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SUSTAINING U.S. PACIFIC INSULAR RELATIONSHIPS

JOINT HEARING

BEFORE THE

COMMITTEE ON FOREIGN AFFAIRS

AND THE

THE COMMITTEE ON NATURAL RESOURCES

HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

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SUSTAINING U.S. PACIFIC INSULAR RELATIONSHIPS

Thursday, September 26, 2019

House of Representatives,

Committee on Foreign Affairs,

joint with

The Committee on Natural Resources,

Washington, DC

The Committees met, pursuant to notice, at 10 a.m., in room 2172, Rayburn House Office Building, Hon. Eliot Engel (Chairman of the Committee on Foreign Affairs), and Hon. Raul Grijalva (Chairman of the Committee on Natural Resources) presiding.

Present from Committee on Foreign Affairs: Representatives Engel, Sherman, Sires, Connolly, Bera, Titus, Lieu, Phillips, Spanberger, Houlahan, Trone, Smith, Chabot, Perry, Yoho, Zeldin, Wagner, Mast, Buck, Wright, Reschenthaler, Burchett, and Pence.

Present from Committee on Natural Resources: Representatives Grijalva, Case, Costa, Cunningham, Sablan, Nicolas, Gonzalez-Colon, Lamborn, Radewagen, Gohmert, and Hern.

Mr. SHERMAN [presiding]. The Committee, or I guess in this case, the Committees will come to order.

This hearing is a hearing of the Natural Resources and Foreign Affairs Committees. The Foreign Affairs Committee will take the lead with the first panel, and the Natural Resources Committee will take the lead with the second panel.

Without objection, all members will have 5 days to submit statements, questions, and extraneous material for the record, subject to the length limitations and the rules of the respective Committees.

Chair Eliot Engel could not be here today, and he figured I had done 23 years on the Foreign Affairs Committee and I could probably handle this. We will see if he is right or not.

The purpose of this hearing is to provide members of both Committees with a deeper sense of strategic importance of America's relationships in the Pacific region, particularly those with the Freely Associated States. And the title of this hearing is the "U.S. Pacific Insular Relationships".

America's legacy in the Pacific goes back well before World War II, but it is best known for World War II, where my own father fought in some of the very islands we are talking about here. A failure to focus adequate resources and intention on this region in recent years has opened the door to other regional actors. Most obviously, China has taken a growing interest in the Pacific Islands. Further west in the Pacific, they are building some of their own is-

lands. But our focus here is on islands created by God rather than man.

Just last week, China pressured not one, but two Pacific Island States to change their diplomatic recognition from Taipei to Beijing. With the Solomon Islands and Kiribati switching their allegiance to Beijing, it is worth noting that two of the four Pacific Island States that still recognize Taiwan are Freely Associated States; namely, the Marshall Islands and Palau.

The topic we are here to discuss today, of course, is the Freely Associated States—the Marshall Islands, Palau, and the Federated States of Micronesia. We share a very unique relationship with these three sovereign countries. The Compacts we have with them serve as a foundation for our exceptionally close ties. FAS, or Federated citizens, have the right to live, work, and study in the United States without a visa. FAS citizens serve in the U.S. military at rates exceeding most of the States in the United States.

The importance of Pacific Islands should never be understated. They control, both strategically and economically, an area considerably larger than the continental United States. As our technology makes the oceans more important, these islands will become more and more important.

We enjoy close coordination with all three governments in a number of areas, including counternarcotics and illegal fishing. The Department of Education provides Pell Grants. The U.S. Postal Service provides domestic mail service, and the National Weather Service, Federal Aviation Administration, and FEMA also provide critical services.

They are among our closest diplomatic allies at the United Nations and provide the United States with unfettered military access to their land, waterways, and airspace. In turn, the United States is responsible for the defense and security of the Freely Associated States. Suffice it to say that the Compacts create bonds between the United States and these three countries that are closer than we enjoy with any other sovereign nation.

Despite these historic ties, we have heard from FAS leaders that all too often it seems the United States has drifted away. Too often, our policy seems to be on autopilot. A good example of this was congressional inaction on the last Compact we signed with Palau. Although the Compact was signed in 2010, Congress did not get around to funding it until 2017. This clearly upsets the relationship, did not actually save taxpayers any money, and the delay seems to reflect a lack of attention where attention is called for.

The current Compacts are scheduled to elapse in 2023–2024. Furthermore, the Trust Funds we helped establish to provide for these countries' economic development have not performed as well as we would have expected. Accordingly, the Freely Associated States are not capable of making up for the shortfall when our financial support to these countries ends. To prevent a reoccurrence of what happened with Palau last time, we must get ahead of the issue, and that is one of the reasons we are holding this hearing, to get all of our colleagues in Congress to focus on the importance of the Freely Associated States.

We are holding this hearing to solicit good ideas from this knowledgeable panel on how to strategically shape our engagement with

the Freely Associated States and other partners in the region. The Freely Associated States should not have to choose between inattention from their long-term friends and the debt traps and other devices which would erode their sovereignty, which will no doubt be offered by China.

We not only have the expertise of two panels of witnesses, we also have three Pacific Island Delegates to the U.S. Congress participating in these hearings, people who live and represent the region and will also, through their questioning and comments, give us a substantial understanding of the area.

I want to point out that we have a created a Pacific Islands Caucus, co-chaired by Ed Case from Hawaii, myself, Ted Yoho, and Don Young. This will also help focus the attention of Congress on this important region.

With that, I will recognize the acting Ranking Member from the Foreign Affairs Committee, Ms. Wagner, for her opening statement.

Mrs. WAGNER. I thank the Chairman very much.

And I want to welcome our witnesses today and to thank them for their work in support of U.S.-Pacific insular relations.

The ties between the United States and our partners in the Pacific are of immense strategic importance. And I am glad that the House Committee on Foreign Affairs and Natural Resources have the opportunity to highlight this as we draw closer to the renegotiation of our Compacts of free association with the Federated States of Micronesia, the Republic of the Marshall Islands, and Palau.

Strong relations with Pacific Island nations are the backbone of U.S. security in the Indo-Pacific and have been since before the Second World War. And for decades, Micronesia, the Marshall Islands, and Palau have played a central role in developing U.S. capabilities and extending our ability to protect sovereignty, rule of law, and freedom of navigation in the Indo-Pacific.

Increasingly, the Pacific Islands are on the front lines of Sino-U.S. rivalry. China has already begun to pressure Pacific Island countries in an attempt to push the borders of its sphere of influence out to the so-called second island chain, a line that passes right through the Northern Mariana Islands, Guam, and Palau.

Last week, China coerced two Pacific Island countries—the Solomon Islands and Kiribati—to break with Taiwan and, instead, recognize Beijing before the communist government's 70th anniversary on October 1st. China seeks to replicate its diplomatic victory in Palau and the Marshall Islands by weaponizing its economic clout. It has banned Chinese tourists from visiting Palau, and it currently forces Marshall Islands ships to pay higher fees to enter Chinese ports.

The United States must stand by its partners and its allies as they face down a belligerent and strident Beijing. China does not share our vision for a free and open Indo-Pacific. It seeks to intimidate, entrap, and coerce the countries with which it works into increasing China's prestige and furthering its own agenda.

We in Congress are proud to support the special relationship the United States shares with the Marshall Islands, Micronesia, and Palau. The United States must continue to stand together with the Freely Associated States in defense of our common interests.

I want thank again the Chairman for organizing this hearing. It is wonderful to have representatives from our Pacific Islands here and to be teaming up with Natural Resources as we delve into this.

I yield back the balance of my time, Mr. Chairman.

Mr. SHERMAN. Thank you.

It is my understanding that the gentleman from Arizona has asked that his opening statement time be used by my friend Kilili from the Northern Mariana Islands. The gentleman from the Northern Mariana Islands is recognized.

Mr. SABLAN. Thank you. Thank you very much. I thank my colleague for yielding to me.

I called for this hearing believing the time has come to begin defining a new era for the United States relationship with some of our closest allies, the Freely Associated States of the Republic of the Palau, the Republic of the Marshall Islands, and the Federated States of Micronesia.

And in so doing, I also hope to signal to the Pacific region writ large that the United States remains committed, more than ever committed to this part of the world. The United States political history with the Freely Associated States began at the end of World War II. The United Nations Security Council entrusted us to administer these former colonies on behalf of the international community. We were charged with fostering the development of their political institutions and promoting their economic, social, and educational advancement.

Speaking as someone who grew up at this time in the Marianas, in Micronesia, in the Trust Territory of the Pacific Islands, which has also been entrusted to the U.S., little was done at first to fulfill these responsibilities. Only after the cold war was in full swing did concern grow that a lack of commitment to political and economic development might jeopardize long-term U.S. security interests in the Pacific. And because of that concern, the U.S. significantly increased assistance.

In fact, the U.S. built such a strong bond that the Marshall Islands and the Federated States of Micronesia all chose to become Freely Associated, and the people of my home voted to make the Mariana Islands a natural part of the United States and chose to become United States citizens.

Perhaps the United States forgot the lesson in the 1970's because today we are facing a similar dilemma. Instead of combating cold war concerns, however, today's challenges are coming from other Pacific powers who want a realignment of allegiance in their favor. And the U.S. neglect of our relationship with Palau and the Marshall Islands and the Federated States of Micronesia could well be encouraging these friends to turn elsewhere.

In the more than 30 years since the Compacts of Free Association were entered with these three island nations, the United States has provided more than $4 billion in direct financial assistance. We have established three Trust Funds, the earnings of which we had hoped would eventually substitute for this aid.

Today's hearing will begin weighing this U.S. assistance to these friends against the growing influence of other powers in the region. So, we must ask ourselves whether we are doing enough in return for the military and defense rights the Freely Associated States

have given us, including the right of strategic denial to block or restrict military access by third countries.

While the U.S. has helped the effort in their economic growth through their targeted financial support, we must be honest; growth has not been what we had hoped. We may need to provide more aid, particularly in light of the GAO's 2018 report that the FSM and the Marshalls' Trust Funds face risks and may not provide the self-sustaining disbursement in future years that were envisioned.

While we are at the infancy stage of fulfilling the interagency strong support for extending financial assistance, which we are told is vital to secure long-term U.S. strategic interests, we must avoid the repeat of the Compact renewal with the Republic of Palau. That renewal was agreed between our two nations in 2010. I introduced legislation to approve it, but Congress did not take final action until 2018, much too long to keep a friendly neighbor waiting.

I want to thank our Administration witnesses and thank them for being here. Their presence underscores the importance of this issue to national security. I commend the Administration for its willingness to secure and strengthen our Nation's relationship with these allies who vote with us at the United Nations more than any other nations.

And finally, I want to welcome my friends, Ambassador Zackios from the Republic of the Marshall Islands, and Ambassador Susaia from the Federated States of Micronesia. Welcome. I look forward to hearing about your governments' priorities for enhancing and moving the relationship with our two nations forward.

And thank you, Mr. Chairman, and I yield my time back.

Mr. SHERMAN. Thank you.

It is my understanding that acting as Ranking Member for the Natural Resources Committee is the Resident Commissioner from Puerto Rico, who is now recognized for a 5-minute opening statement, after which I will recognize others in attendance who are interested in making a 1-minute opening statement. That does not mean you need to.

[Laughter.]

Miss GONZALEZ-COLON. Thank you, Mr. Chairman, and I appreciate it.

I think this is a great opportunity to have the Foreign Affairs Committee and the Natural Resources Committee jointly doing a hearing about a very important issue for the United States security, but also for the interests of the United States in the region.

As a Member representing an island, I know how important it is to acknowledge all the situations in the past 50 years, as well as the status of the Compact. In that regard, we will be reviewing the United States relationship and interests with the Freely Associated States—the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau.

I welcome the Ambassadors as well the members from the Government of the United States for this first panel.

Our relationship with these three independent island nations dates back to World War II, as the Chairman just established, and it is currently governed by the Compact of Free Association that serves mutual interests. The Freely Associated States defer to the

U.S. on decisions related to their external security and receive U.S. economic assistance and security guarantees. In return, our Nation has access to their lands and waters for strategic purposes and, more importantly, we have the ability to deny other countries the same access for providing that kind of security, as Ms. Wagner just said a few minutes ago about the increasing interest of China in the region.

In 2023 and 2024, the financial assistance authorization provided by the Compact of Free Association as amended and the Compact Review Agreement are set to expire. The financial assistance provided under this agreements has been essential to the three island nations.

I, therefore, look forward to having this productive discussion on how this expiration will impact the daily life of the Freely Associated States. And I also want to know about the implications it could have on the United States' strategic interest in the South Pacific region, particularly whether it could create a leadership void that other nations like China might seek to fill.

I want also to hear from our witnesses on policy options these Committees can discuss and we can pursue to increase the Freely Associated States' economic self-reliance and ensure a brighter future for those countries.

I want to thank both Chairmen for calling today's hearing. And after having for the first time a joint meeting with the President of the United States in May of this year from the three independent States, I think it is the first time that happened. And last, in August of this year, Secretary Pompeo got a separate meeting discussing the same issue with one of the islands. I think this is the right time to have these kinds of discussions in how can Congress help in this regard.

I want to recognize Ms. Amata Radewagen from the American Samoan Island, who is part of the Natural Resources Committee in the House, that is part of this delegation that is well represented actually, the Pacific Islands.

With that, I will yield back the balance of the time.

Mr. SHERMAN. Thank you.

I will see if anyone needs—yes, the gentleman from Guam is recognized.

Mr. SAN NICOLAS. Thank you, Mr. Chairman. I am deeply grateful for this joint hearing that we are going to be conducting here today for the purposes of really getting to the bottom of our relationship with the Compact of Free Association and those States that are so associated.

It is important for us in the context of today's hearing to remember that the reputation of the United States as an administering power is no better represented than in our U.S. territories, our tribal nations, and our freely associated allies. And this relationship is wholly responsible for establishing our reputation on the world stage. No matter how much we go out diplomatically to try to talk about whether or not the United States is a good partner or a good ally, it is entirely reflected in whether or not our territories, our tribal nations, and our freely associated allies are succeeding or failing. And the success or failure of these administered areas rests largely with the Department of the Interior.

And so, Mr. Chairman, I am very grateful for this hearing, so that we can discuss the success, particularly of our freely associated allies, and the administering responsibilities of the Department of the Interior, because the soft power implications of our ability to get this right have direct relations to our hard power responsibilities in maintaining peace and security throughout the globe.

Mr. Chairman, I yield back.

Mr. SHERMAN. Thank you.

