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THE VICE PRESIDENT
WASHINGTON

April 26, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: THE VICE PRESIDENT *WJF*
SUBJECT: Visit to the Pacific

My visit to the Pacific will involve meetings with three of the five ASEAN nations, the Philippines, Thailand and Indonesia, and talks with our ANZUS partners, Australia and New Zealand. There seems to be a good deal of interest in the countries I will visit. The main point I will emphasize is the high level and constancy of our interest and participation in the region.

In my talks with Marcos, Suharto, and Kriangsak, I will stress our interest in closer consultations and cooperation with ASEAN. In Canberra and Wellington I will provide Prime Minister Fraser and Prime Minister Muldoon with our current assessment of major international political, economic, and security developments.

Food, energy, trade and our concern for human rights will be issues discussed in each of the five capitals. In the Philippines and Indonesia I will indicate our willingness to channel aid into cooperative programs to improve local food production. In Australia I will urge Fraser to contribute stocks to an international system of nationally held grain reserves. On energy, I will indicate to the ASEAN leaders our willingness to cooperate in energy planning and resource assessments.

The Philippines

In Manila, in addition to my talks with Marcos, I will call on the President of the Asian Development Bank to formally convey the U.S. pledge of \$445 million contribution to the \$2 billion replenishment of the Asian Development Fund during the 1979-82 period. I will sign four AID rural

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development loans. I will be meeting with members of the opposition, and I will give a short public address at Corregidor on the occasion of Bataan Day.

The base negotiations will provide the principal focus for my discussions with Marcos. Recent talks have narrowed differences on the base issues, but money remains the potential stumbling block. In March Dave Newsom offered Marcos a five-year package of \$400 million (\$30 million MAP, \$150 security supporting assistance, and \$220 in FMS credits) as compensation for the bases. Marcos has not yet responded formally, though he and his colleagues characterized the offer as "disappointing." In my talks with him I will stress the political/Congressional limits on our ability to provide financial compensation. Should Marcos make a counter offer during our talks, and if there appears a serious possibility of moving forward toward an early agreement, I may "sweeten" our offer within the guidelines previously approved by the PRC (which allow us to add \$20 million in MAP and \$30 million in FMS credits over the five-year period) unless you perceive objections to that course of action.

RECOMMENDATION

That you authorize me to sweeten our compensation offer to Marcos within the limits of the PRC guidelines should the discussion with Marcos so warrant.

Approve

✓

Disapprove

If some modest further increment should appear necessary and sufficient to wrap up a favorable agreement on the spot I will seek your guidance by telegram.

Thailand

In my meetings with Prime Minister Kriangsak, I will convey your invitation to him to visit the U.S. during 1979, I will stress the importance we attach to future cooperation on narcotics control, and I will sign an AID rural health care loan.

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Two issues require decision. On U.S. security assistance to Thailand, I would like to inform Kriangsak that the U.S. is prepared to sell an additional squadron of 18 F-5 aircraft. State recommends this course, as do DOD and the NSC Staff (State paper at Tab A). On refugee cooperation, I would like to inform him of the decision you have already made to accept 25,000 refugees per year on a continuing basis. In addition, I hope to indicate U.S. willingness to locate several INS personnel in Thailand to expedite processing of refugees bound for the U.S., to provide "seed money" of \$1 to \$2 million to assist the Thais in formulating a longer term plan for resettlement of refugees, and to consider the acceptance of additional refugees beyond the current U.S. program once the Thai resettlement program is well established (paper at Tab B).

RECOMMENDATION

1. That you approve sale of F-5 squadron to Thailand.

Approve ☒ Disapprove ☐

2. That you approve the INS and Thai rural resettlement elements of the refugee cooperation program outlined at Tab B.

Approve ☒ Disapprove ☐

*encourage all
govts to increase
their own acceptance
of refugees*

Indonesia

In my talks with President Suharto and Vice President Malik, I will urge Indonesia to ratify the non-proliferation treaty, I will sign an Aid rural electrification loan and I will underline our interests in cooperating in food production and energy programs.

On PL-480 assistance, I will be able to inform Suharto of our willingness to make available at least 45,000 tons of rice from U.S. FY 78 reserve allocations. The Indonesians need and have asked for more. I have checked with Jim McIntyre about making a total of 100,000 tons available. As soon as I have his opinion and recommendation I will be back to you on this issue.

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There is one issue which requires your decision. First, I would like to have the option of informing President Suharto that the United States is prepared to approve the sale of a squadron of reconditioned A-4 aircraft, if this issue arises during the trip.

The Defense Department urges approval of this transfer, given the modest capabilities of the aircraft requested, the more favorable aircraft decision I will have just conveyed to the Thais, and the fact that Indonesia's Air Force is aging rapidly.

