified, suspended or repealed in accordance with law.

b. Laws hereafter enacted by the Congress, unless otherwise provided by this Compact, shall not be applicable to the Free Associated State unless such laws explicitly refer to the Free Associated State and except as provided in sections c and d of this Article 12.

c. Laws of the United States enacted after the effective date of this Compact which are applicable to the Free Associated State pursuant to the powers and functions expressly delegated to the United States in this Compact, shall apply to the Free Associated State unless and except to the extent that they are incompatible with this Compact except as otherwise provided in section d of this Article 12, and except as may otherwise be provided by order of a court of competent jurisdiction.

d. In the event that the Free Associated State, prior to the enactment of any law of the United States after the effective date of this Compact, shall notify the President of the United States, the Speaker of the House of Representatives and the Presiding Officer of the Senate of the United States that it objects to the application of such law to the Free Associated

State, and shall state its reason for such objection, such law shall not be applicable to the Free Associated State unless and until, by joint resolution, the Congress shall find and declare that the application of such law to the Free Associated State is essential to the interests of the United States and is compatible with the provisions and purposes of this Compact; Provided, That this paragraph shall not apply to laws which directly affect the rights and duties of citizens and the security and common defense, nor to foreign affairs and currency as specified in this Compact.

e. Rules, regulations and orders issued by the departments and agencies of the United States after the effective date of this Compact shall not apply to the Free Associated State unless and except to the extent that they are compatible with this Compact. In the event that the Free Associated State shall notify a department or agency of the United States that it objects to the application of any such rule, regulation or order to the Free Associated State, such rule, regulation or order shall not be applicable to the Free Associated State unless and until the department or agency shall find and declare that the application thereof to the Free Associated State is essential to the interests of the United States and is compatible with this Compact. Any such determination shall be subject to judicial review in accordance with law.

13- Assignment of Federal Functions to the Free Associated State

a. The Government of the United States may from time to time transfer to the Free Associated State the total or partial performance of functions delegated to the United States by this Compact, provided that the Government of Puerto Rico agrees to perform them.

Except as otherwise agreed to, the Government of Puerto Rico, its agencies and dependencies shall assume the expenses and responsibilities inherent in the assignment received.

The officials and employees of the Government of the United States in charge of the functions on the date of their transfer shall retain the rights previously acquired by reason of their employment.

b. The Congress of the United States, in appropriations legislation applicable to the Free Associated State, shall provide maximum flexibility for the use of such funds, consonant with the purposes and objects of the appropriations, so that the use of such funds may be adapted to the special circumstances and conditions relevant to the administration of the program in the Free Associated State.

14- Joint Commission

a. There is hereby created a Joint Commission for a term of five years, composed of six (6) members, three (3) members and their successors appointed by the President of the United States and three (3) members and their successors appointed by the Governor of Puerto Rico. The Commission shall adopt its own internal regulations.

b. This Joint Commission has as its principal assignment to help in the perfection of the legal and administrative relations between the United States and Puerto Rico in agreement with the fundamental objectives expressed in this Compact and, to that effect, shall have the following specific assignment:

1- The Commission shall study the desirability of retaining, modifying or eliminating the application of specific Federal laws to the Free Associated State and shall give priority in such study to the laws pertaining to communications, coastal shipping and administration of selective service. The Commission shall submit its reports to the President and to the Governor. When the report recommends the discontinuance of the applicability of a particular law or part of law to the Free Associated State, and the President of the United States and the Government of Puerto Rico concur with the recommendation, it shall be submitted to the Congress of the United States. If ninety days, counted from the date when Congress receives the recommendation, shall elapse without either House rejecting it, said law shall cease to have effect in Puerto Rico.