I understand the gentlelady from American Samoa would seek recognition. Recognized for 1 minute.

Mrs. RADEWAGEN. [Speaking foreign language.]

Thank you, Mr. Chairman, Chairman Sherman, Chairman Sablan, and Ranking Members Wagner and Gonzalez-Colon, for holding this joint hearing on this very important issue.

And thank you to the witnesses for taking time out of your busy schedules and coming here to testify.

Special greetings to Ambassadors Zackios and Susaia, and Nikolao.

The Freely Associated States are near and dear to my heart. Whenever I have the opportunity to visit any of these island countries, it feels like I am being welcomed home. In fact, I actually did have the privilege of living in the Marshall Islands for a number of years.

The Freely Associated States are, arguably, our most important allies in the Pacific. Not only are they important security partners, the people of these island countries have a direct cultural and social impact on the United States and the territories. Their citizens live and work in our communities and serve in our military. They are our neighbors and family members. The American Government does not just have an obligation to these island nations; the amount of value we receive out of our agreements with the FAS means we owe it to the American people to maintain these relationships.

Thank you, Mr. Chairman. I yield back.

Mr. SHERMAN. Thank you.

I see no other members seeking recognition. So, we will now move on to our first witness.

Randall Schriver began his career in the Navy, served in important positions in the State Department, went on to positions in the private sector, and now serves as Assistant Secretary of Defense for Indo-Pacific Security Affairs.

Mr. Schriver.

STATEMENT OF RANDALL G. SCHRIVER, ASSISTANT SECRETARY OF DEFENSE FOR INDO-PACIFIC SECURITY AFFAIRS, U.S. DEPARTMENT OF DEFENSE

Mr. SCHRIVER. Thank you. Good morning, Chairman and Ranking Members. I appreciate the opportunity to be here today to talk about these important relationships with the Freely Associated States.

Our relationships with the Freely Associated States are critical to advancing our strategy to promote the free and open Indo-Pacific. We are advantaged by a deep and rich shared history, but

also shared values and interests. We and the Freely Associated States believe strongly in respect for a safe, secure, prosperous, free, and open Indo-Pacific region that must preserve the sovereignty of all States, no matter their size. We stand together with these important allies and will sustain U.S. security guarantees to the Freely Associated States.

The importance of these efforts is growing as we are increasingly confronted with a more assertive and confident China that is willing to accept friction in pursuit of its interests. There are, of course, other challenges that we work with our partners in the Freely Associated States in the Indo-Pacific, such as persistent and evolving threats from non-State actors, emerging threats across new domains such as cyber and space, and a range of transnational threats, such as natural disasters; illegal, unreported, and unregulated fishing; piracy; drug trafficking, and the impact of climate change.

Given our strong relations with the Freely Associated States, we have a particular concern by China's use of coercive tools to attempt to erode their sovereignty and induce them to behave in accordance with Chinese interests. As was mentioned, China has applied pressure to Taiwan's diplomatic partners, including Palau with the banning of Chinese tourists and the economic coercion that the Ranking Member mentioned that led to a switch in diplomatic recognition on the part of two Pacific Islands just last week.

Our policy response at the Department of Defense is through implementation of the National Defense Strategy in which the Freely Associated States feature prominently in its implementation. We seek to build a more lethal and resilient joint force where we prioritize investments in key technologies and key areas of modernization, and the Freely Associated States are partners with us on this effort.

As an example, the Marshall Islands host the Reagan Ballistic Missile Defense test site, which provides tremendous opportunities for us in our modernization efforts. The site enables cutting-edge U.S. Army and Air Force space and missile defense research and is leading to advanced technologies such as hypersonic test programs and the development of advanced surveillance systems.

Also related to the implementation of our National Defense Strategy, we seek to strength alliances and attract new partners. These networks are critical to our ability to protect the U.S. and enable our forward presence, but it also gives us partners who are more capable to defend themselves and contribute to regional security. Consistent with growing partnership capability and in line with the 2018 Boe Declaration, we aim to build capacity and resilience, particularly to address challenges such as maritime security. The Freely Associated States are also critical to our Department's long-term strategy, as they grant us access and they support us in international fora.

All three countries also contribute to our mutual defense by their service in the U.S. Armed Forces, as was mentioned by the Chairman and other members, at per capita rates higher than most U.S. States. And their citizens have paid the ultimate sacrifice with lives lost in combat in Iraq and Afghanistan.

The Freely Associated States are also active contributors to the international pressure campaign on North Korea. We work with the Marshall Islands and Palau, for example, to prevent use of their ship registries to evade sanctions against North Korea.

In Palau, the United States is working to provide radar equipment and technical support critical to improving maritime domain awareness, including air and surface awareness in the South and East China Seas. The radar will enhance our ability to compete with China in the region and will enable Palau to understand what is happening in its own sovereign territorial waters.

To conclude, we are part of a whole-of-government engagement strategy in the Oceania region, and we are engaging in important ways. We have conducted an unprecedented number of DoD senior-level visits to the region in the last year and a half. We are also stepping up our work with like-minded allies and partners, such as Australia, New Zealand, France, and Japan, to protect the sovereignty and maritime rights of the Pacific Islands.

Going forward, we also recognize that Compact guarantees and obligations are critical in the context of competing effectively with China, as Beijing is actively targeting this region in an effort to expand its own influence. In this regard, the Department of Defense strongly supports our interagency efforts to extend the economic provisions of the Compact to secure our long-term strategic interests in this vital region.

Thank you again, and I look forward to your questions.

[The prepared statement of Mr. Schriver follows:]

STATEMENT BY
RANDALL G. SCHRIVER
ASSISTANT SECRETARY OF DEFENSE FOR
INDO-PACIFIC SECURITY AFFAIRS
OFFICE OF THE SECRETARY OF DEFENSE

BEFORE THE U.S. HOUSE COMMITTEES
ON FOREIGN AFFAIRS AND NATURAL RESOURCES

SEPTEMBER 26, 2019

Introduction

Chairman Engel, Ranking Member McCaul, Chairman Grijalva, Ranking Member Bishop, distinguished members of the Committee, thank you for the opportunity to appear before you today to testify on policy matters related to the Department's efforts in the Indo-Pacific region, particularly on the Freely Associated States. I am pleased to be here today with Assistant Secretary of Interior Douglas Domenech; Deputy Assistant Secretary of State Sandra Oudkirk; and David Gootnick, Director of International Affairs and Trade, Government Accountability Office.

The Freely Associated States Within the Indo-Pacific Framework

The U.S. *National Security Strategy* and *National Defense Strategy* affirm the Indo-Pacific region as our priority theater. As a Pacific nation, the United States recognizes the strategic importance of the Indo-Pacific region, and our interests in the region are mutually reinforcing: security enables the conditions for economic growth; burgeoning economies offer opportunities for U.S. businesses; and U.S. prosperity and security lead to a strong economy that protects the American people, supports our way of life, and sustains U.S. power.

For the past 70 years, the Indo-Pacific region has been largely peaceful, creating the stability necessary for economic prosperity in the United States and the region. This was made possible by robust and persistent U.S. military presence and credible combat power as well as the region's collective adherence to international rules and standards, which support our vision for a free and open Indo-Pacific region.

This is particularly true with regard to our unique, enduring relationships with the Freely Associated States of Palau, the Republic of the Marshall Islands, and the Federated States of Micronesia. The Pacific Islands are a region distinct from other parts of the Indo-Pacific because of the relatively small size of states, their unique geography, and the nature of the challenges to improving their economic prosperity. As a Pacific nation itself, the United States views the Pacific Islands as critical to U.S. strategy because of our shared values, interests, and commitments, including U.S. security guarantees to the Freely Associated States.

Our shared interests with the Pacific Islands underscore four important components special to this region. First, we share a long history, borne of commitments given and support provided during the Second World War that compels a renewed U.S. commitment to stay. Second, we believe strongly in respect for a safe, secure, prosperous, and free and open Indo-Pacific region that must preserve small States' sovereignty. Third, in line with the 2018 Boe Declaration, we aim to help build capacity and resilience to address maritime security challenges, including: illegal unreported, and unregulated fishing, and drug trafficking; and to help build resilience to address climate change and disaster response. Fourth and finally, we are committed to continued engagement in the region by reaffirming and renewing partnerships.

Competition With China

Part of this effort is standing together with the region as we are increasingly confronted with a more assertive and confident China that is willing to accept friction in the pursuit of its interests.

China's pursuit of an alternative vision for the Indo-Pacific region to reorder it in China's favor puts us on a pathway to strategic competition. The reemergence of great power competition – if not carefully managed – poses a challenge to the free and open order in the Indo-Pacific region that underpins our continued peace and prosperity. Given our strong relationships with the Freely Associated States, we are particularly concerned by China's use of coercive tools to attempt to erode their sovereignty and induce them to behave in accordance with Chinese interests. The United States and China are not destined to be adversaries, and we are prepared to support China's efforts in the region to the extent that China promotes long-term peace and prosperity for all in the Indo-Pacific.

Standing Together to Counter Threats in the Indo-Pacific Region

We see other challenges in the Indo-Pacific region that we must work with the Freely Associated States to overcome. This includes Russia's actions to undermine the rules-based international order as well as rogue and dangerous behavior from North Korea.

From terrorism, illicit arms, drug, human and wildlife trafficking, and piracy, to dangerous pathogens, weapons proliferation, and natural disasters, there are also a host of additional, transnational, challenges throughout the Indo-Pacific region of concern to the Department of Defense. Illegal, unreported, and unregulated fishing, piracy, and criminal activity and drug-trafficking further challenge regional peace and prosperity – issues that are of particular concern in the Pacific Islands. And the threats to peace and security that face this region are not only man-made. A region already prone to earthquakes and volcanoes as part of the Pacific ring of fire, the Indo-Pacific region suffers regularly from natural disasters, which could be exacerbated by climate change, a source of concern to our partners in the Pacific Islands.

The Freely Associated States are indispensable partners in countering all of these regional threats, from standing with us to enforce United Nations Security Council resolution sanctions on North Korea, to working together to confront illegal fishing and trafficking that fund international terrorist and criminal organizations.

National Defense Strategy

The Freely Associated States feature prominently as we further our implementation of the *National Defense Strategy*. Developed in tandem and nested under the *National Security Strategy*, the 2018 *National Defense Strategy* remains the most effective aligning mechanism for the Department toward maintaining our competitive advantage in the Indo-Pacific region and confronting these challenges. Overall, it guides the Department to defend the homeland; remain the preeminent military power in the world; ensure the balances of power in key regions remain in our favor; and advance an international order with allies and partners that is most conducive to our security and prosperity.

The National Defense Strategy directs the Department to sustain U.S. influence through three lines of effort: building a more lethal force; strengthening our alliances and partnerships; and reforming the Department's business practices – the most effective avenues for addressing

growing strategic competition with China and Russia. We are pursuing all of these lines of effort in partnership with the Freely Associated States.

The first line of effort is building a more lethal force. Noting the scope and pace of our competitors and their ambitions and capabilities, the *National Defense Strategy* outlines plans to invest in modernizing key U.S. capabilities including nuclear forces; space and cyberspace capabilities; command, control, communications, computers, intelligence, surveillance, and reconnaissance ; missile defense; capabilities to strike diverse targets inside adversary air and missile defense networks; smaller, dispersed, resilient, and adaptive basing; and autonomous systems. A key example of this can be seen in the Marshall Islands, where we have $2 billion in military infrastructure investment at Kwajalein Atoll enabling cutting-edge U.S. Army and Air Force space and missile defense research. This modernization effort is leading to advanced technologies, such as hypersonic test programs and the development of an advanced surveillance system for tracking satellites and space debris.

The second line of effort is strengthening alliances and attracting new partners. A core U.S. advantage is the strength and diversity of our alliances and partnerships, which are critical to our ability to protect the United States and project power around the world when it is necessary to do so. In this context, the Freely Associated States – the Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau – are critical to the Department's long-term strategy as they grant us access and support in international fora in return for security and economic assistance, including access to various U.S. Federal programs, grants, and, for many citizens of the Compact States, visa-free travel to the United States. All three countries also contribute to our mutual defense by their service in the U.S. armed forces at per capita rates higher than most U.S. states, and their citizens have sacrificed their lives in combat in Iraq and Afghanistan. We are also stepping up our partner-centric approach in other sub-regions within the Pacific Islands, by supporting engagement by our likeminded allies and partners such as Australia, New Zealand, France, and Japan, working together to protect sovereignty and maritime rights of the Pacific Islands. One example is addressing posture opportunities, as seen in Vice President Pence's announcement at the Asia-Pacific Economic Cooperation that the United States will partner with Papua New Guinea and Australia on their joint initiative at Lombrum Naval Base on Manus Island.

The third line of effort is reforming the Department for greater performance and affordability. The *National Defense Strategy* recognizes the challenges presented by rapid technological advancements in dual-use areas, and the way China is blurring the lines between civil and military goals. Accordingly, the *National Defense Strategy* discusses efforts to organize Department structures to promote innovation, to protect key technologies, and to harness and protect the national security innovation base to maintain the Department's technological advantage. The Department's support to whole-of-government actions also contributes to this response. For example, in Palau, the United States is working to provide radar equipment and technical support critical to improve maritime domain awareness and enhance Palau's maritime law enforcement capability.

These efforts are reflected in the President's Fiscal Year 2020 budget, which reflects the President's vision for prioritizing the security, prosperity, and interests of the American people,

and Secretary Esper's vision for a future marked by a more lethal, results-oriented Department of Defense with the capabilities and capacity to ensure national security and implement our *National Defense Strategy* at the speed of relevance. Our FY 2020 budget prioritizes innovation and modernization to strengthen our competitive advantage across all warfighting domains—a major milestone toward a more lethal, agile, and innovative Joint Force.

Revitalized Engagements in the Pacific Islands

DoD is revitalizing our engagement in the Pacific Islands to preserve a free and open Indo-Pacific region, maintain access, and promote our status as a security partner of choice.

The United States enjoys a unique relationship with the Freely Associated States and has a Compact of Free Association with the Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau. We share significant history, culture, and values with our partners in the Freely Associated States, and these relationships helped secure U.S. security interests in the Pacific through decades of the Cold War and beyond. As stated in the Joint Statement from President Trump's historic May 2019 meeting with the three presidents of the FAS, "We recognize our unique, historic, and special relationships, and reaffirm our countries' commitments to the Compacts of Free Association, resolving to continue our close cooperation in support of prosperity, security, and the rule of law."

