

August 15, 2022

The Compacts of Free Association

Overview

The Compacts of Free Association govern the relationships between the United States and the Republic of the Marshall Islands (RMI), Federated States of Micronesia (FSM), and Republic of Palau. The Marshall Islands, Micronesia, and Palau were districts of the former U.S.-administered United Nations Trust Territory of the Pacific Islands, established after World War II, and later became sovereign countries in “free association” with the United States. The Compacts grant the United States the prerogative to operate military bases in the RMI, FSM, and Palau (Freely Associated States or FAS) and make decisions related to their external security, and they entitle the FAS to U.S. security guarantees and economic assistance.

Citizens of the FAS have the right to reside and work in the United States and its territories as lawful non-immigrants or “habitual residents.” More than 94,000 FAS citizens live in the United States, including children under age 18 who were born in the United States and hold dual citizenship. Citizens of the FAS, which do not have their own militaries, are eligible to join the U.S. military; several hundred FAS citizens currently serve in the U.S. armed forces.

The three Compact countries cover a maritime area larger than the continental United States, govern over 1,000 islands and atolls, and have a combined population of approximately 200,000. The FAS economies face structural challenges similar to many other Pacific Island countries (PICs), including lack of economies of scale, small land areas, limited natural and human resources, remote locations, poor infrastructure, and vulnerability to climate change. The RMI, FSM, and Palau rank 184th, 190th, and 96th, respectively, out of 229 countries by gross domestic product per capita.

Located roughly 2,500 miles southwest of Hawaii, the FAS play a role in supporting the U.S. security presence in the Pacific Islands region at a time of increasing strategic competition between the United States and its allies, on one hand, and the People’s Republic of China (PRC), on the other. The Biden Administration’s Indo-Pacific Strategy, released in February 2022, articulates U.S. goals in the Pacific Islands region, including building climate resilience, addressing needs in the areas of information and communications technologies; and protecting fisheries. It emphasizes, “We will also prioritize negotiations on our Compacts of Free Association with the Freely Associated States as the bedrock of the U.S. role in the Pacific.”

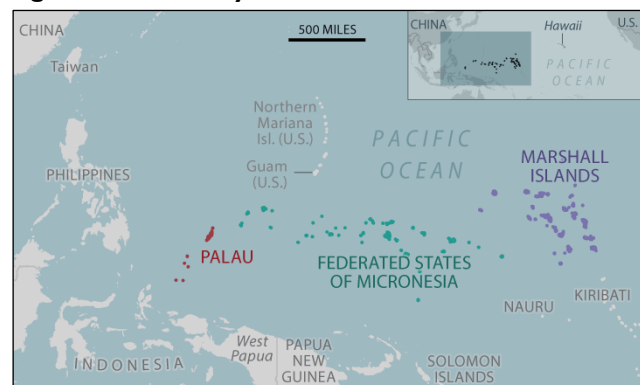
Compact Negotiations

The main FAS-related issues facing Congress center on negotiations to renew U.S. economic assistance pursuant to Title II of the Compacts of Free Association. Such

assistance is currently provided largely through Department of the Interior mandatory funding. The FAS are also eligible for some U.S. federal programs and services. Economic assistance is set to expire at the end of FY2023 for the RMI and FSM and at the end of FY2024 for Palau. Defense, security, migration, and other Compact provisions are to continue unchanged. Once bilateral agreements on renewing assistance are reached, both houses of Congress must approve them through implementing legislation.

Compact negotiations, led on the U.S. side by the State Department, began in 2020 but stalled later that year and remained largely suspended through early 2022. Several factors played into the breakdown in negotiations: the COVID-19 pandemic, which prevented in-person discussions; Trump Administration proposals to provide future Compact assistance through discretionary rather than mandatory funding; the lack of a high-level, political appointee to lead negotiations and coordination among agencies on the U.S. side; an absence of specific funding proposals from the FAS; and resistance by some U.S. agencies to continue programs in the FAS due to costs.

Figure 1. The Freely Associated States



Sources: CRS. Information from Esri and U.S. Department of State.

In March 2022, following calls by some Members of Congress and others for the Biden Administration to jumpstart talks, the Administration appointed Ambassador Joseph Yun as Special Envoy for Compact Negotiations. It also pledged to seek mandatory funding for future assistance. Yun has led several bilateral rounds of negotiations with the FAS as of August 2022. U.S. negotiating teams have included personnel from the Departments of State and the Interior and U.S. Indo-Pacific Command. U.S. and FAS officials have expressed hope of completing negotiations in 2022.