I believe that since the underlying purpose of my visit is to affirm that we want to work with Indonesia, a positive response to Suharto would be in our interests. State has recommended a "half-yes" position (i.e. willingness to consider) which will lead us toward a favorable decision but forfeit the political credit for it. I believe we can use this action on our part to obtain leverage for tangible and positive movement by Suharto on human rights and Timor.

RECOMMENDATION

1. That you approve the A-4 squadron sale to Indonesia.

Approve _____

Disapprove _____

Australia and New Zealand

As mentioned above, consultations on global issues will take up the bulk of my talks with Prime Ministers Fraser and Muldoon. Given Australia's deep and continuing concern over the impact of US-USSR Indian Ocean talks, I expect Prime Minister Fraser to ask us to agree to a US-Australian/ANZUS naval exercise off the west coast of Australia. I believe an exercise of moderate proportions would be in our interests and would not affect adversely our discussions with the Soviets which are in indefinite recess as their military presence in the Horn continues to grow. With your approval, I will inform Fraser that we are prepared to conduct such an exercise, with the details to be worked out following my visit.

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*I agree - state - Equate
approval - program
in Human Rts*

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RECOMMENDATION

That you approve in principle a modest US-Australian naval exercise off the west coast of Australia.

Approve ✓ Disapprove

Speech in Honolulu

En route to Washington from New Zealand, I will stop in Hawaii to deliver an address on your Administration's policy toward the Pacific. I will want to ensure that the text includes any major findings and developments that may occur during the trip. I will, of course, clear the text of the speech with you in advance.

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DEPARTMENT OF STATE

Washington, D.C. 20520

MEMORANDUM FOR MR. ZBIGNIEW BRZEZINSKI
THE WHITE HOUSE

Subject: Security Assistance Issues for the
Vice President's Trip to Southeast Asia

There are three possible security assistance initiatives for the Vice President's impending trip to Thailand and Indonesia. The Royal Thai Government has made a request for a squadron of 18 new F-5 aircraft. The Government of Indonesia has requested preliminary information on 28 A-4C attack aircraft to be cannibalized and reconditioned into a squadron of 16 aircraft. Each country may also request increases in future FMS financing levels. The Department of State has been asked for its recommendations on these issues.

We recommend that the Vice President convey personally to the Royal Thai Government the approval in principle of the US Government for the sale of the F-5 aircraft, with the understanding that a final sale would be subject to the normal procedures of approval by the Congress.

We further recommend that the Vice President not discuss the A-4's with the Government of Indonesia unless asked, in which case he should point out potential problems and state our willingness to consider the matter.

Finally, we recommend that the Vice President express sympathetic consideration for requests to increase FMS levels.

Peter Tarnoff
Executive Secretary

Suggested Reply

C
New Zealand

MEMORANDUM FOR DR. ZBIGNIEW BRZEZINSKI
THE WHITE HOUSE

Subject: Letter from the President to the
New Zealand Prime Minister

The New Zealand Prime Minister, Robert Muldoon, on May 10 wrote to the President in reply to the President's letter carried to Wellington by the Vice President. Attached is a brief courtesy reply to the Prime Minister.

Peter Tarnoff
Executive Secretary

Attachment:

1. Suggested reply from the President.
2. Letter from the Prime Minister.

EA/ANP:EHurwitz:rlw
x29690 5/18/78

Concurrences:
EA - Mr. Oakley
S/S -

EA/ANP:EHurwitz:rlw

x29690 5/18/78

Suggested Reply

Dear Mr. Prime Minister:

Thank you for your letter of May 10 regarding Vice President Mondale's visit to New Zealand. We greatly appreciate the warm welcome which you and your colleagues accorded to the Vice President and his party. We are also pleased by the very useful discussions which were held between the two sides; for our part, these discussions have given us a full understanding of New Zealand's interests and concerns. I am glad that with your visit to Washington in November and the Vice President's trip to Wellington, we have carried forward the long tradition of close and friendly cooperation between our two governments. I look forward to strongly maintaining this tradition in the future.

Sincerely,

Jimmy Carter

The Right Honorable

Robert D. Muldoon, M.P.,

Prime Minister of New Zealand,

Wellington.

EA/ANP:EHurwitz:rlw

x29690 5/18/78

ASSISTANT SECRETARY OF STATE
WASHINGTON

May 19, 1978

To: Mr. Denis Clift
Office of the Vice President

Paper attached per our conversation.

A handwritten signature in dark ink, appearing to read "Julius L. Katz", with a stylized, cursive script.