The Freely Associated States are key partners in a region critical to maintaining U.S. security and influence and is vital to our ability to project power in the Western Pacific. First, the Compact States are part of a logistics "super-highway" from the West Coast of the continental United States through the Hawaiian Islands and the U.S. territories of Guam and the Commonwealth of the Northern Mariana Islands into the Indo-Pacific region as part of the strategic "second island chain." Second, through the privileges under the Compact, the Freely Associated States play host to critical sites, such as the U.S. Army Garrison on Kwajalein Atoll in RMI, that bolster U.S. national security. Thirdly, the Compacts provide the United States special and extensive access to operate in these nations' territories, and the authority to deny access to these nations by third-country militaries. Finally, Compact guarantees and obligations are particularly important in the context of competing effectively with China, as Beijing is taking steps in part, to target this region in an effort to expand its influence, encroach on U.S. defense assets, and restrict U.S. access in the region.

In this context, DoD, along with the interagency, strongly supports extending Compact financial assistance to secure long-term U.S. strategic interests in this vital region. Termination of U.S. economic assistance is expected to have significant negative impacts on the government revenues of the Freely Associated States, and could potentially threaten the U.S. position as partner of choice in the sub-region. Current and planned military installations in these countries help protect the homeland and extending Compact financial assistance is a good deal for U.S. national security. Congress' action last year to fulfill our commitment to Palau under the 2010 U.S.-Palau Compact Review Agreement was critical to advancing our mutual security interests. DoD, along with the interagency, is engaged in evaluating options for our post-2023 and 2024 relationships with the FSM and RMI.

In the Marshall Islands, we have $2 billion in military infrastructure investment that enables U.S. Army and Air Force space and missile defense research that is unavailable elsewhere in the world. The strategic value of the Ronald Reagan Ballistic Missile Defense Test Site at the U.S. Army Garrison at Kwajalein cannot be overstated. The Ballistic Missile Defense Test Site provides critical testing support to both offensive and defensive missile testing requirements for programs such as Ground-based Midcourse Defense and U.S. Air Force strategic ballistic missile systems. The Ballistic Missile Defense Test Site retains preeminent ballistic missile testing capabilities used in validating our ability to sustain a strong, credible ballistic missile deterrent as a key element of national security and the security of U.S. allies and partners.

As testified earlier this year by Lieutenant General Dickenson Commanding General for U.S. Army Space and Missile Defense Command before the Subcommittee on Strategic Forces Committee on Armed Service, the Ballistic Missile Defense Test Site provides developmental and operational testing of both homeland and regional missile defense systems and also supports offensive ballistic missile testing for the Air Force Global Strike Command. There are also currently five active hypersonic test programs in various stages of planning at the Ballistic Missile Defense Test Site. The geographic remoteness and available complex sensor suite at the Ballistic Missile Defense Test Site has led to a significant upswing in hypersonic systems test planning. Furthermore, the Ballistic Missile Defense Test Site also conducts continuous deep space surveillance and space object identification operations to increase national capabilities and reduce expenditures for both mission sets.

In Kwajalein, the U.S. Air Force continues testing of the under-construction *Space Fence* facility, its most advanced surveillance system for tracking satellites and space debris. In a few years, this improved surveillance capability will enable proactive space situational awareness while complementing existing systems at the Ballistic Missile Defense Test Site. DoD continues to modernize our infrastructure at Kwajalein to maintain the strategic value of the Ronald Reagan Ballistic Missile Defense Test Site while providing benefits to the local population. DoD is working to repair and restore the existing runway and taxiways to ensure continued airlift operations and commercial flights. DoD is also planning to construct a new aviation terminal and air traffic control tower at the airfield.

In Palau, the United States is working to provide coastal surveillance systems and technical support critical to improve maritime domain awareness and enhance Palau's maritime law enforcement capability. DoD is also working to build a Tactical Mobile Over the Horizon Radar (TACMOR) system in Palau to increase our air domain awareness in the South and East China Seas. This radar will enhance DoD's ability to compete with China in the region while also better enabling the United States to continue to provide for Palau's defense. Palau will host the 2020 Our Ocean Conference, which will be the Palauan President's last and most important international engagement.

The Marshall Islands and Palau are also two of the five countries in the Pacific Islands region that recognize Taiwan (Republic of China) rather than the People's Republic of China, out of 16 such States worldwide. In recent years, China has reapplied pressure on Taiwan's diplomatic partners, as seen in 2018 when China effectively banned Chinese tourists from visiting Palau,

gutting Palau's tourism industry in an attempt to pressure the country into switching its diplomatic recognition.

In the Federated States of Micronesia, DoD has added a new defense attaché office to increase presence. In Yap, the Air Force is planning a divert airfield that would allow the U.S. Air Force to land aircraft should Guam airfields become unavailable. Across all three nations, we are deeply vested in increasing traditional security support.

The U.S. Navy's *Pacific Partnership* exercise deploys medical, dental, engineering, and veterinary experts to the Federated States of Micronesia (2018, 2019), Palau (2018), and the Marshall Islands (2019). The U.S. Air Force has conducted *Operation Christmas Drop* for over 50 years. Military engineers work on projects in all three countries, and Palau and the Federated States of Micronesia often request assistance dealing with unexploded ordnance. All three countries welcome U.S. assistance patrolling their extensive exclusive economic zones to protect marine resources, in cooperation with the U.S. Navy and Coast Guard.

In addition to maintaining our focus on the Freely Associated States, we are looking at ways to increase involvement in and across the Pacific Islands – particularly with Fiji, Tonga, and Papua New Guinea. Our "partner-centric" approach features U.S. whole-of-government engagement across the region, working in coordination with likeminded allies and partners and interagency partners, particularly the Departments of State and Interior, and the U.S. Coast Guard.

For example, we work closely with the Department of State on the implementation of $7 million in Foreign Military Financing (FMF) provided to the Pacific Islands in 2018. This security assistance, along professional military education and peacekeeping funds, support a free and open Indo-Pacific by enhancing these countries' maritime security capabilities and military professionalization.

U.S. security support to the Pacific Islands also comes in many other forms. This year, we expanded the Nevada National Guard State Partnership Program with Fiji as part of an expansion of U.S.-Fiji defense engagement. In Tonga, our strong security relationship is anchored by that same Nevada National Guard State Partnership Program, in place since 2014. In Papua New Guinea, we seek to improve the capacity of the Papua New Guinea Defence Force; notably, we are partnering with Australia and Papua New Guinea at Lombrum Naval Base on Manus Island. In coordination with the U.S. Coast Guard, we provided harbor security to Papua New Guinea for the 2018 Asia-Pacific Economic Cooperation (APEC) Summit. We also have added a new defense attaché office in Port Moresby. Many Pacific Island countries also participate in various regional exercises and training events, including U.S. Indo-Pacific Command's KOA MOANA and PACIFIC PATHWAYS exercises. We have increased the number of ship visits and, in turn, have exercised existing shiprider agreements.

In the past year, we have also seen an unprecedented level of high-level visits to Oceania by senior-level officials in the U.S. Government. In addition to my trip to five Pacific Island nations, including New Zealand, in December 2018, this includes visits by: General Brown, Commander, Pacific Air Forces, to all three Freely Associated States in February 2019; Admiral Davidson, Commander, U.S. Indo-Pacific, to the Federated States of Micronesia in January 2018 and to four Pacific Islands nations in August 2018; Under Secretary of the Navy Modly to five

Pacific Islands nations in September 2018; Deputy Assistant Secretary of Defense Felter to Papua New Guinea in October 2018. This past August, Secretary Esper made his first trip overseas as Secretary to Australia and New Zealand and discussed stepping up efforts across Oceania during his tenure. There have also been complemented by visits and meetings from across the U.S. Government. President Trump met the governor of Guam at Anderson Air Force Base in June 2018; former Secretary of the Interior Zinke stopped by Guam and the Commonwealth of the Northern Mariana Islands while he led a delegation to the Pacific Islands Forum; and Vice President Pence stopped by Guam in November 2018 on his way back from Japan. This year, in May President Trump hosted the Presidents of all three countries at the White House. In July, Secretary of Veterans Affairs Wilkie led the U.S. delegation to the inauguration of the President and Congress of the Federated States of Micronesia, and in August Secretary Pompeo became the first Secretary of State of visit the Federated States of Micronesia and the second Secretary of State to the Marshall Islands. Together, these visits have deepened our relationship with Pacific Island countries while allowing us to shape our future engagement.

Conclusion

The Department of Defense is working within the *National Defense Strategy* framework to ensure we are on a trajectory to compete, deter, and win. The United States is an Indo-Pacific power, by history and tradition; by our present commitments and political, economic, socio-cultural, and security engagements; and by our future aspirations. The Indo-Pacific region is our priority theater, and our strategy is designed to ensure we have ready and capable forces in the right places across this vast region at the right time, and equally ready and capable allies and partners that are able to cooperate with us, and each other, to ensure regional peace and stability.

Our vision for the Indo-Pacific region is one where all nations, large or small, are confident in their sovereignty, and able to contribute to a regional order that is safe, secure, prosperous, and free. Or, as the President has said, "each its own bright star, a satellite to none."

The Freely Associated States are critical partners for realizing this vision. We are renewing our engagement in the Pacific Islands as part of our work to preserve a free and open Indo-Pacific region, maintain access, and promote our status as the security partner of choice. In the Freely Associated States and broader Oceania, DoD is proactively working with allies and partners through a "partner-centric" approach. In line with the *National Defense Strategy*, we must collectively step up to pool our resources and share the burden. Our approach features U.S. whole-of-government engagement on targeted priorities across the region, working in coordination with likeminded allies and partners, such as Australia, New Zealand, France, and Japan, as well as interagency partners, particularly the Departments of State and Interior.

DoD welcomes working with Congress to secure long-term U.S. strategic interests in this vital region. We appreciate Congress' action last year to fulfill our commitment to Palau under the 2010 U.S.-Palau Compact Review Agreement. DoD and the U.S. interagency welcomes support from Congress as it evaluates options for our post-2023 and 2024 relationships with all three countries.

Thank you for the opportunity to participate in this hearing and for your ongoing support of the Department of Defense.

Mr. SHERMAN. Thank you.

Ms. Sandra Oudkirk is a career diplomat. She is Deputy Assistant Secretary for Australia, New Zealand, and the Pacific Islands in the Bureau of East Asian and Pacific Affairs at the Department of State.

You are recognized.

STATEMENT OF SANDRA OUDKIRK, DEPUTY ASSISTANT SECRETARY FOR AUSTRALIA, NEW ZEALAND, AND THE PACIFIC ISLANDS, BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS, U.S. DEPARTMENT OF STATE

Ms. OUDKIRK. Good morning. Chairman, Ranking Members, distinguished members of both Committees, thank you for the opportunity to appear before you today with my distinguished fellow panelists.

As has been noted already, the Indo-Pacific is the most populous and economically dynamic region of the world. The U.S. interest in a free and open Indo-Pacific extends back to the earliest days of our Republic. Our relationships with the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau, collectively referred to as the Freely Associated States, have since World War II contributed to a secure, stable and prosperous Indo-Pacific region.

Together, these three countries form a strategic bridge stretching from Hawaii to the Philippines, a span equivalent to the breadth of the continental United States. As has been noted, we have full responsibility and authority for security and defense matters in or relating to these three countries. We can deny other countries' militaries access to these countries, and the three governments consult closely with us on their foreign policies.

Importantly, the Freely Associated States hold strong to their core democratic values. This is the foundation that underpins our relationship and our cooperation. As Secretary Pompeo has said during his August visit to Micronesia, these small islands are big strongholds of freedom. They are proven partners and friends. The Marshall Islands, the Federated States of Micronesia, and the Republic of Palau are historically among the United States' strongest supporters at the United Nations. The Freely Associated States stand with us to combat anti-Israel bias and stood with us on the Jerusalem vote. In addition, Palau and the Marshall Islands are two of the now 15 countries that maintain diplomatic ties with Taiwan.

We work closely with the Freely Associated States on the full range of law enforcement issues. We train law enforcement personnel from all three countries. We conduct joint maritime law enforcement patrols, and we cooperate on law enforcement investigations.

Eligible citizens of all three countries can and do travel without visas to live, work, and study in the United States. Citizens of the Freely Associated States serve in the U.S. Armed Forces at rates higher than most U.S. States, and 18 servicemembers have lost their lives in combat since World War II.

The United States must continue to deepen our engagement with the Freely Associated States, especially now at a time of increased

competition from China, Russia, and other countries who seek to exert greater influence in the Pacific region.

Our Compact relationships do not have an end date. However, the scheduled end of U.S. economic assistance is rapidly approaching, and now is not the time to leave these small, sovereign, partner nations open to the predations of larger countries.

For example, China has significantly increased its engagement with the Pacific Islands over the past decade. China has provided $1.8 billion in economic assistance to the Pacific Islands since 2006, now putting it third in terms of donations, behind Australia at $7.7 billion and the United States at $1.9. China's engagement is still growing.

Against this backdrop of growing competition, there is uncertainty across the Pacific about the United States' willingness and ability to sustain the robust bilateral presence that has contributed to peace, stability, and prosperity in the region. Our allies, partners, and other Pacific Island countries see our relationships with the Freely Associated States as a bellwether, as a signal of our commitment to the broader Indo-Pacific.

On August 5th, during the first visit by a Secretary of State to the Federated States of Micronesia, Secretary Pompeo announced that the United States will begin consultations on certain provisions of our respective Compacts of Free Association with each country. We are coordinating closely across the interagency to evaluate our options. These agreements are complex. They require a thoughtful approach with extensive consultations to make sure that we get them right. An interagency group will travel to all three countries in October to better understand the needs and perspectives of each of the three countries.

We are committed to working collaboratively with Congress to explore ways in which we might further strengthen our relationship with the Freely Associated States. Chairman Sherman, Chairman Sablan, Chairman Grijalva, Ranking Members Wagner and Gonzalez-Colon, distinguished members of the Committee, thank you again for the opportunity to appear before you today. We look forward to working closely with you and your colleagues in Congress to ensure that the United States can effectively secure U.S. interests in the Indo-Pacific. Thank you.

[The prepared statement of Ms. Oudkirk follows:]

STATEMENT BY
SANDRA OUDKIRK
DEPUTY ASSISTANT SECRETARY FOR
AUSTRALIA, NEW ZEALAND, AND PACIFIC ISLANDS
BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS
DEPARTMENT OF STATE
September 26, 2019

Chairmen Engel and Grijalva, Ranking Members McCaul and Bishop, distinguished members of the Committee, thank you for the opportunity to appear before you today to testify on the importance to the United States of the Freely Associated States, the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau. I am pleased to be here today with Director Nikolao Pula from the Department of the Interior; Assistant Secretary of Defense Randall Schriver; and David Gootnick, Director of International Affairs and Trade, Government Accountability Office.

