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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, 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 (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; 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 Marshall Islands, Micronesia, and Palau rank 163rd, 193rd, and 119th, 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, and refers to the Compacts of Free Association as “the bedrock of the U.S. role in the Pacific.”

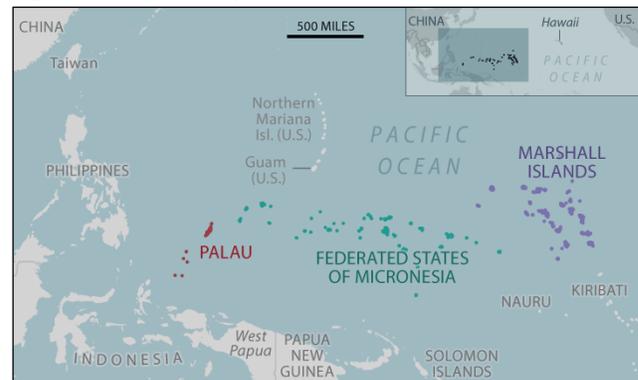
Compact Negotiations

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. Such assistance, also referred to as grant assistance, is currently funded and administered through the

Department of the Interior (DOI). The FAS are also eligible for some U.S. federal programs and services.

The United States, led by Special Envoy for Compact Negotiations Joseph Yun, and each of the FAS aim to complete bilateral negotiations to renew economic assistance by May 2023. U.S. negotiating teams have included officials from the Departments of State, the Interior, and Defense. Once negotiators reach bilateral agreements to extend Compact assistance, the President is to submit draft legislation to Congress and both houses of Congress are to approve them through implementing legislation. In January and February 2023, the United States signed memoranda of understanding with all three Compact countries on the basic levels and types of Compact assistance for the next 20 years.

Figure 1. The Freely Associated States



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

Compact History

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 assistance 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 oversight committees with members from the U.S. and FAS governments. In 2010, the United States and Palau concluded the U.S.-Palau Compact Review Agreement, to extend economic assistance and trust fund contributions through 2024. Although the U.S. government continued to provide annual grant assistance to Palau after 2009, Congress did not authorize full funding pursuant to the agreement until 2018 (P.L. 115-91 and P.L. 115-141).

Compact Assistance

Compact assistance to the FAS has amounted to roughly 80% of all U.S. assistance to the Pacific Islands region, according to some estimates. Pursuant to the Compacts, the United States provided grant assistance worth approximately \$661 million to the Marshall Islands and \$1.54 billion to Micronesia between 1987 and 2003. During the second Compact term (2004-2023), U.S. grant assistance and trust fund contributions to the Marshall Islands totaled \$722 million and \$276 million, respectively. Micronesia received \$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 totaled \$3.6 billion for the two countries, targeting six sectors: education, health, the environment, public sector capacity building, private sector development, and infrastructure. 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 Compact Review agreement is to total \$229 million. In FY2023, DOI provided \$232 million in Compact assistance to the FAS.

Other major contributors of assistance to the FAS are Japan, China, Australia, and Taiwan. The Marshall Islands 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.

FY2024 Budget Request

The President's international affairs budget request for FY2024 includes a total of \$7.1 billion in mandatory budget authority for the Compacts of Free Association, including \$6.5 billion in Compact economic assistance (including trust fund contributions) and \$634 million to extend U.S. Postal Service services in the FAS for 20 years (FY2024-FY2043). The request for Compact funding to fulfill the pending renewal agreements is part of a larger State Department "Out-Compete China" mandatory budget authority for FY2024. Under the proposed arrangement, DOI would continue to administer Compact assistance but would no longer be required to provide funding. According to reports, the next phase of Compact assistance is to include greater support for environmental programs and climate change adaptation, health care and education, and addressing nuclear legacy issues in the Marshall Islands. Since nuclear testing over the Marshall Islands ended in 1958, 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 over \$2.2 billion in uncompensated damages.

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 Department of Defense 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 Considerations

Key issues that Congress may consider related to Compact assistance renewal include the following: changes to oversight mechanisms during the next Compact term; the possible reestablishment of an interagency working group on the FAS; 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 116th and 117th Congresses held four hearings on the FAS: Senate Committee on Energy and Natural Resources, *Full Committee Hearing on the Freely Associated States* (March 29, 2022); Oversight and Investigations Subcommittee of the House Committee on Natural Resources, *Runit Dome and the U.S. Nuclear Legacy in the Marshall Islands* (October 21, 2021); House Foreign Affairs Committee and Committee on Natural Resources, *Sustaining U.S. Pacific Insular Relationships* (September 26, 2019); and Senate Committee on Energy and Natural Resources, *Hearing on U.S. Interests in the Freely Associated States* (July 23, 2019).

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*, and CRS In Focus IF11208, *The Pacific Islands*.

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