

**Testimony before the House Natural Resources Subcommittee on
Indian and Insular Affairs - “Preserving U.S. Interests in the Indo-Pacific:
Examining How U.S. Engagement Counters Chinese Influence in the Region”**

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I. Introduction

Good afternoon, Chair, Ranking Member, and distinguished members of the subcommittee.

My name is Emil Friberg, I am affiliated with the Center for Australia, New Zealand, and Pacific Studies at Georgetown University and an economic consultant. Previously, I served as an Assistant Director and Senior Economist at the U.S. Government Accountability Office (GAO) where I oversaw reviews of the Compacts of Free Association, leading to 40 publications from 2000-2021. Many of those reviews were requested by this committee. The views expressed here are my own, and not of any current or past employer.¹

Today I will address how the Compacts of Free Association help preserve U.S. interests in the Indo-Pacific and I will highlight the urgency for renewing the Compacts. I commend this committee for holding this hearing to focus on the strategic imperative of the region and these Compacts.

II. COFA history and structure

As you know, Compact of Free Association (COFA) economic support, along with certain federal services and programs that are provided to the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI) expire at the end of September 2023 and expire for the Republic of Palau (Palau) at the end of September 2024.

¹ This testimony statement draws from my paper published by the East West Center’s [Asia-Pacific Bulletin](#): *No Time to Lose: Renew the Compacts of Free Association*, June 29, 2022. I also draw from U.S. GAO: *Compacts of Free Association: Implications of Planned Ending of Some U.S. Economic Assistance* (GAO-22-104436, Feb. 14, 2022) and *Compacts of Free Association: Populations in U.S. Areas Have Grown, with Varying Reported Effects* (GAO-20-491, June 15, 2020).

Renewing these agreements requires the completion of bilateral negotiations and approval by the U.S. Congress. Negotiations started in 2020 but made little progress. The U.S. appointment of a Special Presidential Envoy for Compact Negotiations in March 2022 was framed by concerns that China's Pacific influence would grow in the wake of stalled COFA negotiations. Fortunately, progress has been made and top line agreement was reached on future aid packages with each nation and is included in the President's FY2024 budget request.

History: World War II to the Compacts

The three Compacts of Free Association are the result of a prolonged half-century process following WWII.

After costly battles across the Pacific to defeat Japan, the United States held the islands of the North Pacific. In 1947 the United States became the administering authority of the Trust Territory of the Pacific Islands (TTPI), established by the United Nations Security Council.

Under the TTPI, the United States had authority to establish bases and to station armed forces. During the trusteeship, the U.S. military used land in the region, including for 67 nuclear tests in the Marshall Islands conducted from 1946 to 1958.

In accordance with its responsibilities under the UN trusteeship and following UN-observed plebiscites, the United States entered into the Compacts that created three nations and ended U.S. administration of the last WWII UN trusteeship. These Compacts entered into force in 1986 for the FSM and the RMI, and in 1994 for Palau.

Compact structure

Key Compact features include:

- **Defense.** The Compacts grant the United States "strategic denial"—the option to deny foreign militaries access to the COFA nations and a "defense veto" to block policies incompatible with U.S. authority and responsibility for security and defense of the COFA nations. In addition, the Compacts provide for U.S. defense sites, including sites in Palau and at Kwajalein Atoll in the RMI. Importantly, the RMI Compact provided compensation for damages from 67 U.S. nuclear tests. The agreement was the full settlement of all legal claims—past, present, and future—against the United States and

terminated all compensation litigation.²

COFA citizens contribute directly to the defense of the United States as members of U.S. Armed Forces. They are able to join the military directly from the COFA nations or enlist after migrating to the United States.

- **Immigration.** The Compacts allow COFA citizens to work and reside indefinitely in the United States. However, entry under the terms of the Compact does not establish a path to naturalization.
- **Economic Assistance.** The Compacts committed the United States to provide annual economic assistance and specific programs, such as the U.S. Postal Service (USPS) and National Weather Service, for set periods, ending in 2023 for FSM and RMI, and 2024 for Palau. Compact trust funds have been established to provide a source of annual funding: since 1999 for Palau and after 2023 for FSM and RMI. The U.S. Department of the Interior (DOI) administers COFA grant assistance.

III. COFA funding and experience

Assistance

For the COFA nations, Department of the Interior Compact funding will have totaled approximately \$10.5 billion for the period FY1987 through FY2023 for FSM and RMI, and FY1995 through FY2024 for Palau (all dollars are FY 2023 dollars).³

- Economic assistance to the FSM will have been \$5.5 billion, to the RMI - \$2.3 billion, and to Palau – \$1.2 billion.
- On a *rough* per capita/per year basis, this economic assistance is about: \$1,400 for the FSM, \$1,100 for the RMI, and \$2,200 for Palau.

² The RMI Compact (Section 177) provided \$150 million as the full legal settlement of all claims. The COFA implementing legislation has authorizations for additional *ex gratia* compensation which have been used by Congress to further address the nuclear testing program legacy.

³ Note these summary dollars do not include the significant assistance provided by other U.S. Departments including Education, Health and Human Services, and Transportation through non-Compact related authorizations. For example, programs such as Pell Grants and USDA housing loans, are provided to COFA governments and citizens as they are to U.S. states.

- In addition to economic assistance, Interior Compact funding also paid \$738 million for military land leases and \$707 million for nuclear testing responses in the RMI.

The U.S. Department of Education has provided the FSM and the RMI with a Supplemental Education Grant (SEG) that ends in September, 2023.

Expiring grants (Compact and SEG) represent almost 30 percent of FSM national and state government expenditures and 20 percent for the RMI (both for FY2019). These expiring grants are mostly for education where they make up 86-93 percent of FSM state education expenditures and 50 percent of RMI education expenditures.