The Indo-Pacific is the most populous and economically dynamic region of the world. U.S. interest in a free and open Indo-Pacific extends back to the earliest days of our republic. Its economic and strategic significance to the United States grows by the day. The Administration has pledged to redouble our commitment to established alliances and partnerships, while expanding and deepening relationships with new partners that share respect for sovereignty, transparency, fair and reciprocal trade, and the rule of law.

Our relationships with the Marshall Islands, the Federated States of Micronesia, and Palau, collectively referred to as the Freely Associated States, have, since World War II, contributed to a secure, stable, and prosperous Western Pacific, a strategic location for the United States in the larger Indo-Pacific region. Together these three countries form a strategic bridge that stretches from Hawai'i to the Philippines, a span larger than the breadth of the continental United States. Traveling west from the Marshall Islands over the Federated States of Micronesia to Palau is like traveling by airplane from Washington, DC to California.

2019 has been an historic year. In May, President Trump hosted the Presidents of all three countries at the White House. In July, Secretary of Veterans Affairs Wilkie led the U.S. delegation to the inauguration of the President and Congress of the Federated States of Micronesia, and in August Secretary Pompeo became the first Secretary of State to visit the Federated States of Micronesia and the second Secretary of State to visit the Marshall Islands.

We have full responsibility and authority for security and defense matters in or relating to these three countries. We can deny other countries' militaries access to the Federated States of Micronesia, the Marshall Islands, and Palau. Recognizing our unique, historic, and special relationships, these three countries consult closely with us on their foreign policies, and we consult with each of the three countries on foreign policy matters that relate to them. The citizens of all three Freely Associated States have a long tradition and high rate of service in the United States armed forces, contributing to our mutual security.

In addition, the three countries work cooperatively with the United States, including through all three nations' membership in the Proliferation Security Initiative, their work securing their respective ship registries from illicit use by bad actors, and by jointly exercising our Shiprider Agreements to combat illegal, unreported, and unregulated (IUU) fishing.

The Freely Associated States hold strong to their core democratic values in an era of backsliding. Our shared values and commitment to democracy and human rights are enshrined in our respective Compacts of Free Association. This bedrock underpins our strong relationships and our close cooperation. As Secretary Pompeo said during his visit to the Federated States of Micronesia, these small islands are big strongholds of freedom. They are proven partners and friends.

Palau and the Marshall Islands are two of the 15 countries that publicly state that they maintain diplomatic ties with Taiwan. Taiwan is a democratic success story, a reliable partner, and a force for good in the world. As Vice President Mike Pence said, America will always believe that Taiwan's embrace of democracy is an example to be internationally supported. The United States has a deep and abiding interest in cross-Strait peace and stability – and in maintaining the status quo with respect to diplomatic ties is a key part of this.

The Marshall Islands, Federated States of Micronesia, and Palau are historically among the United States' strongest supporters at the United Nations, as closely aligned with us as some of our closest partners, including Australia and the United Kingdom. In fact, only Israel votes with the United States at rates higher than the Federated States of Micronesia. The Marshall Islands, Federated States of Micronesia, and Palau stand with us to combat anti-Israel bias, and stood with us on the Jerusalem vote. They are not afraid to break from the G-77 or stand up to pressure from larger countries to support key U.S. objectives in international organizations.

The three countries are also active contributors to implementing UN Security Council resolutions. The Marshall Islands, with the third largest ship registry by tonnage in the world, and Palau, which also has an open ship registry, are key partners in deregistering and reporting vessels that use their flags for sanctions evasion. Both have moved to de-register vessels and companies suspected of illicit ship-to-ship transfers of oil to North Korean vessels. In early 2018 the Trust Company of the Marshall Islands de-registered a company incorporated there for supporting the tanker LIGHTHOUSE WINMORE in its illicit trade of oil. Also in 2018, Palau de-registered the BILLIONS No. 18, another tanker illicitly trading with North Korean flagged or operated ships. The Federated States of Micronesia has also taken action against entities falsely using their flag. In addition, we are working with the Federated States of Micronesia through the U.S. Coast Guard to improve anti-terrorism and other security measures at its ports. We are supporting regional capacity building for Pacific shipping registries, in partnership with Australia, New Zealand, and the Pacific Islands Forum Secretariat as well as other likeminded partners. We have held two workshops, in July 2018 and March 2019, focused on addressing shipping security issues and performing due diligence to ensure vessels registered or applying for registry do not have links to North Korea. These workshops led to increased information sharing among the Pacific Islands resulting in the de-registration of at least one North Korean vessel. We are preparing for the next workshop in Fall 2019.

We work closely with the Marshall Islands, Federated States of Micronesia, and Palau on the full range of law enforcement issues through the Department of Homeland Security, U.S. Coast Guard, DEA, and FBI through law enforcement training in all three countries, conducting maritime law enforcement patrols through our respective Shiprider Agreements, and cooperating

on law enforcement investigations. Together we are also working to secure our respective borders, including our shared maritime boundaries with the Freely Associated States.

The threat posed by weapons of mass destruction is a key concern for the United States. In 2018, Palau and the Federated States of Micronesia joined the Marshall Islands as members of the Proliferation Security Initiative (PSI). Palau and the Federated States of Micronesia became the 106th and 107th PSI participant states. As PSI members, all three Freely Associated States committed to undertake voluntary measures, consistent with their authorities and resources, to interdict illicit transfers of weapons of mass destruction, their delivery systems, and related materials; exchange relevant information; and strengthen legal authorities to conduct interdictions. They also conduct exercises, workshops, and other activities to improve their capacities to fulfill their PSI commitments. The addition of each new member strengthens the Initiative and helps ensure PSI will remain a durable international effort in the years ahead.

Eligible citizens of all three countries can travel without visas to live, work, and study in the United States. Citizens of the Freely Associated States serve in the U.S. armed forces at rates higher than most U.S. states and 18 have lost their lives in combat over the past six decades. The depth and breadth of our people-to-people relationships is one of the strongest foundations of our relationship, and it is growing stronger every year. During the 2017-2018 school year, almost 100 students from the Federated States of Micronesia, the Marshall Islands, and Palau attended American universities, a 72 percent increase from the previous year.

The United States' relationships with the next generation of leaders in the Freely Associated States contribute to a continued shared understanding of our countries' mutual interests. We are committed to working with the next generation of Pacific leaders, enabling them to drive positive change in their home countries. A key way in which the State Department advances this goal is through the annual Young Pacific Leaders (YPL) conference, which gathers emerging leaders from Pacific Island nations to discuss issues of regional concern. The Young Pacific Leaders, of which this conference is a part, now has more than 180 alumni with diverse backgrounds, including diplomats, government officials, teachers, NGO leaders, and journalists. The YPL program features a small grants competition for participants to transform ideas into action. For example, a grant awarded this year will support a project in the Marshall Islands to provide each household in the country's remote outer island region with water filter systems to reduce waterborne illnesses and ensure resilience. In the Federated States of Micronesia, a grant is enabling a young leader to set up a Climate Action Network Camp for girls - called "Girls CAN" - to empower the next generation of Micronesian women leaders to combat climate change. In October this year, the first ever YPL International Visitor Leadership Exchange Program will launch bringing 15 young entrepreneurs, political, civic, and business leaders to the U.S. to focus on economic and social development, in support of entrepreneurship and workforce development across the Pacific. This summer, the Department of State, in partnership with the World Affairs Council of Oregon, launched the first Tuna Diplomacy Youth Leadership program for high school aged students from the Federated States of Micronesia, Marshall Islands, and Palau. The program introduced students to approaches to sustainable fisheries entrepreneurship through a three-week exchange in Oregon.

The Department of State also works with the East-West Center, in coordination with New Zealand, to implement a women's leadership program in the Marshall Islands, the Federated States of Micronesia, and Palau. This program, the North Pacific Women's Action Program, works with women to develop their ability to begin, support, and grow activities that address community needs and support community wellbeing. The program seeks to increase women's participation in their communities and in local decision-making.

Our relationship with the Freely Associated States - underpinned by our respective Compacts - is a strategic component of our position in the Indo-Pacific. These relationships allow the United States to guard long-term defense and strategic interests. Our partnerships and engagement in the region matter greatly and generate outsized results. Nevertheless, the United States must continue to deepen our engagement not only with the Freely Associated States, but with Pacific Islands broadly. We cannot take the goodwill generated from our historic bonds of friendship for granted at a time of increasing competition from China, Russia, and other countries seeking to exert greater influence, not only in the Freely Associated States, but in the larger Pacific region. All three Compacts last in perpetuity, unless terminated in accordance with the provisions contained therein. As the scheduled end of U.S. economic assistance is fast approaching, now is not the time to leave these small sovereign partner nations open to the predations of larger countries.

Our vision for the Indo-Pacific excludes no nation. The United States and China are not zero-sum competitors. We welcome opportunities to collaborate with partners, including China, on mutual interests and development goals in the Pacific islands, and to expand efforts with international institutions to tackle key global development challenges. The United States is committed to economic development that respects national sovereignty and builds regional trust. This occurs when infrastructure and other areas are physically secure, financially viable, environmentally sound, and socially responsible. We encourage China to promote and uphold these best practices in infrastructure development and financing, and to adopt an open and inclusive approach to its Belt and Road Initiative (BRI)-affiliated overseas infrastructure projects as it pursues economic cooperation with countries in the region and beyond.

China has significantly increased its engagement with Pacific Islands over the past decade through development aid, investment, diplomatic engagement, military assistance and people-to-people exchanges. China has provided $1.8 billion in assistance to the Pacific Islands since 2006, mostly for infrastructure, putting China third behind Australia ($7.7 billion) and the United States ($1.9 billion). Approximately 80 percent of Chinese assistance is comprised of concessional loans, with the remainder composed of in-kind assistance and grants.

Pacific Island countries' collective debt to China rose from almost zero to more than $1.3 billion within the last decade. Chinese loans reportedly account for 60 percent of Tonga's total external debt and 37 percent of Vanuatu's external public debt. Papua New Guinea has the biggest total debt to China at almost $540 million, about a quarter of its total external public debt. These loans have the potential to be exploited for political leverage to extract additional concessions.

While the Freely Associated States do not have the same debts to China as some of their Pacific neighbors, China's engagement is still growing. In the Federated States of Micronesia, China

committed to provide $75 million in foreign assistance (ODA) between 2011 and 2016; only $24 million of this commitment has been reportedly spent. In Palau, Chinese tourists and Chinese investment in the tourism sector dominate the market making Palau's tourism-dependent economy vulnerable to changes in China's policies. From 2012 to 2015, Palau's tourism economy boomed, and GDP grew rapidly resulting from a large influx in Chinese tourists. Subsequently, in 2015, China began to more strictly enforce Palau's lack of an "approved destination status" and arrivals from China dropped as a share of overall tourist numbers. In 2017 the economy contracted by 4.7 percent.

We remain a top trading partner in the Freely Associated States, but China's trade relationship is growing. We have trade surpluses in goods with all three countries totaling more than $300 million. In 2018, trade in goods between China and the Federated States of Micronesia was $40.3 million in contrast to $47.6 million with the United States. For the Marshall Islands, trade in goods with China was $2.2 billion while trade with the United States was $311 million. For Palau, trade in goods with China was $13.8 million while with the United States it was $21.9 million.

Against a backdrop of growing competition, there is uncertainty from our partners about the United States' willingness - and ability - to sustain our robust bilateral presence that has been a hallmark of much of the 20th century and that has contributed to peace, stability, and prosperity in the region. Our allies, partners, and other Pacific Island countries see our relationships with the Freely Associated States as a signal of our commitment to the Indo-Pacific.

President Trump's historic May meeting with the presidents of the Marshall Islands, Federated States of Micronesia, and Palau illustrates the importance the Administration attaches to these relationships.

On August 5, during the first visit by a Secretary of State to the Federated States of Micronesia, Secretary Pompeo announced that the United States has begun consultations on certain provisions of our respective Compacts of Free Association with each country.

We are already coordinating closely across the interagency to evaluate a range of options to promote our continued relationships with all three countries. These agreements are complex and require a thoughtful approach with extensive consultations to make sure that we get them right. An interagency group will travel to each of the Freely Associated States in October to better understand the needs of each of the three countries.

We welcome the opportunity to work with Congress to secure long-term U.S. strategic interests in this vital region. We are committed to working collaboratively to explore ways in which we might further strengthen these relationships after the economic assistance the United States currently provides expires under the current terms of the three Compacts of Free Association.

Chairmen Engel and Grijalva, Ranking Members McCaul and Bishop, distinguished members of the Committee, thank you for the opportunity to appear before you today. We look forward to working closely with Congress to ensure that the United States can effectively secure U.S. interests in the Indo-Pacific.

Mr. SHERMAN. We have with us the executive branch's liaison with the Freely Associated States. He is Nikolao Pula, the Director of the Office of Insular Affairs at the Department of the Interior, and he is recognized for 5 minutes.

STATEMENT OF NIKOLAO PULA, DIRECTOR, OFFICE OF INSULAR AFFAIRS, U.S. DEPARTMENT OF THE INTERIOR

Mr. PULA. Thank you, Mr. Chairman. Thank you, members of the Committees, and the distinguished members of both Committees. Thank you for the opportunity to testify before your Committees this morning. I am Nik Pula, Director of the Office of Insular Affairs at the Department of the Interior.

Having traveled to each of these countries multiple times, I can assure you that the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau share a unique and special relationship with the United States.

My colleagues at the Department of State and Defense discussed the diplomatic and military importance of our relationship with these Freely Associated States. I will focus on the financial assistance provided by Congress through Interior.

The Department has partnered with the people of the former Trust Territory of the Pacific Islands since 1951, when the Navy transferred civil administration to Interior. Given our historic role, Congress determined then that Compact funding would flow through Interior. That continues today.

No other independent nation with diplomatic and military relationships with the United States also has a relationship with the Department of the Interior. This can be attributed to the unique and special history that we have shared and continue to share going forward.

This Compact framework has successfully ended their trusteeship status and restored stable, sovereign, and democratic self-governance to the Freely Associated States while providing the United States with continued access to this strategic region.