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2- The Commission shall also study the possible transfer of federal functions to agencies of the Free Associated State, in accordance with the provision of Article 13-a and shall make the pertinent recommendations. When they involve the transfer of particular federal functions to the Free Associated State, such recommendations shall be submitted to the President of the United States and the Governor of the Free Associated State. If both agree with the recommendations, the President shall by Executive Order provide for such transfer and shall transmit such Executive Order to the Congress. Any such Executive Order shall become effective at such time as it shall specify, unless either House of Congress, within ninety days from receipt of the Executive Order, shall object.

c. The Commission shall have a professional and technical staff and may use the services of the research institutions which it deems convenient; and is hereby authorized to request and receive the cooperation of any agency, department, or bureau of the United States or of Puerto Rico.

d. The Commission shall have an annual budget, to be shared in equal parts by the Government of the United States and the Government of Puerto Rico. The Commission shall formulate its own budget proposal annually. The sum of \$ _____ is appropriated for the first two years of operation.

15- Judicial Review

a. The courts of the United States and of the Free Associated State shall have concurrent jurisdiction with respect to justiciable questions arising under this Compact, and actions instituted in the courts of the Free Associated State may not be removable to a federal court on the grounds that provisions of this Compact are in issue.

b. The Free Associated State may institute and maintain proceedings in any court of competent jurisdiction to obtain relief authorized by law with respect to any law or action alleged to be in contravention of this Compact, but the right of the Free Associated State to maintain such proceedings shall not prevent any person in any proceedings from asserting a claim under this Compact.

c. Final judgments and decrees entered by the highest court of the Free Associated State in which judgment could be had, which are wholly or partly based on questions of federal law or the interpretation of this Compact shall be subject, only as to these questions, to review by the Supreme Court of the United States in like manner as judgments of the courts of last resort of the states of the Union.

16. United States District Court

a. There shall exist a United States District Court for the Free Associated State whose jurisdiction shall be the same as that of other District Courts of the United States, including the jurisdiction over the naturalization of qualified aliens and residents in the Free Associated State.

b. All the procedures, pleadings, and records shall be conducted in Spanish, unless the Court, in the interest of justice, shall otherwise determine.

c. The selection of the jurors shall be conducted and their requisites shall be guided in accordance with the laws of the United States, provided that such selection and requisites are consistent with Section b of this article.

d. The United States District Court shall not intervene to prevent the establishing or collecting of any tax imposed by the laws of the Free Associated State.

17. Labor

a. The public policy of the United States and of the Free Associated State is declared to be that the minimum wage in Puerto Rico be equivalent to the minimum wage in the United States as soon as economic conditions in Puerto Rico so permit.

From the moment in which this Compact becomes effective, the minimum wage of employees in Puerto Rico who work in shipping and aviation industries or enterprises, and of those the products or services of which are sold or rendered substantially in the United States, shall be covered by the provisions of the Fair Labor Standards Act or any other general minimum wage law of the United States. In all other cases, the authority to fix minimum wages and working hours lies in the Free Associated State, which assumes the responsibility to reach, as soon as possible, the goal set in the previous paragraph.

b. The Free Associated State of Puerto Rico shall have exclusive jurisdiction over all matters pertaining to labor-management relations, except for the shipping and aviation industries, which shall be covered by the appropriate federal laws, as may be determined by the Congress of the United States.

c. The Free Associated State of Puerto Rico shall have exclusive jurisdiction over all matters pertaining to laws and regulations on occupational health and safety, except for

the shipping and aviation industries, which shall be covered by the appropriate federal laws, as may be determined by the Congress of the United States.

18. Ecology

The primary authority to regulate the ecology and environmental quality in Puerto Rico shall reside in the Free Associated State of Puerto Rico.

19. Effective Date

In order to become effective, this Compact shall require:

- a. Its approval by the Congress of the United States
- b. Its approval by the electorate of the Free Associated State in a special referendum called to that effect by the Legislative Assembly of Puerto Rico.
- c. The official proclamation of its approval by the electorate of the Free Associated State and the determination of its effective date, which shall be determined by agreement between the President of the United States and the Governor of Puerto Rico, to have effect within a period not longer than one year following its approval by the electorate.

20. Transition

Nothing in this Compact shall be deemed to interrupt or impair the jurisdiction of the courts or quasi-judicial agencies over matters pending before them at its effective date nor to affect, until their normal expiration, any franchises, permits and other grants issued prior to such effective date. Actions by either the United States or the Free Associated State prior to this Compact which would be lawful at its effective date, shall not be affected in any way by its approval.