Julius L. Katz

Taxation of Foreign Source Earned Income

In late 1976 Congress amended Section 911 of the Internal Revenue Code. These amendments, which were made retroactive to the beginning of the year, significantly increased the tax liability of Americans working overseas. Both the Congress and the Administration received numerous reports from U.S. citizens and firms that many Americans would have to give up their overseas jobs because of the tax increase. The loss of American jobs overseas would have an adverse impact on employment in the U.S., would cut U.S. service income from abroad, and would hurt U.S. exports.

In the face of strong protests from overseas Americans about these changes in their tax status, the Administration submitted a proposal to the Congress early this year to amend the 1976 law. The basic thrust of the Administration's proposal is to provide tax deductions for excessive expenses incurred by U.S. citizens due to the increased cost of living overseas. Deductions are allowed for excessive housing costs abroad, education expenses and home leave travel biannually. The proposal submitted by the Treasury to the President also included a \$15,000 income exclusion (a fixed sum deduction) as an option at the taxpayer's choice, to the special deductions for housing, education and home leave. This option was deleted by President Carter on the advice of OMB before the proposal was submitted to the Hill.

Senator Ribicoff has developed his own modifications to the 1976 law which parallel the Administration's proposal. The main difference is a deduction for excessive cost of living expenses overseas instead of a home leave deduction. This proposal has passed the Senate.

Many overseas Americans continue to complain that the Administration's proposal does not adequately cover their excess expenses from foreign employment. For example, it would be of little benefit to single-status construction and petroleum workers in high cost areas such as the Middle East, Africa, and the Far East. These employees do not have deductible housing and education expenses, as their families remain in the United States, and are given annual rest and recuperation travel benefits in lieu of home leave. On the other hand, the Treasury Department objects to the provisions of the Ribicoff amendment, both because it is somewhat more generous in total tax expenditures than the Administration's proposal, and because of the administrative difficulties IRS would

have in developing and applying certain complex cost indices required by the amendment.

Attached is a table which compares the basic features of the 1976 law, the Administration's proposal and the Ribicoff amendment. It also suggests some possible sweeteners to the Administration position. A possible compromise which would satisfy both the taxpayers' desire for somewhat more extensive deductions and still avoid the administrative complexities of the Ribicoff proposals would be the reinstatement of the \$15,000 optional deduction to the Administration's proposal. In addition, the home leave deduction could be modified to cover either annual home leave or annual rest and recuperation travel.

As the law now stands, the 1976 law is in effect as of January 1, 1977 (the Congress postponed the date of its implementation last year). Unless the implementation date is postponed again and soon, U.S. citizens overseas will have to file tax returns based on the 1976 law by June 15. In late 1977, the House approved an additional one year delay (to January 1, 1978). The Senate has also passed this one year delay but amended the House bill (Ribicoff amendment) by authorizing a new tax assessment method which would take effect January 1, 1978. On May 18, the Ways and Means Committee passed a motion instructing Chairman Ullman to inform the Senate that the Committee wants the Congress to pass a simple one year extension in the implementation of the 1976 amendments and to drop the Ribicoff amendment at this time. If the House proposal is accepted quickly by the Senate, it would ensure that the tax status of Americans working abroad would be clarified prior to their June 15 filing deadline for the 1977 tax year.

The Ways and Means Committee has scheduled a markup session for May 25 to consider a permanent change to the 1976 amendments. The two principle proposals it will have to consider are the Ribicoff amendment and the Administration's proposal. The Committee may, of course, want to develop its own proposal or modify the existing proposals.

Alternate Proposals for Taxation
of Income Earned Abroad

<u>Provisions</u>	<u>1975</u>	<u>1976</u>	<u>Ribicoff</u>	<u>Admin</u>	<u>Sweetened Admin</u>
Exclusion	20/25,000 (top)	15,000 (bottom)	no	no	optional 15,000 (top)
Housing	no	no	cost above 1/6 income to extent reimbursed	cost above 1/5 income exclusive of housing and other allowances	cost above 1/5 income exclusive of housing and other allowances
Education	no	no	reimbursed expenses limited by IRS table	up to 4,000 plus travel	up to 4,000 plus travel
Home Leave	no	no	no	1 trip every 2 years	1 trip annually
R & R	no	no	no	no	1 trip annually in place of home leave
COLA	no	no	above U.S. base for GS-12	no	no
Special Treatment	no	charities	no	no	no
Expanded 119	no	no	no	foreign camps	foreign camps
Moving Expense temp housing (217) costs	30 days/ \$1,500	30 days/ \$1,500	30 days/ \$1,500	60 days/ \$5,000	60 days/ \$5,000
Suspend (1034) reinvest house sale	no	no	no	4 years	4 years

PROPOSALS RELATING TO SECTION 911 ADOPTED BY
SUBCOMMITTEE ON MISCELLANEOUS REVENUE MEASURES JUNE 6, 1978.