The Compacts allowed their citizens entry into the United States visa-free as legal non-immigrants to live, work, and study here. Mainly families and individuals now live in the United States and also serve in the United States Armed Forces, adding to the growing American Pacific Islander diaspora, another source of strength to the United States relationship with the Freely Associated States.

Through Interior alone, the U.S. has provided the FSM and RMI approximately $3 billion in financial assistance over the last 15 years from Fiscal Year to 2019. From 1994 to 2009, Palau benefited from U.S. financial assistance totaling approximately $560 million. And under the 2010 Palau Compact Review Agreement, passed by the Congress last year, an additional total of $229 million was made available to Palau.

The financial assistance included in the Compacts for the FSM and the RMI has primarily supported the delivery of health and education services, infrastructure development such as hospitals, health centers, roads, utilities, and schools. The Compacts have also established Trust Funds for the FSM and the RMI to provide an additional source of funding when annual grants funding eventually ceases in 2023. The U.S. Compact relationship with Palau is

different, but similar. Financial assistance to Palau supports government operations, infrastructure projects, and a Trust Fund.

Neither the United States nor the Freely Associated States intended for any of the Compact agreements to underwrite the entire economies or the full operations of its country. Rather, the Compacts were intended to provide an economic springboard, making available the resources to allow the FSM, RMI, and Palau to improve essential government services and infrastructure while they reform the business climate, fiscal policies, and their capacity to govern.

The Joint Economic Management Committees with the FSM and the RMI, both established under the Compact law, provide an opportunity for annual bilateral discussions on financial assistance issues and serve as an additional accountability mechanism. Compact grant assistance and payments to the Trust Funds for the FSM and RMI expire in 2023 and for Palau in 2024. As currently structured, post-2023–2024, the Trust Funds provide a transition away from direct U.S. grant assistance and toward economic self-sufficiency. At the end of Fiscal Year 8, the balance of the FSM Trust Fund was $636 million; RMI's was $402 million, and Palau's was $286 million.

However, while the Trust Funds have grown and performed well, there are legitimate concerns about the expected distributions after 2023 and 2024. If funding under the Compact is not extended after 2023 and 2024 or the Trust Funds are not bolstered, the FSM, RMI, and Palau are all likely to experience significant economic shock with detrimental destructions to health, education, and government operations. The stability and balance of our relationship in this region that we have engendered thus far may suffer.

Thank you, and I am happy to answer any questions.

[The prepared statement of Mr. Pula follows:]

STATEMENT
OF
NIKOLAO PULA
DIRECTOR OF THE OFFICE OF INSULAR AFFAIRS
DEPARTMENT OF THE INTERIOR

BEFORE

THE HOUSE COMMITTEE ON NATURAL RESOURCES
AND
THE HOUSE COMMITTEE ON FOREIGN AFFAIRS

ON

SUSTAINING U.S. PACIFIC INSULAR RELATIONSHIPS

SEPTEMBER 26, 2019

Chairman Grijalva, Chairman Engel, Ranking Member Bishop, Ranking Member McCaul, and members of the Natural Resources and Foregin Affairs Committees, I am Nikolao Pula, Director of the Office of Insular Affairs for the Department of the Interior (Department). Thank you for the opportunity to provide the Department's views on the importance of sustaining U.S. relationships with the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau, referred to collectively as the Freely Associated States (FAS). Each of these Pacific Island nations shares a unique, bi-lateral relationship with the United States under special agreements known as Compacts of Free Association (Compacts). The Federated States of Micronesia and the Marshall Islands each signed an original Compact with the United States in 1982 and 1983, respectively, and are now operating under amended Compacts, which were concluded in 2003 and entered into force in 2004. In 1986 Palau signed a Compact with the United States which entered into force in 1994. In 2010, pursuant to that Compact, the United States and Palau signed a Compact Review Agreement (CRA), which was amended and brought into force in 2018.

My colleagues from the Departments of State and Defense will discuss the diplomatic and military importance of the U.S. Government's relationship with the FAS governments. I will focus on (1) the financial assistance the Department provides to the Federated States of Micronesia and the Republic of the Marshall Islands under the 2003 amended Compacts, and to Palau under the 1994 Compact and the 2010 CRA, as amended in 2018.

I. Original Compacts

In 1947, the United Nations placed several Pacific Islands, including the current Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI), the Republic of Palau (Palau) under the Trusteeship System established in the U.N. Charter and establishsed the Trust Territory of the Pacific Islands (Trust Territory) with the U.S. as the Administering Authority. This authority was initially carried out by the U.S. Department of the Navy in 1951, the Department

of the Navy transferred to the Department of the Interior the civil administration of the Trust Territory thereby creating a long lasting partnership between the Department and the people of the Trust Territory. The Compacts grew out of this trusteeship relationship with the Trust Territory, and out of a mutual interest that our countries saw in supporting their economic advancement and self-sufficiency. The Compacts originally entered into force in 1986 for the FSM and the RMI and in 1994 for Palau. Funding for sector grants and trust fund contributions as provided for under the Compacts has been administered by the Department.

The Compacts:

- enabled the end of Trust Territory status for each of the Freely Associated States;
- established three stable, sovereign, and democratic states in the Pacific;
- guaranteed the United States the ability to deny access to and use of these three nations by third country militaries; and
- supported close and mutually beneficial government-to-government relationships that contribute to regional security, stability, and prosperity.

II. Amended Compacts for the FSM and the RMI, and the Palau Compact Review Agreement

At the conclusion of the first fifteen-year funding period, the original Compacts with the FSM and the RMI were reviewed and amended. Following the conclusion of the agreements amending the Compacts in 2003, and the passage of Public Law 108-188, the Compact of Free Association Amendments Act of 2003, the agreements amending the Compacts were brought into force in 2004. The Compacts, as amended, provide mandatory economic assistance in fiscal years 2004 through 2023, through the Department of the Interior. The amended Compacts require funding for use in six sectors of development in the FSM and the RMI: 1) education; 2) health; 3) the environment; 4) public-sector capacity building; 5) private-sector development, and 6) infrastructure, with priority given to projects in the education and health sectors.

The Compact relationship with Palau has operated differently from the Compact relationships with the FSM and the RMI, and requires a formal review of its terms as well as the terms of its related agreements by the United States and Palau upon the fifteenth, thirtieth, and fortieth anniversaries of the effective date of the Compact in 1994. In 2010, at the conclusion of the first mandated review, the U.S. and Palau signed an agreement known as the Palau Compact Review Agreement, which contained provisions to provide additional economic assistance. It was fully funded on March 26, 2018, when President Trump signed the 2018 Omnibus Funding Agreement, and following the negotiation of amendments to the funding schedule contained in the 2010 CRA, the CRA and its amendments entered into force in September 2018. Funds under the Compact and the CRA, as amended with Palau, were made available primarily for government operations, a trust fund contribution, and infrastructure projects.

Funding made available under these unique Compacts have provided important economic support, making available the resources to allow the FSM, RMI, and Palau to improve:

- essential government services and infrastructure, while they reform their business climate and fiscal policies, and
- their capacity to govern.

From 1987 – 2003, the FSM and the RMI benefited from Compact assistance totaling approximately $2.6 billion. Under the amended Compacts, the United States has provided to the FSM and the RMI approximately $3 billion of economic assistance in fiscal years 2004 - 2019, primarily supporting the delivery of health and education services as well as infrastructure development. Of this amount, approximately $50 million supports the education sector and $35 million supports the health sector of each country, annually. For both the FSM and the RMI, the health and education sectors rely principally on federal funding under the amended Compacts. By 2023, the Department will have invested approximately $170 million of assistance under the amended Compacts into new hospitals and health centers for construction, renovation, and maintenance and $350 million into new school construction. For the FSM's total revenue, approximately 48 percent derives from grants under the amended Compact or from other federal sources. Figures for two of the four states of Micronesia are even higher: 64 percent for Chuuk and 70 percent for Kosrae. Of the RMI's total revenue, approximately 42 percent derives from grants under the amended Compact or from other Federal sources.

From 1994 - 2009, Palau benefited from Compact assistance totaling approximately $560 million which included a significant infrastructure project, the circumferential road on Babeldaob, also known as the Palau Compact Road. Under the 2010 CRA, brought into force in 2018, an additional $229 million was made available to Palau for government operations, infrastructure projects, and to shore up Palau's Trust Fund. Palau's Trust Fund established under Public Law 99-658 and the U.S. Palau Compact, was established as a sinking fund and is managed solely by the Palau Government.

All grant funding provided to the FSM and the RMI under the amended Compacts is reviewed on a semiannual basis in two bilateral, joint economic management committee meetings. As the Director of the Office of Insular Affairs, I chair these meetings, which are known as the Joint Economic Management Committee (JEMCO) for the FSM and the Joint Economic Management and Financial Accountability Committee (JEMFAC) for the RMI. Funding for Palau, on the other hand, under the CRA is provided directly to the Palau government.

Other funding for which the FSM, the RMI, and Palau are eligible is through the Department's Office of Insular Affairs Technical Assistance Program (TAP), which manages discretionary funds provided annually to the Department by the United States Congress. The TAP funding is flexible in its use and application in the FSM, the RMI, and Palau, and can help fill in gaps that the three governments identify that are not covered by the existing Compact support. The U.S. territories, however, are the primary recipients of TAP funding.

III. Trust Funds

As provided for under the amended Compacts, Public Law 108-188, jointly managed Trust Funds were established for both the FSM and the RMI. Federal grant funding has generally decreased annually, paired with increasing contributions to the respective Trust Funds. The Trust

Funds were incorporated in 2004 as non-profit corporations under the laws of the District of Columbia.

Earnings from the Trust Funds were intended to provide an annual source of revenue for the FSM and the RMI Governments after fiscal year 2023 for assistance in education, health care, the environment, public-sector capacity building, private-sector development, and public infrastructure, as described in Section 211 of the amended Compacts, or other sectors as mutually agreed by the United States and the FSM and the RMI, respectively, with priorities in education and health.

The amended Compacts set forth the funding to be contributed to the FSM and RMI Trust Funds until 2023. Trust Fund Agreements outline the organizational structures, policies and procedures for most aspects of the Trust Fund's start-up and ongoing operations. Investment Policy Statements provide investment guidance and are reviewed quarterly and, if required, revised annually.

The U.S. Government maintains a majority of voting members on both Trust Fund Committees. Similar to the JEMCO and the JEMFAC, I also chair the Trust Fund Committees. The Marshall Islands Committee consists of seven members: four U.S. members, including the Chairman; two Marshall Islands members, including the Vice Chairman; and one member appointed by the subsequent contributor, Taiwan. The Federated States of Micronesia Committee has five members total: three U.S. members, including the Chairman, and two Federated States of Micronesia members. Committee meetings are held quarterly throughout the fiscal year.

Under the Compact with Palau, Public Law 99-658, a Trust Fund was also established for Palau. Unlike the Trust Funds for the FSM and the RMI, Palau's Trust Fund was established as a sinking fund and is managed solely by the Palau Government. Under the Compact Review Agreement, the Palau Government is currently restricted to annual withdrawal amounts of no more than $15 million. As of February 2019, the Palau Trust Fund was valued roughly at $286 million.

Performance of the FSM and the RMI Trust Funds

Federated States of Micronesia

The balance of the FSM Trust Fund at the end of fiscal year (FY) 2018, the last audited financial year, was $636.09 million. For FY 2018, the FSM Trust Fund had a dollar-weighted annual investment return of 6.77 percent. Since its inception in 2004, the FSM Trust Fund has had a net return of 5.2 percent. As of the end of FY 2018, the investment of contributions earned $265.4 million or 71.6 percent of the value of the contributions. No contributor's capital investment has diminished since its inception.

The U.S. Government was obligated to base contributions of $442.4 million, along with a partial inflation adjustment for fiscal years 2004-2023. The U.S. contribution is $32.2 million for FY 2019. The U.S. Government has contributed a total of $372.7 million since inception. In FY 2005, the FSM contributed $30.3 million, as required under the amended Compact.

The Republic of the Marshall Islands

The balance of the RMI Trust Fund at the end of FY 2018, the last audited financial year, was $402.43 million. For FY 2018, the RMI Trust Fund had a dollar-weighted annual investment return of 7 percent. Since inception in 2004, it has had a net return of 5.7 percent. As of the end of FY 2018, the investment of contributions earned $163.7 million or 68.6 percent of the value of the contributions. No contributor's capital investment has diminished since its inception.

The U.S. Government is obligated to contribute $235 million, along with a partial inflation adjustment, over fiscal years 2004-2023. The U.S. contribution has been $17.7 million for FY 2019. The U.S. Government has contributed a total of $195.5 million since inception. In accordance with the amended Compact, the RMI Government contributed $30 million over fiscal years 2004-2006. They also contributed an additional $3.2 million for a total of $33.2 million. Taiwan , an important partner to the Government of the Marshall Islands, sought to support the Trust Fund shortly after it was established and was invited to be a subsequent contributor to the Trust Fund as allowed for under the Compact. Taiwan made its first contribution to the RMI Trust Fund in FY 2005 and has pledged to contribute $2.4 million per year through FY 2023 for a total of $40 million. To date, Taiwan has contributed $30.4 million.

Issues Leading to Fiscal Year 2023 and Beyond

While both the FSM and the RMI Trust Funds have performed up to market standards, there is significant concern about the volatility and the size of the distributions to support post-2023 budgets of the FSM and the RMI. As shown in the May 17, 2018, Government Accountability Office (GAO) report, GAO-18-415, distribution policies that are consistent with both Trust Fund Agreements' current distribution provisions have a high likelihood of resulting in years of limited or zero distributions. This could negatively impact budgetary planning and lead to economic instability in the FSM and the RMI.

According to the GAO, neither Trust Fund is likely to provide consistent distributions comparable to levels of funding similar to fiscal year 2023's annual grant assistance over the long term – estimated for the FSM at $82 million and for the RMI at $26.9 million – in the long term post-2023. While it has never been stated as a goal of the Trust Fund to replace grant assistance dollar for dollar, the U.S. Government recongnizes that potential levels of zero distribution and significant decreases between levels of grant assistance in FY 2023 and trust fund distribution levels in subsequent years, as is currently projected, could be destablizing to the governments and their respective economies.

The Trust Fund Committees are analyzing and discussing different distribution policy options to provide more consistent distributions with less volatility and no zero-year distributions; however, as the Trust Fund Comittees can only establish distribution policies that are consistent with the Trust Fund Agreement, these options are limited unless the Trust Fund Agreements are amended by the Original Parties to the respective agreements. However, there are implications *vis-à-vis* preserving both Trust Funds for the long-term. Additional time and funding would help to

achieve the right balance between preserving the Trust Funds for decades to come and it would provide consistent and stable distributions without taking on additional risk.