21. Amendments

This Compact can be amended only by mutual agreement and always with the approval of the electorate of Puerto Rico.

ANNEX A

Since 1952, the idea has been expressed that the Commonwealth, by means of voluntary agreements, should make contributory payments to the economic burdens of the Union between the United States and Puerto Rico, in a gradual manner, from the moment that Puerto Rico can so contribute without substantial injury to its economic and social development. Puerto Rico receives from the Government of the United States valuable financial, social, and other aids, and it is just and proper that it contribute as soon as it is able to do so to the Treasury of the United States, from which these benefits come.

This principle is contained in the Governor's Message to the Legislature in 1952. It is also included in a Resolution on status, of December 3, 1962, of the Legislative Assembly of Puerto Rico, approved with the endorsement of all the parties, which expressed it thus:

Whereas, those who support the Commonwealth status conceive its maximum development in permanent union with the United States of America under the following principles:

.... The adoption of a formula under which the people of Puerto Rico will contribute to defray the general expenses of the United States Government in a manner compatible with the stability and economic growth of Puerto Rico.

The new Compact should contain a formula to determine in what future circumstances such payments can and ought to begin,

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by the authority of the Compact, from the internal sources which the Legislature may determine, and in what gradual way and to what degree those payments should be developed. Various formulas have been proposed by the Puerto Rican members of the Ad Hoc Committee; but the group is not entirely satisfied with any of them and considers that better ones can be developed. We reproduce below the proposed formulas and we invite the people to suggest, in public hearings or any other way, other formulas or to improve those presented.

The formulas proposed up to the present are the following:

1. The Free Associated State shall initiate a system of contributory payments to the Federal Treasury when 80% of the families in Puerto Rico have an annual income no smaller than \$4,000, in terms of the present purchasing power of the dollar.
2. The Free Associated State shall initiate a system of contributory payments to the Federal Treasury when the average annual family income in the Free Associated State reaches 80% of the average annual family income in the state of the United States with the lowest family income.
3. The Free Associated State of Puerto Rico shall contribute to the Federal Treasury a given percentage of the average of its Total Net Income during the five year period immediately preceding the year to be selected to begin the Free Associated State contribution. If this contribution were initiated in 1976, projected to the year 2000, the base would change five times, raising the amount of the Free Associated State contribution, proportionally with the increase in the Total Net Income.

This procedure will continue to be applied

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indefinitely --changing the base every five years-- until the Free Associated State contribution reaches a reasonable amount, which, it is estimated, will never exceed the average amount of the federal aid received during the preceding five years.

4. No definite payment in exact amounts of money would be made; the contribution would consist in the value of the rent for the lease of all the real estate which passed from the Spanish Crown to the Government of the United States in 1898, and which should have always really belonged to Puerto Rico, and in the value of services rendered by Puerto Rico to the United States, including the execution of federal functions which the Free Associated State agrees to undertake.

The contributory payments to be made by authority of this Compact, which do not consist of taxes imposed by the Congress of the United States, shall be raised by the appropriations and from the funds that the Legislature of Puerto Rico may determine.

We repeat our invitation to improve this as well as any other part of the proposed Compact bill of the Puerto Rican group of the Ad Hoc Committee.

THE WHITE HOUSE
WASHINGTON

JMC

REMINDER

You wanted to talk to Dick Dunham
Norm Ross and Jim Cavanaugh about
Puerto Rico --

Attached is background

Jeanne



5/13/75

Dick Dinkum

I Think you,
Lui Lavanash,
Norm Ross and
I moved
dis was this

Jim

Barry
Please set up:
Dick D.
Norm Ross
JHC



THE WHITE HOUSE

WASHINGTON

May 2, 1975

MEMORANDUM FOR: JIM CANNON
FROM: NORM ROSS
SUBJECT: Ad Hoc Advisory Group on Puerto Rico

BACKGROUND

Mon
When the Puerto Rican people voted for Commonwealth status in preference to Statehood in the plebiscite of 1967, they also chose to "perfect" Commonwealth through Advisory Groups, which are jointly appointed by the President and the Governor of Puerto Rico. ~~The~~ President appointed the first such Advisory Group jointly with former Governor Luis Ferre in 1970 to inquire into the question of the Presidential vote for Puerto Ricans. That Group reported back favorably in 1971, but no action has been taken, and the question is again being considered by a second Advisory Group initiated on September 27, 1973.

