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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, Palau, and the Northern Mariana Islands 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 (known collectively as the 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. The FAS do not have their own militaries, and FAS citizens are eligible to join the U.S. military; over 1,000 FAS citizens serve in the U.S. Armed Forces.

The FAS 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 162nd, 192nd, and 118th, 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 2022 Indo-Pacific Strategy refers to the Compacts of Free Association as “the bedrock of the U.S. role in the Pacific.” The RMI and Palau are among four PICs that have diplomatic relations with Taiwan and not the PRC. Micronesia, along with some other PICs, rejected a 2022 PRC proposal for a sweeping diplomatic, economic, and security pact between China and 10 PICs with which China has diplomatic relations.

Compact Negotiations

Economic assistance pursuant to Title II of the Compacts of Free Association is set to expire at the end of FY2023 for the Marshall Islands and Micronesia and at the end of

FY2024 for Palau. Compact provisions related to defense, security, migration, and other areas are to continue unchanged. The Department of the Interior (DOI) has funded and administered this assistance, also referred to as grant assistance, through mandatory or permanent appropriations since the Compacts’ inception. The FAS also are eligible for some U.S. federal programs and services.

U.S.-FAS negotiations to renew Compact economic assistance began in 2020. Since March 2022, Ambassador Joseph Yun, the State Department’s Special Envoy for Compact Negotiations, has led talks on the U.S. side. In January and February of 2023, the United States signed memoranda of understanding (MOUs) with each of the three FAS on the basic levels and types of Compact assistance for the next 20 years. In May 2023, the United States signed agreements with the FSM and Palau on extending economic assistance. A final U.S.-RMI agreement has not been reached at the time of this writing. In June 2023, the Department of State submitted a draft bill (joint resolution) to Congress that if approved would amend the Compacts and implement the FSM and Palau agreements and the pending agreement with the RMI. The agreements include grant assistance and trust fund contributions for the FSM and Palau that total \$3.3 billion and \$0.9 billion, respectively, for FY2024-FY2043. In addition, the agreements include \$634 million to continue the U.S. Postal Service in the FAS. The U.S.-RMI MOU provides for assistance totaling \$2.3 billion for 20 years, including a \$700 million trust fund intended for various purposes, including for addressing nuclear legacy issues. The next phase of Compact assistance to the FAS is to include greater support for the environment, climate change adaptation, health care, education, and infrastructure.

Figure 1. The Freely Associated States



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

Compensation for past nuclear testing remains a sticking point in U.S.-RMI negotiations to finalize an agreement on

extending Compact assistance. From 1946 to 1958, the United States conducted 67 atmospheric atomic and thermonuclear weapons tests over the Marshall Islands atolls of Bikini and Enewetak. Since the nuclear testing program ended, the U.S. government has provided, by some estimates, roughly \$600 million for damages, environmental cleanup and restoration, resettlement, and health and medical programs. The RMI claims roughly \$3 billion in uncompensated damages.

Compact History

In 1975, the Northern Mariana Islands chose commonwealth status, and in 1978, the Marshall Islands, Micronesia, and Palau rejected the option of U.S. commonwealth or territorial status and chose *free association* with the United States. The governments of the Marshall Islands and Micronesia 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 (with economic assistance beginning in FY1987). The 50-year U.S.-Palau Compact of Free Association was approved by Congress in 1986 and 1989 (P.L. 99-658 and P.L. 101-219) and ratified in Palau in 1993 (entering into force in 1994, with economic assistance beginning in FY1995). Each Compact provided for economic assistance for an initial period of 15 years.

The first term of economic assistance under the RMI and FSM Compacts formally expired in FY2001. In 2003, the United States and the RMI and FSM signed agreements to renew Compact assistance, and Congress passed legislation (P.L. 108-188) amending the Compacts and extending economic assistance for 20 years (FY2004-FY2023). New features of the assistance included trust funds, joint oversight committees, and sector grants targeting education, health, the environment, public sector capacity building, private sector development, and infrastructure. In 2010, the United States and Palau concluded the U.S.-Palau Compact Review Agreement (CRA), to extend economic assistance and trust fund contributions through FY2024. Although the U.S. government continued to make annual assistance available to Palau after 2009, Congress did not authorize full funding pursuant to the CRA until FY2018 (P.L. 115-91 and P.L. 115-141).

Compact Assistance Numbers

Compact assistance to the FAS (232 million in FY2023) has amounted to roughly 80% of all U.S. assistance to the Pacific Islands region, according to some estimates. As reported by DOI, pursuant to the Compacts, the United States provided grant assistance worth \$690 million to the RMI and \$1.54 billion to the FSM between FY1987 and FY2003. During the second Compact term (FY2004-FY2023), U.S. grant assistance and trust fund contributions to the RMI totaled \$722 million and \$276 million, respectively. The FSM received \$1.6 billion in grant assistance and \$517 million in trust fund contributions during the same period. In addition, U.S. payments to the RMI for the military use of Kwajalein Atoll amounted to \$412 million (1987-2023). Between FY1995 and FY2009, Compact assistance to Palau, including grant assistance, road construction, and a trust fund, totaled \$574 million.

Economic assistance pursuant to the 2010 CRA amounted to \$229 million.

U.S. Security Presence

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 Marshall Islands. 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 U.S. military is building a high-frequency radar system in Palau. In 2021, the U.S. and FSM governments agreed to establish a U.S. military facility in Micronesia.

Congressional Oversight

Key issues that Congress may consider related to the renewal of Compact assistance include changes to oversight mechanisms; the possible reestablishment of an Office of FAS Affairs and/or an Interagency Group on the FAS located in the State Department; and possible increased support to FAS communities that serve U.S. military facilities, such as the roughly 900 residents of the RMI island of Ebeye who work at RTS. Congress also may consider policy options related to federal assistance for FAS migrants living in U.S. states and territories.

The 118th Congress has held the following hearings focused on the FAS: Indian and Insular Affairs Subcommittee of the House Committee on Natural Resources, *Preserving U.S. Interests in the Indo-Pacific: Examining How U.S. Engagement Counters Chinese Influence in the Region* (May 16, 2023); House Committee on Natural Resources, Indo-Pacific Task Force, *How the Compacts of Free Association Support U.S. Interests and Counter the PRC's Influence* (June 14, 2023); Senate Committee on Energy and Natural Resources, *Full Committee Hearing to Receive Testimony Regarding the Compact of Free Association Amendments Act of 2023* (July 13, 2023); House Committee on Natural Resources, Indo-Pacific Task Force, *The Biden Administration's Proposed Compact of Free Association Amendments Act of 2023* (July 18, 2023).

The National Defense Authorization Act, FY2022 (NDAA; 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” (§1252) and mandates a study on the Runit Dome nuclear waste site in the RMI (§3140). The FY2023 NDAA (P.L. 117-263) includes provisions (§5591) emphasizing the importance of the Compacts for U.S. national security and of renewing economic assistance to the FAS for regional security.

For further information, see CRS Report R46573, *The Freely Associated States and Issues for Congress*.

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