Certain changes to the distribution policy would require amending the respective Trust Fund Agreements. Such changes will require the approval of the respective national governments, including, on the United States' part, an Act of Congress. Other potential changes discussed in the GAO's report are the timing of the distributions, the accountability framework to monitor the distributed funds, and the payment of Trust Fund expenses beyond 2023.

IV. CONCLUSION

Given the important role that Compact grant funding provides to the FSM, the RMI, and Palau, if grant assistance under the amended Compacts and the CRA is allowed to expire by the end of 2023 and 2024, and is not extended, there is the very real risk of adverse impact to the respective economies of these three freely associated states.

The year 2024 marks the 30th anniversary of the Compact agreement between the United States and Palau. Upon this anniversary, the U.S.-Palau Compact requires the U.S. and Palau to again formally review the terms of the Compact and consider the overall nature and development of the relationship. Funding provisions under the 2010 CRA will expire in 2024 and the Executive Branch and Congress must carefully weigh U.S. strategic interests to determine the continued level of funding, if any, it wants dedicated to the relationship. The U.S.-Palau Compact relationship, though different than that with the Federated States of Micronesia and the Marshall Islands, should be considered in conjunction with the FSM and RMI Compacts.

As GAO has identified, uncertainty exists as to the continuity of the range and level of the programs and services provided by federal departments and agencies other than the Department of the Interior such as the U.S. Postal Service, Supplemental Education Grants through the Department of Education, Federal Deposit Insurance Corporation, Federal Emergency Management Agency, various programs through the Department of Health and Human Services, and other federal agencies. However, two principal provisions of the Compacts will continue in force beyond 2023:

- the U.S. military will, as it does now, have responsibility and authority for defense and security matters of or relating to the Federated States of Micronesia, the Marshall Islands, and Palau; and
- as legal non-immigrants, eligible citizens of the Federated States of Micronesia, the Marshall Islands, and Palau will retain the right to enter the United States visa-free and to live, to work, or to study here.

It is important to note that there is a separate provision under the Compact agreement only with the Republic of Marshall Islands – the Military Use and Operating Rights Agreement, that guarantees separate funding through 2066 and military use rights in the Marshall Islands indefinitely.

The United States has provided important economic assistance under all three Compact of Free Association agreements, which has been critical to sustaining the U.S. Government's commitment to these nations and their respective efforts to advance their own economic self-sufficiency and stability. The U.S. can be proud of the historic relationships and the legacy it has with these three Pacific Island nations. Maintaining the close relationships we have developed over the decades, including through all three Compacts, will continue to be an important part of the overall U.S. policy of a free and open Indo-Pacific.

Mr. SHERMAN. Thank you for your testimony.

David Gootnick is the Director of International Affairs and Trade at the U.S. Government Accountability Office. He also leads the Department's work on the Compacts of Free Association.

Dr. Gootnick.

STATEMENT OF DAVID GOOTNICK, DIRECTOR OF INTERNATIONAL AFFAIRS AND TRADE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Dr. GOOTNICK. Thank you, Mr. Chairman. Chairmen, Ranking Members, and members of the Committees, thank you for the opportunity to participate in this hearing. I am going to focus in some detail on the economic assistance to the Republic of the Marshall Islands and the Federated States of Micronesia, introduced by my colleague, Mr. Pula.

Under the amended compacts with Micronesia and the Marshall Islands, Sector Grants and Special Education Grants, known as the SEG, are scheduled to end and Trust Fund disbursements to begin in 2023. In my remarks today, I will focus on two key issues associated with this transition. First, the extent to which the two countries currently rely on U.S. support and, second, the status of their Trust Funds.

First, on reliance on U.S. assistance, the Sector Grants and the SEG continue to support a substantial portion of government resources in both countries. In the FSM, these grants were roughly one-third of all government expenditures in 2016 and nearly one-half of their expenditures if you add in other U.S. programs and services, which I will get to in a moment. In the FSM, the reliance on these grants varies considerably by State. Chuuk State, with the largest population and lowest per capita GDP, is the most reliant on these grants. There, these grants support about 85 percent of the health sector and 95 percent of the educational system. The Marshall Islands is somewhat less reliant on these grants. Overall, they support about one-quarter of government expenditures. Yet, they represented about a third of the health sector and two-thirds of the educational system.

Both countries are also facing a transition in the availability of U.S. programs and services provided for by the compacts and their implementing legislation. After 2023, some of these programs and services are set to continue and some are not. So, for example, based on current U.S. law and the assessment of agency officials, FEMA funding for disaster relief and the services of the U.S. Postal Service will no longer be available. Likewise, the FDIC will no longer have the authority to insure deposits in the Bank of Micronesia. Other programs and services such as FAA civil aviation and USAID's disaster response may continue under other authorities. And yet, still other programs and services can continue without change. For example, eligibility for Pell Grants, Special Education Grants, and numerous public health programs will continue.

There is an addendum to my written statement which provides an analysis of the status of most U.S. programs after 2023. I think it is a useful reference on this complex topic.

Regarding the Trust Funds, at GAO we recently ran 10,000 simulations of the Trust Funds under a range of scenarios. We found

that under their current structure the Trust Funds are unlikely to consistently provide annual disbursements at the level of Sector Grants and may provide no disbursements at all in some years. These risks increase significantly over time. So, for example, in our analysis the FSM faces a 40 percent likelihood of zero disbursements in one or more years in the first decade after 2023. It is a greater than 90 percent risk if you run that analysis out 40 years. For the RMI, the risks are somewhat lower. It is 15 percent in the first decade; yet, more than 50 percent over 40 years. These results are entirely consistent with those of the Asian Development Bank and analysis funded by Interior.

These risks have been known for some time and there have been proposals to mitigate these shortfalls. A number of these proposals rely on changing the constraints on disbursement built into the Trust Fund agreements. However, absent a reduction in planned disbursements or an increase in contributions, these changes, in and of themselves, will not resolve the shortfall in the Trust Fund balances. Additionally, some of these proposals represent changes in the Trust Fund agreements, and on the U.S. side this would require implementing legislation.

Finally, migration under the compacts is set to continue after 2023. The most recent enumeration shows roughly 38,000 compact citizens residing in Hawaii, Guam, and the Mariana Islands. Compact nation citizens have been recruited by U.S. firms, and migrant communities in the continental U.S. are growing, and in many cases quite successfully. GAO has and will continue to provide information on the demographics of compact migration and insight on the key issues faced by migrants and the affected jurisdiction.

Chairmen, Ranking Members, members of the Committees, this completes my remarks. I am happy to answer your questions.

[The prepared statement of Dr. Gootnick follows:]

United States Government Accountability Office

Testimony

Before the Committees on Natural Resources and Foreign Affairs, House of Representatives

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COMPACTS OF FREE ASSOCIATION

Trust Funds for Micronesia and the Marshall Islands Are Not Likely to Fully Replace Expiring U.S. Annual Grant Assistance

Statement of David Gootnick, Director, International Affairs and Trade

GAO-19-722T

GAO Highlights

Highlights of GAO-19-722T, a testimony before the Committees on Natural Resources and Foreign Affairs, House of Representatives

September 2019

COMPACTS OF FREE ASSOCIATION

Trust Funds for Micronesia and the Marshall Islands Are Not Likely to Fully Replace Expiring U.S. Annual Grant Assistance

Why GAO Did This Study

In 2003, the United States approved amended compacts of free association with the FSM and RMI, providing a total of $3.6 billion in economic assistance in fiscal years 2004 through 2023 and access to several U.S. programs and services. Compact grant funding, overseen by the Department of the Interior (Interior), generally decreases annually. However, the amount of the annual decrease in grants is added to the annual U.S. contributions to the compact trust funds, managed by joint U.S.–FSM and U.S.–RMI trust fund committees and chaired by Interior. Trust fund earnings are intended to provide a source of income after compact grants end in 2023.

This testimony summarizes GAO's May 2018 report on compact grants and trust funds (GAO-18-415). In that report, GAO examined (1) the use and role of U.S. funds and programs in the FSM and RMI budgets, (2) projected compact trust fund disbursements, and (3) trust fund committee actions needed to address the 2023 transition to trust fund income. For this testimony, GAO also reviewed key variables for its trust fund model as of June 2019 to determine whether these variables had substantially changed. In addition, GAO reviewed the status of Interior's response to GAO's May 2018 recommendations.

What GAO Recommends

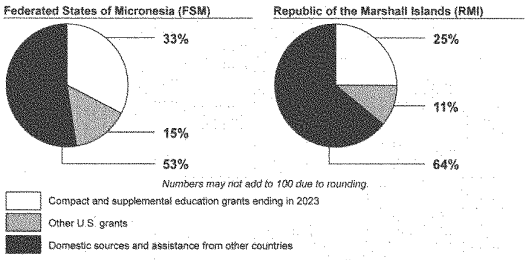
In its May 2018 report, GAO made three recommendations to Interior regarding each country's trust fund to address trust fund disbursement risks. Interior concurred with GAO's recommendations and has continued to discuss actions in response at trust fund committee meetings, with implementation targeted for 2023.

View GAO-19-722T. For more information, contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov.

What GAO Found

The Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI) rely on U.S. grants and programs, including several that are scheduled to end in 2023. In fiscal year 2016, U.S. compact sector grants and supplemental education grants, both scheduled to end in 2023, supported a third of the FSM's expenditures and a quarter of the RMI's. Agreements providing U.S. aviation, disaster relief, postal, weather, and other programs and services are scheduled to end in 2024, but some U.S. agencies may provide programs and services similar to those in the agreements under other authorities.

FSM and RMI Total Expenditures of Government Revenues, Fiscal Year 2016



Sources: GAO analysis of P.L. 108-188, the RMI Military Use and Operating Rights Agreement (MUORA); and FSM and RMI single audit reports. | GAO-19-722T

GAO's 2018 report noted that the FSM and RMI compact trust funds face risks and may not provide disbursements in some future years. GAO projected a 41 percent likelihood that the FSM compact trust fund would be unable to provide any disbursement in 1 or more years in fiscal years 2024 through 2033, with the likelihood increasing to 92 percent in 2054 through 2063. GAO projected a 15 percent likelihood that the RMI compact trust fund would be unable to provide any disbursement in 1 or more years in fiscal years 2024 through 2033, with the likelihood increasing to 56 percent in 2054 through 2063. Potential strategies such as reduced trust fund disbursements would reduce or eliminate the risk of years with no disbursement. However, some of these strategies would require changing the trust fund agreements, and all of the strategies would require the countries to exchange a near-term reduction in resources for more-predictable and more-sustainable disbursements in the longer term.

Interior has not yet implemented the actions GAO recommended to prepare for the 2023 transition to trust fund income. The trust fund committees have not developed distribution policies, required by the agreements, which could assist the countries in planning for the transition to trust fund income. The committees have not developed the required fiscal procedures for oversight of disbursements or addressed differences between the timing of their annual determinations of the disbursement amounts and the FSM's and RMI's annual budget cycles.

United States Government Accountability Office

September 26, 2019

Chairmen Grijalva and Engel, Ranking Members Bishop and McCaul, and Members of the Committees:

Thank you for this opportunity to discuss our prior report on U.S. compacts of free association with the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI). My testimony today will summarize our May 2018 report on (1) the use and role of U.S. funds and programs in the FSM and RMI budgets, (2) projected compact trust fund disbursements, and (3) compact trust fund committee actions needed to address the FSM's and RMI's 2023 transitions to trust fund income.[1]

In 2003, the United States approved amended compacts of free association with the FSM and RMI that provide for a total of $3.6 billion in compact sector grants, trust fund contributions, and other grants, as well as access to several U.S. programs and services, in fiscal years 2004 through 2023.[2] Compact sector grants, managed by the U.S. Department of the Interior (Interior), generally decrease annually before their scheduled end in 2023. However, the amount of the annual decrease in compact sector grants is added to the annual U.S. contributions to the compact trust fund established for the benefit of each country. Investment earnings from the compact trust funds are intended to provide an annual source of revenue after the compact sector grants are scheduled to end in 2023. As 2023 approaches, questions remain about the FSM's and RMI's ability to successfully transition to greater self-reliance when the 20 years of U.S. compact economic assistance end.

[1]GAO, *Compacts of Free Association: Actions Needed to Prepare for the Transition of Micronesia and the Marshall Islands to Trust Fund Income*, GAO-18-415 (Washington, D.C.: May 17, 2018). We also testified on these topics before the Senate Committee on Energy and Natural Resources in July 2019. See GAO, *Compacts of Free Association: Trust Funds for Micronesia and the Marshall Islands Are Unlikely to Fully Replace Expiring U.S. Annual Grant Assistance*, GAO-19-648T (Washington, D.C.: July 23, 2019).

[2]Compact of Free Association Amendments Act of 2003 (Pub. L. No. 108-188). The $3.6 billion in compact assistance includes compact sector grants, trust fund contributions, audit grants, Kwajalein impact payments and judicial training grants as well as grants provided to the RMI related to the nuclear-affected atolls of Rongelap and Enewetak. The total includes inflation adjustments for prior-year assistance and estimated inflation adjustments for future-year assistance but does not include the cost to the United States to provide programs and services through the compacts' programs and services agreements in fiscal years 2004 through 2023.

To discuss the use and role of U.S. funds in the FSM and RMI, compact trust fund projections, and trust fund committee actions needed to address the 2023 transition, we relied on our related May 2018 report. Detailed information on the scope and methodology for our prior work summarized in this testimony can be found in appendix I of our May 2018 report. In addition, we reviewed key variables for our trust fund model as of June 2019, such as the fund balances and projected inflation, to determine whether these variables had changed substantially since our original modeling. We found that the updated variables would result in only slight changes to the report's projections of future compact trust fund performance presented in this testimony and do not alter the broader conclusions of our 2018 report with regard to future risks to the compact trust funds. Also, to update the status of Interior's response to our May 2018 recommendations to address compact trust fund issues, we reviewed information provided by Interior and from the compact trust funds' administrator, and observed meetings of the compact trust fund committees in September 2019.

We conducted the work on which this testimony is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The FSM and RMI are independent countries about 3,000 miles southwest of Hawaii. The FSM is a federation of four semiautonomous states—Chuuk, Kosrae, Pohnpei, and Yap—whose population and income vary widely. Chuuk, the largest state by population, has the lowest per-capita gross domestic product (GDP). Overall, the FSM had a 2016 population of approximately 102,000 and a GDP per capita of about $3,200. The RMI's 2016 population was approximately 54,000 with a GDP per capita of about $3,600. The RMI's most recent census, in 2011, found that approximately three-quarters of the population lived in Majuro, the nation's capital, and on the island of Ebeye in the Kwajalein Atoll. Table 1 shows the FSM's, FSM states', and RMI's estimated populations and annual GDP per capita in fiscal year 2016.