This second Advisory Group has been charged to investigate "the extent to which the laws and administrative regulations of the United States should apply in Puerto Rico." The Group has 14 members: 7 appointed by former President Nixon and 7 by Governor Hernandez-Colon. Marlow Cook is chairman of the United States delegation. The other members are Senators Buckley and Bennett Johnston; Congressmen Don Clausen and Foley; former Governor Richard Ogilvie; and Paul Howell, a Texas oil man.

1
The Domestic Council was instrumental in establishing the second Group. The Group's Charter designated 18 months as the time needed to accomplish the objectives set forth in the Charter. Based on a starting date of September 27, 1973, the Advisory Group should have completed its work on March 31, 1975. However, the progress of the Group's deliberations has not made this possible.

What is New deadline?



Prior to June 30, 1974, the Advisory Group was financed from the funds provided by the President's Emergency Fund. This Fund was eliminated by Congress in the FY 1975 appropriation process. On July 1, 1974, the Domestic Council provided the necessary funds and personnel vacancies to enable the Group to continue their operations.

A final product of the Advisory Group's activities will be a report to the President and the Governor of the Commonwealth of Puerto Rico. If the Governor accepts its recommendations, he will submit the report to a plebiscite in Puerto Rico. The result is certified to the President, who in turn transmits the report, election results and his recommendations to Congress.

The mainland delegation to the Advisory Group has received a document entitled, "Compact of Permanent Union between Puerto Rico and the United States," dated April 12, 1975. This document was drafted entirely by the Puerto Rican delegates to the Advisory Group in secrecy. No public hearings or meetings, as prescribed by the Federal Advisory Committee Act, were held giving the Puerto Rican electorate an opportunity to make their views known.

The proposal contains several far-reaching provisions which would give Puerto Rico significantly greater autonomy, than enjoyed by the States, in the areas of Federal regulatory statutes and their accompanying administrative regulations. On the other side of the legislative fence, the proposal would establish Puerto Rico as an equal partner with the States in the distribution of social and economic aid.

Such a proposal if not significantly modified will be embarrassing to the President, the Congress and the American people. Exemption actual and proposed from Federal regulatory statutes and the accompanying administrative regulations are very appealing to any body politic and would surely receive an overwhelming affirmative vote from the Puerto Rican electorate. The same result can easily be predicted on the enlargement

of social and economic aid to a people whose per capita income is less than one-half the national average and where a considerable majority of the populace is eligible for welfare.

ISSUE

To diplomatically terminate the activities of the Advisory Group with an "acceptable" report.

ALTERNATIVES

1. The mainland delegation could state that the proceedings at which the Puerto Rican proposal was drafted were not in accordance with the Federal Advisory Committee Act.

Pro

- ° The report from the Puerto Rican delegation is far from being acceptable.
- ° Would allow ample opportunity for mainland input and could result in a finished product acceptable to the President and eventually to the Congress.
- ° Publicly justifiable in that no mainland delegates were consulted in the preparation of the report.

Con

- ° The Puerto Rican delegates would be highly embarrassed making it more difficult to retreat from the far-reaching positions they have taken.
- ° Would mean starting from the beginning and involving several meetings greatly extending the Group's existence.

2. The fully Advisory Group adopt the Puerto Rican document as a working paper.

Pro

- ° Should result in the completion of the Advisory Group's work in the shortest period of time with an "acceptable" product.
- ° The Puerto Rican delegates should be capable of swallowing their embarrassment and retreat from the far-reaching position they have taken.
- ° Open meetings would be held in Puerto Rico which would give the Puerto Rican electorate a firsthand opportunity to understand why such far-reaching steps toward local autonomy cannot and should not be proposed by the Advisory Group.