Congressional Considerations

Congress may consider requesting that the Administration provide regular briefings on the Compact negotiations' progress, as well as holding hearings. Congress may seek to weigh in on the levels of funding and types of economic assistance to be extended; FAS eligibility for U.S. federal programs and services; federal assistance for FAS migrants in U.S. states and territories; and the lingering effects and possible further U.S. compensation and health care assistance related to U.S. nuclear testing over the Marshall Islands. The Senate Committee on Energy and Natural Resources held a hearing on the FAS in March 2022, and the Oversight and Investigations Subcommittee of the House Committee on Natural Resources held a hearing on Runit Dome and the U.S. nuclear legacy in the RMI in October 2021. More broadly, Congress may consider the roles of the FAS in the context of the Biden Administration's Indo-Pacific Strategy and other regional objectives. Some analysts argue that failure to complete negotiations on time may weaken U.S. standing and influence among the FAS and other PICs as China increases its economic and security presence in the region.

History and Key Dates

The Marshall Islands, Micronesia, and Palau signed Compacts of Free Association with the United States in 1982. The Compacts were approved by plebiscites in the Marshall Islands and Micronesia and by the U.S. Congress in 1985 (P.L. 99-239), becoming effective in 1986. In 1986, Palau and the United States signed a 50-year Compact of Free Association. The Palau Compact was approved by Congress (P.L. 99-658 and P.L. 101-219), but not ratified in Palau until 1993 (entering into force in 1994, with U.S. assistance beginning in 1995). Each Compact included economic assistance that would expire after 15 years.

Although negotiations to renew the economic provisions of the Compacts between the United States and the RMI and FSM were not completed before the end of the first Compact term (1986-2001), grant assistance continued while negotiations went on. Following the completion of negotiations in 2003, Congress approved the agreements (P.L. 108-188), amending the Compacts and extending assistance for another 20 years (2004-2023). Two new features of the assistance were trust funds established with the aim of providing sustainable sources of revenue after 2023 and new oversight mechanisms. In 2010, the United States and Palau concluded the U.S.-Palau Compact Review Agreement, to extend economic assistance and trust fund contributions for another 15 years (2010-2024). Although the U.S. government continued to provide annual grant assistance to Palau after 2009, Congress did not approve and authorize full funding pursuant to the agreement until 2018 (P.L. 115-91 and P.L. 115-141).

Compact Grant and other Assistance

Pursuant to the Compacts, the United States provided grant assistance worth approximately \$661 million to the RMI and \$1.54 billion to the FSM between 1987 and 2003. In addition, the United States spent \$309 million on nuclear test-related assistance and compensation for the Marshall Islands pursuant to the Compact. During the second Compact term (2004-2023), U.S. grant assistance and trust

fund contributions to the RMI are to total \$722 million and \$276 million, respectively. Micronesia is to receive \$1.6 billion in grant assistance and \$517 million in trust fund contributions during the same period. According to the Government Accountability Office, total Compact-related assistance during the second term is to total \$3.6 billion for both countries. Between 1995 and 2009, Compact assistance to Palau, including grant assistance, road construction, and the establishment of a trust fund, totaled \$574 million. Economic assistance pursuant to the 2010 agreement is to total \$229 million.

The United States is the largest provider of economic assistance to the FAS; other major contributors of assistance are Japan, the PRC, and Australia. Taiwan is also an important source of aid to the RMI and Palau, which are among thirteen countries (including two other PICs), plus the Vatican, that have diplomatic relations with Taiwan and not the PRC. The Trilateral Partnership for Infrastructure Investment, launched by Australia, Japan, and the United States in 2018, has financed telecommunications networks in the region, including undersea cables connecting Micronesia, Palau, and other PICs. Since 2010, the U.S. Agency for International Development has provided annual weather-related disaster prevention and response assistance to the RMI and FSM (\$500,000 annually).

Security Presence and Cooperation

The United States maintains a dominant security presence in the Micronesian subregion of the Southwest Pacific, where the FAS as well as Guam and the Commonwealth of the Northern Mariana Islands are located. In addition to air and naval bases on Guam, the U.S. military operates the Ronald Reagan Ballistic Missile Defense Test Site (RTS) at U.S. Army Garrison-Kwajalein Atoll in the RMI. RTS supports missile and missile defense testing, space launch, and space surveillance activities. The amended Compact of 2003 extended U.S. base rights on Kwajalein Atoll through 2066, with the U.S. option to continue the arrangement for an additional 20 years. The Department of Defense (DOD) is building a high-frequency radar system in Palau and seeks to use Micronesia as a location for U.S. Air Force Agile Combat Employment operations.

The National Defense Authorization Act (NDAA), 2022 (P.L. 117-81) states that the Secretary of Defense should engage with the FAS "with the goal of strengthening regional security and addressing issues of mutual concern, including protecting fisheries from illegal, unreported, and unregulated fishing" (Sec. 1252) and mandates a study on the Runit Dome nuclear waste site in the RMI (Sec. 3140). The House-passed version of the NDAA, 2023 (H.R. 7900) includes provisions (Sec. 5813) emphasizing the importance of the Compacts for U.S. national security and defense commitments to the FAS, and requiring the Secretary of Defense to report to Congress on the role of DOD in Compact negotiations.

- For further information, see CRS Report R46573, *The Freely Associated States and Issues for Congress*, and CRS In Focus IF11208, *The Pacific Islands*.

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