I. Flat Exclusion

A. Crane, Jones, and Holland.--[Except for Western Europe and Canada] The earned income exclusion is restored to its levels prior to the 1976 Act (i.e., \$20,000 annually in general, and \$25,000 annually for persons who are bona fide foreign residents for 3 years or more). In addition, the dollar limitations would automatically be increased in the future to compensate for inflation.

II. Foreign Living Cost Deductions

The following deductions could be provided for Americans working abroad:

A. Cost of Living

- (1) Crane, Jones, and Holland.--Cost-of-living differential (as set forth in an IRS table guided by the State Department Index) for the taxpayer's foreign country in proportion to earned income (exclusive of housing and education costs). Not allowed if qualify for the exclusion of employer-provided housing and meals (sec. 119).

B. Housing

- (1) Crane, Jones, and Holland.--The excess of the reasonable cost of housing over 16-2/3 percent of the taxpayer's "base compensation" for pension purposes. If he does not participate in a pension plan, the excess of actual housing costs over 10 percent of the taxpayer's earned income minus actual housing costs and the other deductions allowed under the bills. The taxpayer may deduct the full cost of his foreign housing if he lives in housing separate from his family because of adverse living conditions at his place of work or for the convenience of his employer.

C. Educational expenses

- (1) Crane, Jones, and Holland.--The reasonable cost of education through secondary school for dependents. The cost of nonlocal travel and room and board are deductible if there is no adequate United States-type school within a reasonable commuting distance. [Air travel limited to coach fare unless only first class available].

D. Home leave

- (1) Crane, Jones, and Holland.--The cost of one round-trip fare every year for each member of the taxpayer's family between his principal place of work and a place in the United States approved by his employer (if any). [Air travel limited to coach fare unless only first class available].

E. Rest and Recreation

Crane, Jones, and Holland.--Travel costs for the taxpayer's family from a hardship post to any place in the world approved by the employer, to the extent that the costs are reimbursed by the employer and are attributable to the taxpayer's employment in an area with adverse living conditions or which is remote or isolated.

F. Moving expenses

Crane, Jones, and Holland.--For international moves, increase the period during which the cost of temporary living arrangements is deductible from 30 days to 90 days, and raise the ceiling on those costs from \$1,500 to \$4,500. (The Administration would increase these limits to 60 days and \$5,000). Moving expenses will include the cost of storing goods while abroad.

G. Sale or exchange of residence.--

Crane, Jones, and Holland; Administration.--Suspend the running of the 18-or-24-month period for reinvestment of proceeds realized on the sale of a principal residence for up to 4 years while the taxpayer is working abroad.

III. Meals and lodging furnished by employer--Camps

- A. Crane, Jones, and Holland.--Expand the scope of the exclusion (under section 119) for meals and lodging provided by the employer to meals and lodging provided by a third party "pursuant to" the employment and would cover the taxpayer's spouse and dependents as well (this would also apply to domestic situations). Also, employees abroad could exclude the value of "camp style" meals and lodging even if the general requirements of section 119 are not met.

Lodging is camp-style if either--

- (1) two or more unrelated employees are required by the employer to share the same living quarters, or
- (2) the lodging is furnished in a common area (not available to the public) which normally accommodates ten or more employees in connection with (i) the design or construction of a facility located outside the United States, (ii) the exploration for, or development or production of, natural resources located outside the United States, or (iii) the installation, maintenance or operation of export property.

Meals are camp-style if--

- (1) they are furnished in a common eating area which normally serves 10 or more individuals and is not available to the public, and
- (2) the employee is furnished camp-style lodging.

The definition of "camp" in the Crane, Jones, and Holland bills would be expanded to include, [except for Western Europe and Canada] situations where housing is not provided in a common area but where--

- (a) the housing is assigned on the basis of family size or other non-income, non-job description basis;
- (b) the employer assigns housing to 100 or more employees in the immediate geographic area;
- (c) the employees live in housing occupied solely by U.S. citizens or residents and their families (this includes single-family or multi-unit dwellings).

ASSISTANT SECRETARY OF STATE
WASHINGTON

January 31, 1979

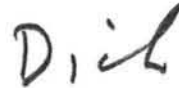
Dear Mr. Vice President:

Here is a report we did, in the official channel, on the current status of actions which you undertook during your Asian trip last year.

We have given these matters high priority. Substantial progress has been made in resolving most of the major issues. Those still outstanding include levels of military sales and bilateral aid and access of New Zealand dairy products.

Please advise me if there is further information we can provide you or actions you wish us to pursue with regard to your trip to Asia.

Sincerely,

A handwritten signature in dark ink, appearing to read "D. H.", which is a stylized representation of the name Richard Holbrooke.

Richard Holbrooke

The Honorable
Walter F. Mondale,
Vice President,
The White House.



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