Con

- ° The mainland delegates must take an unpopular and embarrassing stand and make a strong point that the draft proposed by the Puerto Rican delegates, in their judgment, will result in a finished product unacceptable to the President and the Congress.
- ° Funding for the continuation of the Group's activities must be located. This situation occurs with both alternatives. Tab A contains a proposed budget submitted by Marlow Cook.

RECOMMENDATION

Marlow Cook recommends Alternative 2. I concur with that recommendation.

BUDGET - PROPOSED

5/1/75 - 6/30/75

Personnel Compensation	\$18,200
(including annual leave)	
Personnel Benefits	600
Travel & Transportation	1,500
Reproduction	300
Supplies & Materials	100
Communications	150
Estimated Unpaid Bills on Hand	1,000
1/1/75 - 4/30/75	
	<u>\$21,850</u>

BUDGET - PROPOSED

7/1/75 - 9/30/75

Personnel Compensation	\$23,300
(including annual leave)	
Personnel Benefits	2,000
Travel & Transportation *	10,000
Rent, Communications & Utilities	2,400
Printing & Reproduction	3,000
Supplies & Materials	200
	<u>\$40,900</u>

*One meeting in Puerto Rico and one in Washington, D.C.

THE WHITE HOUSE
WASHINGTON

May 1, 1975

TO : Pat McKee

FROM: NORM ROSS

Attached, as per our
conversation.

AD HOC ADVISORY GROUP
ON PUERTO RICO
1016 16th Street, NW.
Washington, DC 20036

April 15, 1975

Honorable James M. Cannon
Assistant to the President
for Domestic Affairs
The White House
Washington, D. C. 20500

Dear Jim:

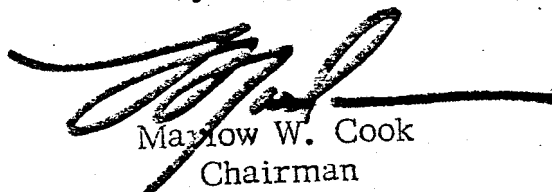
You will find enclosed herein the final draft presentation by the Puerto Rican Delegation to the Full Committee of a proposed Compact of Permanent Union between the United States and Puerto Rico. It is vitally important that we have some input from your organization within the near future relative to this document.

A hoped-for final meeting of the Advisory Group will be held in Washington on Thursday, Friday, and Saturday, May 8th, 9th, and 10th, pursuant to a notice placed in the Federal Register.

As background information, the Advisory Group is a joint selection by the President of the United States and the Governor of Puerto Rico, authorized under Public Law 600 adopted by the Congress in 1950, for the purpose of recommendations to the President and the Congress relative to any problems which may exist between the United States and Puerto Rico. The proposal to be discussed on May 8th, 9th and 10th is of major significance in regard to the future association of Puerto Rico and the Mainland. Thus, any input we could have from your shop would be very valuable.

I do wish to apologize for advising you that the Ad Hoc Advisory Group on Puerto Rico comes under the jurisdiction of the Domestic Council, but then I am sure you have yet to find all the ramifications of your position. Hoping that this advice does not come as a shock, I remain,

Very truly yours,



Maxwell W. Cook
Chairman

Some items in this folder were not digitized because it contains copyrighted materials. Please contact the Gerald R. Ford Presidential Library for access to these materials.

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ON PUERTO RICO
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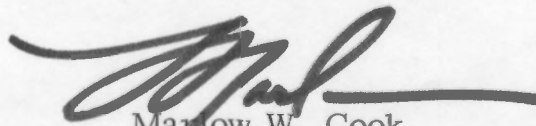
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Very truly yours,


Marlow W. Cook
Chairman



The Internationalization Of Status

It had to happen, sooner or later. The issue of the political status of Puerto Rico has become a key international concern. This fact has been substantiated by none other than John Scali, U.S. Ambassador to the United Nations. In an explosive interview last week (STAR, March 23) the ambassador made clear that Cuba's role in the U.N. concerning Puerto Rico's political status will be a decisive factor in determining the future of diplomatic relations between the U.S. and the Caribbean socialist republic. And of course, relations between Cuba and the U.S. are the keystone to the political future of the Americas.