Trust funds

The Palau Compact Trust Fund will likely meet its objective as a sinking fund to make continued payouts through 2044. The FSM and RMI Compact Trust Funds were designed to be perpetual funds to cover expiring Compact (but not SEG) grants. Under current rules, funds will not be disbursed in some years due to structural restrictions on distributions. These interruptions will cause severe fiscal shocks in the FSM and RMI.

Country accountability

In 2003 in order to curtail poor accountability and performance, FSM and RMI Compact financial assistance changed from cash transfers to sector grants for priority sectors. Grant management and joint FSM-U.S. and RMI-U.S. committees provided oversight that improved education, health, and infrastructure sector performance. Financial accountability has improved over time, but weaknesses persist. The required Palau Advisory Group on Economic Reform was not constituted until August 2022.

Federal organization and accountability

Interior staffing shortfalls have limited the federal government's ability to ensure that Compact funds were used effectively. When it was asked by the GAO, the U.S. Congress repealed the statutory mandate for comprehensive GAO reviews of the FSM and RMI Compacts every five years.⁴ This reduced Congressional oversight of the Compacts.

Migration

In addition to escaping the impact of climate change and nuclear testing, COFA

⁴ Public Law 111-68, Sec. 1501(c).

citizens have moved to the United States, seeking economic opportunity, education, and health care. U.S. census data (2013-2018) identified 94,000 Compact migrants residing in the United States.

Compact legislation enacted in 2003 provided \$30 million of annual grant assistance that is divided between Hawaii, Guam, and the Commonwealth of the Northern Mariana Islands to help offset the fiscal impact of providing government services to COFA migrants. This funding ends after September 2023.

IV. Key actions for the administration

Deepen bilateral relations with grants

Annual U.S. Compact assistance is a strategic bilateral connection at a time of mounting security concerns. Delivering that assistance through an annual grant process helps maintain relations and requires the U.S. and COFA nations to work together. In contrast, cash transfers and trust fund disbursements are hands-off -- a more distant relationship.

Embrace new *and* old issues

COFA nations identify climate change as their primary security issue and want direct U.S. assistance for adaptation and resilience. In response to this request, the U.S. Department of Defense (DOD) should restore its Civic Actions Team (CAT) program, with a focus on upgrading and hardening infrastructure (airports, ports, roads, seawalls, and utilities) for both climate impact and to support “agile” deployments.

The United States should also address illegal fishing that threatens COFA government revenue; such an action will also strengthen maritime security.

Pursuing its aim as a critical moral and political issue rather than a legal one, the RMI wants U.S. action on outstanding nuclear issues, including increased compensation and nuclear waste cleanup. For example, U.S. action could address Runit Dome environmental issues.

Improve Compact implementation

Actions are needed to improve grant performance and accountability and to address the well-understood problem of FSM and RMI trust fund rules and disbursements.

- Existing FSM grant distribution among FSM states must be reassessed for improved education and health sector performance.
- COFA nation and U.S. Compact administration require proper staffing levels and capacity.
- Accountability requires transparency, including the public posting of bilateral agreements, budgets, reports, meeting minutes, and other documents.
- The issues of FSM and RMI trust fund rules must be formally addressed, as any changes require Congressional approval.

V. Key actions for Congress

Fund Compact renewal

Timely approval of Compact renewal is essential for COFA government operations, and its absence will hurt government operations and contribute to a current surge in migration. Further, this funding directly links back to the concern of this hearing – countering Chinese influence in the Pacific.

Extend U.S. programs

Congress can take direct actions to deepen bilateral relations, including (1) restoring eligibility for programs that were “cashed out” in the FSM/RMI Supplemental Education Grant (SEG) that ends in 2023 and (2) granting COFA nations routine eligibility for other federal programs. For example, the recent CARES Act extended pandemic unemployment assistance to COFA workers. Restoration of Peace Corps programs in all three Compact nations would provide mutual benefits.

Establish U.S. Administrative Capacity

Mandate adequate administration staffing for U.S. Compact implementation at Interior’s Office of Insular Affairs and Office of Inspector General and the Department of State.

Reinstate required periodic GAO reviews and conduct routine and consistent committee oversight.

Currently, no federal body effectively coordinates COFA policy. Congress should reestablish an Interagency COFA Group, co-chaired by Defense, Interior, and State, and the Office of COFA Affairs under the authority of the National Security

Council. Once established, the structure could coordinate government-wide responses to COFA issues, such as security threats, climate impact, and Compact migration.

Address COFA citizen migration

No federal department is charged with monitoring and addressing the impact of migration to the United States of COFA citizen migration or monitoring and protecting this right on behalf COFA migrants. Congress has restored Compact migrant Medicaid eligibility, but other program eligibilities should be restored and a clear path to U.S. citizenship established. Further, the existing program that partially addresses Compact migration fiscal impact in Guam, Hawaii, and the Northern Mariana Islands ends this fiscal year. The current Compact impact approach does not address the mainland U.S. states where most COFA migrants now reside.

Further the Departments of Homeland Security and Transportation should be charged with reporting on the entry and exit of COFA citizens through U.S. ports of entry in order to determine the scale of COFA outmigration to the United States.

VI. Conclusion

In closing, I wish to thank the subcommittee for this opportunity to speak with you today. The Compacts of Free Association are integral to U.S. security interests and needs in the North Pacific. The approaching expiration of annual economic assistance requires timely completion of agreements and their enactment and funding by Congress. On its own, Congress can also take proactive steps to strengthen U.S. relations in the North Pacific. I look forward to any questions you may have.