Table 1: FSM, FSM States, and RMI Estimated Populations and Annual Gross Domestic Product (GDP) per Capita

Jurisdiction	2016 Population	Fiscal year 2016 GDP per capita (dollars)
Federated States of Micronesia (FSM)	102,453	3,220
FSM states		
Chuuk	46,688	1,994
Kosrae	6,227	3,376
Pohnpei	37,893	4,313
Yap	11,645	4,495
Republic of the Marshall Islands (RMI)	54,153	3,592

Source: Graduate School USA, *FSM FY2016 Economic Brief* (August 2017) and *RMI FY2016 Economic Brief* (August 2017). | GAO-19-722T

Compact of Free Association (1986–2003)

U.S. relations with the FSM and the RMI began during World War II, when the United States ended Japanese occupation of the region. Starting in 1947, the United States administered the region under a United Nations trusteeship.[3] In 1986, after a period of negotiations, the United States entered into a compact of free association with the FSM and RMI that provided for economic assistance to the two countries,

[3]During the 1940s and 1950s, the RMI was the site of 67 U.S. nuclear weapons tests on or near Bikini and Enewetak Atolls.

secured U.S. defense rights,[4] and allowed FSM and RMI citizens to migrate to the United States.[5]

Amended Compacts of Free Association (2004–Present)

In 2003, after a period of negotiations, the United States approved separate amended compacts with the FSM and the RMI that went into effect on June 25, 2004, and May 1, 2004, respectively.

Compact Grants and Trust Fund Contributions

The amended compacts' implementing legislation authorized and appropriated direct financial assistance to the FSM and the RMI in fiscal years 2004 through 2023, with the base amounts decreasing in most years. The legislation also provided for partial inflation adjustment of the base amount of compact sector grants and trust fund contributions each year.[6] As the base amount of compact sector grants decreases, the trust

[4]The military use and operating rights agreements (MUORAs) with each country under the amended compacts provide the United States with special and substantial access to, and control of, defense sites in each country. In the RMI, the U.S. Army Garrison-Kwajalein Atoll is home to the Ronald Reagan Ballistic Missile Defense Test Site and its approximately 1,300 U.S. personnel, including military personnel, Army civilians, contractor employees, and family members on Kwajalein and Roi-Namur islands. According to the Department of Defense, the department also pays $17,021 annually as a retainer fee for the use of Bigen Island, which is located outside Kwajalein Atoll. While the Department of Defense has not used Bigen Island recently, the department continues to pay the retainer fee to secure the site for potential future testing activities. There are no U.S. defense sites in the FSM. See GAO, *Foreign Relations: Kwajalein Atoll Is the Key U.S. Defense Interest in Two Micronesian Nations*, GAO-02-119 (Washington, D.C.: Jan. 22, 2002).

[5]Citizens of the Republic of Palau also received such migration rights through their separate Compact of Free Association in 1994. Section 141 of the FSM and RMI compacts, as amended, permits eligible citizens of the FSM and RMI to enter, reside, and work indefinitely in the United States, including its territories, without regard to the Immigration and Nationality Act's visa and labor certification requirements. The amended compacts' implementing legislation, Pub. L. No. 108-188, appropriated $30 million annually for 20 years to help defray affected U.S. jurisdictions' costs for migrant services (compact impact). The amended compacts' implementing legislation defined the affected jurisdictions as Guam, Hawaii, the Commonwealth of the Northern Mariana Islands, and American Samoa. Interior allocates the $30 million as impact grants in proportion to the population of compact migrants enumerated as required every 5 years. We have previously reported on compact migration to U.S. areas; see *Compacts of Free Association: Improvements Needed to Assess and Address Growing Migration*, GAO-12-64 (Washington, D.C.: Nov. 14, 2011).

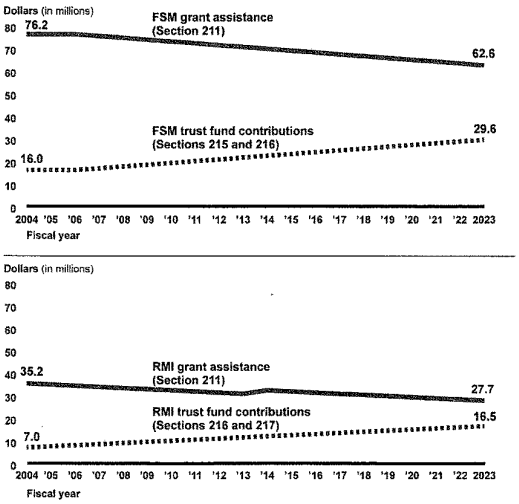
[6]The base amount is partially inflation-adjusted by the percentage that equals two-thirds of the percentage change in the U.S. gross domestic product implicit price deflator, or 5 percent, whichever is less in any 1 year, using the beginning of 2004 as a base.

fund contributions generally increase by an equivalent amount.[7] Because the annual inflation adjustment is less than full inflation, the value of compact sector grants declines in real terms. Figure 1 shows the amount of compact sector grants and trust fund contributions each fiscal year from 2004 through 2023.[8]

[7]The grant decrement and trust fund increment for the FSM is $800,000 per year; the decrement for the FSM began in 2007. The grant decrement and trust fund increment for the RMI is $500,000 per year; the decrement for the RMI began in 2005. As a result of these differences, the percentage of total decrement from the initial grants to the final grants will be smaller for the FSM (18 percent) than for the RMI (21 percent).

[8]The U.S. contributions to the trust funds were conditioned on the FSM and the RMI making their own required contributions. The FSM was required to contribute at least $30 million before September 30, 2004; the FSM made this contribution on October 1, 2004, and the United States made its first contribution on October 5, 2004. The RMI was required to contribute at least $25 million on the day the amended compact went into effect or on October 1, 2003, whichever was later; $2.5 million before October 1, 2004; and an additional $2.5 million before October 1, 2005. The RMI made its initial contribution on June 1, 2004, and the United States made its initial contribution on June 3, 2004.

Figure 1: U.S. Grants and Trust Fund Contributions to Be Provided to the FSM and RMI under the Amended Compacts, Prior to Partial Adjustments for Inflation, Fiscal Years 2004-2023



Source: Compacts of Free Association as Amended, Between the Government of the United States of America and the Government of the Federated States of Micronesia (FSM) and the Government of the Republic of the Marshall Islands (RMI), Pub. L. No. 108-188 | GAO-19-722T

Notes: Sections 211 and 216 of the FSM amended compact and sections 211 and 217 of the RMI amended compact detail grants to the FSM and the RMI, while Sections 215 and 216 of the U.S.–FSM compact and sections 216 and 217 of the U.S.–RMI compact detail contributions to the FSM and RMI trust funds. The increase in RMI grants from fiscal year 2013 to fiscal year 2014 is due to a $2 million increase in payments to be made available for addressing the special needs of the community at Ebeye and other Marshallese communities within the Kwajalein Atoll.

The amended compacts and associated fiscal procedures agreements require that compact sector grants support the countries in six core sectors—education, health, infrastructure, environment, private sector development, and public sector capacity building—with priority given to the education and health sectors. These grants are described in section 211(a) of each compact and are referred to as compact sector grants or

211(a) grants. Section 211(b) of the RMI compact further states that the RMI must target a specified amount of grants to Ebeye and other Marshallese communities within Kwajalein Atoll.[9] The RMI military use and operating rights agreement (MUORA) states that the Kwajalein-related funds provided to the RMI in the compacts shall be provided through fiscal year 2023 and thereafter for as long as this agreement remains in effect.[10]

Compact Trust Fund Management and Implementation

The amended compacts and their subsidiary trust fund agreements provided that each trust fund is to be managed by a compact trust fund committee.[11] Each compact trust fund committee includes representatives from both the United States and the respective country, but the terms of the trust fund agreements require the United States to hold the majority of votes. The Director of Interior's Office of Insular Affairs serves as the chair of each committee. Trust fund committee responsibilities include overseeing fund operation, supervision, and management; investing and distributing the fund's resources; and concluding agreements with any other contributors and other organizations. As part of this oversight, the committees are to establish an investment and distribution policy.[12] The committees are also to determine fiscal procedures to be used in implementing the trust fund agreements on the basis of the fiscal procedures used for compact grant administration, unless otherwise agreed by the parties to the agreement.

[9]In addition, RMI compact section 212 provides a partially inflation-adjusted $15 million annually starting in 2004, rising to $18 million in 2014, and partially inflation adjusted thereafter, for U.S. military use and operating rights. The RMI government uses the section 212 funds to compensate landowners on the Kwajalein Atoll.

[10]*Compact of Free Association Military Use and Operating Rights: Agreement between the United States and the Marshall Islands, Signed at Majuro April 30, 2003, with Agreed Minutes and Annexes and Related Agreement Effected by Exchange of Letters, March 23, 2004*. The agreement extends until 2066, and the United States may renew it for an additional 20 years to 2086. The United States may terminate the RMI MUORA after 2023 with 7 years advance notice. If termination occurs prior to 2053, the United States is required to make a termination payment equivalent to 1 or more years of annual grant assistance.

[11]The amended compacts' implementing legislation required the trust funds to be established as nonprofit corporations incorporated under the laws of the District of Columbia.

[12]Each compact trust fund maintains a portfolio of assets, such as stocks, bonds, or other holdings. As of the end of fiscal year 2018, the FSM compact trust fund portfolio was approximately 66 percent equities, 20 percent fixed-income holdings, 5 percent hedge funds, and 10 percent real estate. The RMI compact trust fund was approximately 76 percent equities and 24 percent fixed-income holdings.

The U.S.–FSM and U.S.–RMI trust fund agreements allow for the agreements to be amended in writing at any time, with mutual consent of the governments. However, the U.S. legislation implementing the amended compacts requires that any amendment, change, or termination of all, or any part, of the compact trust fund agreements shall not enter into force until incorporated into an act of Congress.

Compact Trust Fund Structure

The compact trust fund agreements state that no funds, other than specified trust fund administrative expenses, may be distributed from the funds before October 1, 2023. From fiscal year 2024 onward, the maximum allowed disbursement from each compact trust fund is the amount of the fiscal year 2023 annual grant assistance, as defined by the trust fund agreement, with full inflation adjustment.[13] In addition, the trust fund committees may approve additional amounts for special needs.[14] The RMI compact trust fund agreement excludes Kwajalein-related assistance, defined in section 211(b) of the RMI compact, from the calculation of the allowed disbursement. Although the compact trust fund agreements state the maximum allowable disbursement level, they do not establish or guarantee a minimum disbursement level.

Each country's compact trust fund consists of three interrelated accounts: the "A" account, the "B" account, and the "C" account.

- The A account is the trust fund's corpus and contains the initial, and any additional, U.S. and FSM or RMI contributions; contributions from other countries; and investment earnings. No funds, other than specified trust fund administrative expenses, may be disbursed from the A account.
- The B account is the trust fund's disbursement account and becomes active in fiscal year 2023. All income earned in 2023 will be deposited in the B account for possible disbursement in 2024. Each subsequent year's investment income will similarly be deposited in the B account for possible disbursement the following year. If there is no investment

[13]Full inflation is defined by the trust fund agreements as the full percent change in the U.S. GDP implicit price deflator in the applicable fiscal year compared to the immediate preceding fiscal year.

[14]Special needs are defined as projects that the FSM or RMI government deems necessary as a supplement to that portion of an annual budget to be financed by the compact trust funds, so long as the projects are for the purposes of Section 211 of the compact, as amended.

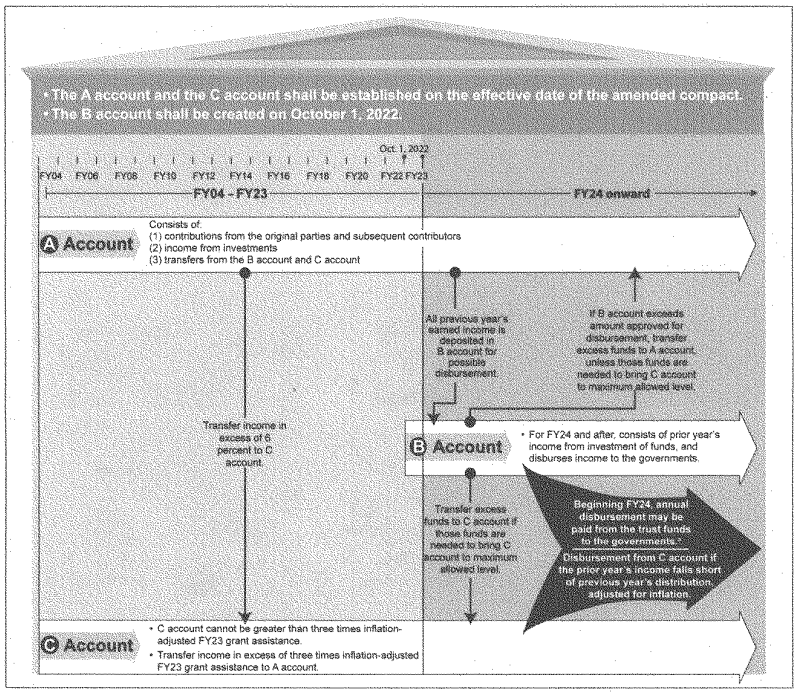
income, no funds will be deposited in the B account for possible disbursement the following year.

- The C account is the trust fund's buffer account.
  - Through 2022, any annual income exceeding 6 percent of the fund balance is deposited in the C account.
  - The size of the C account is capped at three times the amount of the estimated annual grant assistance in 2023, including estimated inflation.
  - From 2023 onward, if annual income from the A account is less than the previous year's disbursement, adjusted for inflation, the C account may be tapped to address the shortfall.
  - After 2023, any funds in the B account in excess of the amount approved for disbursement the following fiscal year are to be used to replenish the C account as needed, up to the maximum size of the account.

If there are no funds in the C account and no prior-year investment income in the B account, no funds will be available for disbursement to the countries the following year.

Figure 2 shows the compact trust fund account structure and associated rules.

Figure 2: Account Structure and Associated Rules for the Federated States of Micronesia and Republic of the Marshall Islands Compact Trust Funds



Legend: FY = fiscal year.