Ironically, just when the status ferment ebbs in our island due to the economic crisis, we become a pawn in an international power struggle. It's our



By JUAN M.
GARCIA
PASSALACQUA

(Garcia Passalacqua is a

THE SAN JUAN STAR — Wednesday, April 2, 1975

both agreed that it would center around a prompt consideration by the U.S. Congress of the recommendations of the Ad Hoc Committee on Status. Scali expressed confidence that "the American side of the ad hoc advisory group will have the greatest

LUIS MUÑOZ MARIN
SAN JUAN, PUERTO RICO

April 12, 1975

Hon. Marlow W. Cook
Shook, Hardy and Bacon
1776 K Street, N.W.
Washington, D.C. 20036

Dear Senator:

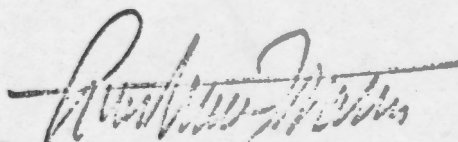
I enclose herewith a resolution and text of the proposed Compact of Permanent Union Between Puerto Rico and the United States, as approved today, April 12, 1975, by the Puerto Rican members of the Ad Hoc Advisory Group on Puerto Rico.

While the text carries with it the consensus of the group, one or two members have at some points expressed reservations.

Our mutual friend Jaime Benítez who leaves tomorrow for Washington, will deliver this letter to you and to the other stateside members of the Group.

We are all looking forward to the forthcoming meeting.

With warmest personal regards,


Luis Muñoz Marín

LMM/clf
Enclosures



COMITE AD HOC SOBRE EL DESARROLLO
DEL ESTADO LIBRE ASOCIADO DE PUERTO RICO
Edificio Intendente Ramírez - Oficina 802
San Juan, Puerto Rico 00905

RESOLUTION

In accordance with the agreements adopted on June 1974 by the Ad Hoc Advisory Group, the Puerto Rican part of this Ad Hoc Advisory Group forwards to its United States colleagues, for the corresponding joint action, its proposal for a Compact of Permanent Union Between Puerto Rico and the United States, enclosed herewith. We recommend that the discussion of the proposed Compact constitute the first and principal item in the agenda of our forthcoming meetings to be held in Washington, D.C. on the 8th, 9th, 10th and 11th of May.

The Proposed Compact of Permanent Union between Puerto Rico and the United States considers, although it does not purport to exhaust, two of the three charges included in our Charter of September 1973, to wit:

- 1) "In order to implement the express desires of the people of Puerto Rico freely made in the plebiscite of 1967, this Ad Hoc Advisory Group will be charged further to develop the maximum of self-government and self-determination within the framework of Commonwealth --a common defense, a common market, a common currency, and the indissoluble link of United States citizenship.
- 2) "The Advisory Group will inquire into and report and recommend on the extent to which the statutory laws and administrative regulations of the United States should apply in Puerto Rico."

The third and last charge refers to the following:

- 3) "As part of this Charter, the group must study alternate forms of participation in the federal decisions affecting the people of Puerto Rico, which the people of Puerto Rico ought to consider together with the presidential vote recommended by the first Ad Hoc Advisory Group."

-more-

Finally, the Charter states:

"In keeping with the plebiscite law, no change in the relationship recommended by the Group, together with the recommendations of the first Ad Hoc Advisory Group would be made unless previously approved by the people of Puerto Rico."

On the right to vote in Puerto Rico for candidates for President and Vice-President of the United States, the Puerto Rican members of this Ad Hoc Advisory Group subscribe the recommendation of the previous Group to the effect that the electorate of Puerto Rico be consulted directly and separately on this form of participation.

While our proposed Compact of Permanent Union includes several provisions which provide alternate forms of participation, we do not intend to adjudge in it the issue of the presidential vote. A majority of us consider preferable not to delay the final approval of this Compact by the inclusion of provisions (such as a constitutional amendment) that go beyond the range of action of the Congress of the United States and the people of Puerto Rico.

Approved, Saturday, April 12, 1975.