Source: GAO analysis of the Federated States of Micronesia and Republic of the Marshall Islands Compact Trust Fund Agreements. | GAO-19-722T

Note: Annual disbursement is limited to inflation-adjusted annual grant assistance in fiscal year 2023 plus any amounts for special needs approved by the Trust Fund Committee.

According to the U.S. trust fund agreements with the FSM and the RMI, contributions from other donors are permitted. In May 2005, Taiwan and the RMI reached an agreement that Taiwan would contribute a total of $40 million to the RMI's compact trust fund A account between 2004 and 2023. A "D" account may also be established to hold any contributions by the FSM and the RMI governments of revenue or income from unanticipated sources. According to the trust fund agreements, the D account must be a separate account, not mixed with the rest of the trust fund. Only the RMI has a D account, governed in part by the agreement between Taiwan and the RMI.

Programs and Services Provided in Compact-Related Agreements

The amended compacts' implementing legislation incorporates, by reference, related agreements extending programs and services to the FSM and RMI. The programs and services agreement with each country identifies the following programs and services as being available to each country: U.S. postal services, weather services, civil aviation, disaster preparedness and response, and telecommunications.[15] Each programs and services agreement extends for 20 years from the compact's entry into force. The agreement with the FSM ends on June 24, 2024, and the agreement with the RMI ends on April 30, 2024.

Programs Authorized by U.S. Legislation

The amended compacts' implementing legislation (Pub. L. No. 108-188) and other U.S. legislation authorize other U.S. grants, programs, and services for the FSM and RMI. Pub. L. No. 108-188 authorizes an annual supplemental education grant (SEG) for the FSM and RMI in fiscal years 2005 through 2023, to be awarded in place of grants formerly awarded to the countries under several U.S. education, health, and labor programs. The FSM and RMI are not eligible for the programs replaced by the SEG during these years. Unlike the compact sector grants, the amended compacts' implementing legislation authorized the SEG but did not appropriate funds for it. Funding for the SEG is appropriated annually to the U.S. Department of Education (Education) and is transferred to Interior for disbursement. Other provisions of the amended compacts' implementing legislation, as well as other U.S. law, make the FSM and RMI eligible for a number of additional programs.

[15]The FSM programs and services agreement additionally makes the services of the Federal Deposit Insurance Corporation available in the FSM to provide deposit insurance for the Bank of the Federated States of Micronesia.

The FSM and RMI Rely on U.S. Grants and Programs That End in 2023

As of fiscal year 2016, compact sector grants and the SEG, each of which end in 2023, supported a substantial portion of government expenditures in the FSM and RMI. Compact sector grants and the SEG supported about one-third of all FSM government expenditures. The four FSM states relied on these grants to a greater extent than did the FSM national government. In the RMI, compact sector grants and the SEG supported about one-quarter of all government expenditures. The expiration of the compacts' programs and services agreements in 2024 would also require the FSM and RMI to bear additional costs to provide services currently provided by the United States under the agreements.[16]

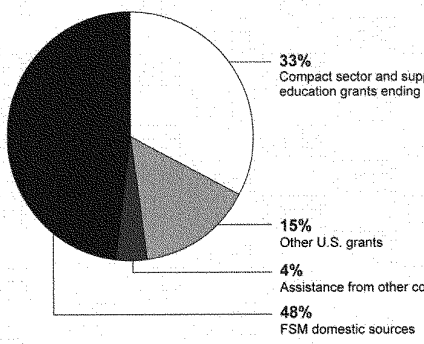
U.S. Compact Grants and Other Grants Provide Substantial Support to the FSM and RMI Budgets

U.S. Grants Scheduled to End in 2023 Supported About One-Third of Total FSM Government Expenditures in Fiscal Year 2016

Compact sector grants, the SEG, and other U.S. grants supported almost half of FSM national and state government expenditures in fiscal year 2016. Compact sector and supplemental education grants that end in 2023 supported approximately one-third of total FSM national and state government expenditures in fiscal year 2016, while other U.S. grants supported an additional 15 percent of total FSM government expenditures (see fig. 3).

[16]Throughout this statement, we present conclusions about the status of grants and programs under U.S. law as of May 2018, when we published our most recent related report (GAO-18-415). Changes to the relevant laws before 2023 could change the eligibility status of the FSM and RMI. The availability of some grants and programs in the future is subject to the availability of appropriations provided for that purpose.

Figure 3: Total Expenditures of Federated States of Micronesia (FSM) National and State Governments, by Revenue Source, Fiscal Year 2016



Source: GAO analysis of P.L. 108-188 and FSM single audit reports. | GAO-19-722T

Notes: The percentages shown do not include government component units, such as public utilities and port authorities.

While the supplemental education grant ends in 2023, the FSM would be eligible for some of the programs that the supplemental education grant replaced after 2023. A small number of other U.S. grants also end in 2023. See GAO-19-722T, app. I, for a discussion of grants and programs that do and do not end in 2023.

FSM States Relied on U.S. Grants Scheduled to End in 2023 to a Greater Extent Than the National Government Did in Fiscal Year 2016

In fiscal year 2016, compact sector and supplemental education grants that end in 2023 supported a larger proportion of FSM state governments' expenditures than of the FSM national government's expenditures. Compact sector grants and the SEG supported 8 percent of national government expenditures but supported 50 percent or more of each state's government expenditures. Among the FSM states, Chuuk, which has both the largest population and the lowest per-capita income in the FSM, had the highest percentage of expenditures supported by U.S. grants. (See table 2 for a summary of FSM national and state government expenditures supported by compact sector grants and the SEG and by other U.S. grants.)

Table 2: FSM National and State Government Expenditures of Compact Grants, Supplemental Education Grant (SEG), and Other U.S. Grants in Fiscal Year 2016

		Expenditures of compact sector grants and SEG[a]		Expenditures of other U.S. grants		Total expenditures of compact sector, SEG, and other U.S. grants	
	Total government expenditures (dollars in millions)	Amount (dollars in millions)	Percentage of total government expenditures	Amount (dollars in millions)	Percentage of total government expenditures	Amount (dollars in millions)	Percentage of total government expenditures
FSM national government	103.6	8.1	8	21.0	20	29.1	28
FSM states							
Chuuk	37.3	26.6	71	2.0	5	28.6	77
Kosrae	14.0	6.9	49	1.7	12	8.6	62
Pohnpei	33.0	16.5	50	3.0	9	19.5	59
Yap	20.1	10.3	51	2.5	12	12.8	63
Total	208.0	68.4	33	30.2	15	98.6	47

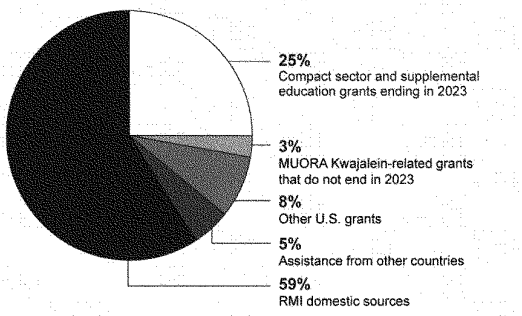
Source: GAO analysis of Federated States of Micronesia (FSM) national government and state fiscal year 2016 single audit reports. | GAO-19-722T

Note: Numbers may not add due to rounding.
[a]The amounts and percentages shown do not include FSM national and state government component units, such as public utilities and port authorities.

U.S. Grants Scheduled to End in 2023 Supported About One Quarter of RMI Government Expenditures in Fiscal Year 2016

Compact sector and supplemental education grants that end in 2023 supported approximately 25 percent of the RMI's $123.5 million in government expenditures in fiscal year 2016, while other U.S. grants supported an additional 8 percent. Kwajalein-related compact grants that do not end in 2023 supported an additional 3 percent (see fig. 4).

Figure 4: Total Expenditures of RMI Government, by Revenue Source, Fiscal Year 2016



Source: GAO analysis of P.L. 108-188, the Republic of the Marshall Islands (RMI) Military Use and Operating Rights Agreement (MUORA); and RMI single audit reports. | GAO-19-722T

Notes: The percentages shown do not include government component units, such as public utilities and port authorities, and do not include the $18 million annually, partially adjusted for inflation, provided to the RMI government that the RMI government uses to compensate Kwajalein Atoll landowners for U.S. access to the atoll.

While the supplemental education grant ends in 2023, the RMI would be eligible for some of the programs that the supplemental education grant replaced after 2023. A small number of other U.S. grants also end in 2023. See GAO-19-722T, app. I, for a discussion of grants and programs that do and do not end in 2023.

FSM and RMI Eligibility for Some U.S. Grants, Programs, and Services Will Change after 2023

FSM and RMI budgets would be further affected if the countries assumed responsibility for providing programs and services currently provided by the United States. The following describes the status after 2023 of U.S. grants, programs, and services in the FSM and RMI under current law:

- Compact sector grants are scheduled to end in 2023, but the RMI MUORA extends the time frame of Kwajalein-related compact grants for as long as the MUORA is in effect.
- The SEG and additional grants identified in the amended compacts' implementing legislation are scheduled to end in 2023. Also, after fiscal year 2023, the FSM and RMI will no longer be eligible for some programs that the SEG replaced, including Head Start (early childhood education, health, and nutrition services for low-income children and their families).

- The compact-related programs and services agreements with each country will end in 2024. However, some U.S. agencies, such as the National Weather Service, Federal Aviation Administration, and U.S. Agency for International Development, may continue to provide programs and services similar to those provided in the agreement under other authorities.
- The FSM and RMI will generally remain eligible for other programs identified in the amended compacts' implementing legislation. These programs include U.S. Department of Agriculture (USDA) Rural Utilities Service grant and loan programs and U.S. Department of Education Pell grants for higher education and grants under Part B of the Individuals with Disabilities Education Act for children with disabilities.
- The FSM and RMI will remain eligible for additional programs we identified that have been provided under other current U.S. laws. Examples of these programs include USDA housing assistance programs and multiple public health, medical, and disease control and prevention grants provided by the U.S. Department of Health and Human Services.

See appendix I for more information about the status after 2023 of U.S. grants, programs, and services in the FSM and RMI under current law.

Compact Trust Funds Face Risks to Future Disbursements

Our May 2018 projections for the compact trust funds showed that after fiscal year 2023, the funds are unlikely to provide maximum annual disbursements and may provide no disbursements at all in some years. The risk of disbursements below the maximum and the risk of zero disbursements increase over time for both funds. Potential strategies we analyzed in our May 2018 report would reduce or eliminate the risk of the compact trust funds' experiencing years of zero disbursement. However, all of the potential strategies would require the countries to exchange a near-term reduction in resources for more-predictable and more-sustainable disbursements in the longer term.

Projections Show Risks to Compact Trust Fund Disbursements

Our May 2018 projections for the FSM and RMI compact trust funds after 2023 indicated that, given their balance at the end of fiscal year 2017 and current compact trust fund rules—the baseline scenario—the funds will be

- unable to provide maximum disbursements (equal to the inflation-adjusted amount of annual grant assistance in 2023) in some years[17] and
- unable to provide any disbursement at all in some years, with the likelihood of zero disbursement in a given year increasing over time.

The compact trust funds' C account—designed as a buffer to protect disbursements from the B account in years when the funds do not earn enough to fund the disbursement—could be exhausted by a series of years with low or negative annual returns. Since current rules do not allow disbursements from the compact trust fund corpus (the A account), exhaustion of the C account would result in zero disbursement in years when fund returns are zero or negative. Thus, there may be no funds available to disburse even if the funds' A accounts have a balance. As a result of low or zero disbursements, the countries could face economic and fiscal shocks and significant challenges in planning programs and budgets.

Since we published our May 2018 report, an additional year of compact trust fund performance data and updated estimates of future inflation have become available; however, the updated information does not alter the conclusions we presented in May 2018.[18] The updated data and inflation estimates change our model's assumptions about the current compact trust fund balance, size of future U.S. contributions to the FSM and RMI compact trust funds, annual grant assistance in fiscal year 2023, and C account balance—each of which are relevant variables for our analysis. However, the updated variables would result in only slight changes to our 2018 report's projections of future compact trust fund

[17]The relevant trust fund committee may also approve additional funds for special needs, as defined in the compact trust fund agreement. We did not estimate or project the amount of funds approved for disbursements for special needs as part of our analysis. Disbursing additional funds for special needs will, in subsequent years, decrease the likelihood of maintaining maximum disbursements and increase the likelihood of zero disbursements.

[18]The FSM compact trust fund balance was $565 million at the end of fiscal year 2017 and $636 million at the end of fiscal year 2018. The RMI compact trust fund balance was $357 million at the end of fiscal year 2017 and $402 million at the end of fiscal year 2018. As of June 30, 2019, the FSM compact trust fund had a preliminary and unaudited balance of $684 million and the RMI compact trust fund had a preliminary and unaudited balance of $432 million.

performance presented in this testimony and do not alter our broader conclusions about future risks to the compact trust funds.

FSM compact trust fund projections. In May 2018, our model projected that, given the baseline scenario and a 6 percent net return, the FSM compact trust fund will experience declining disbursements relative to the maximum allowable disbursements and an increasing chance of zero disbursements.[19] (See app. I of GAO-18-415 for a full description of our methodology, and see app. V of GAO-18-415 for the baseline results with alternative net returns.)

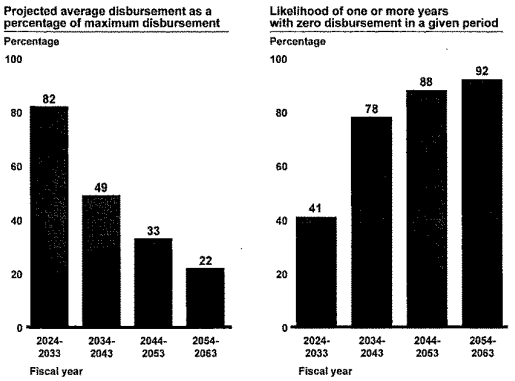
- **Projected disbursements.** We projected that the FSM compact trust fund will, on average, be able to provide disbursements equal to 82 percent of the maximum allowable disbursement—the inflation-adjusted amount of 2023 annual grant assistance—in its first decade of disbursements. The likely average disbursement falls to 49 percent of the maximum in the next decade and falls further in subsequent decades. In addition, the amount available for disbursement may fluctuate substantially from year to year. Depending on the compact trust fund's performance in the previous year, disbursements may be higher or lower than the average amount if the balance in the C account is not sufficient to provide additional disbursements.
- **Likelihood of providing zero disbursement.** We projected a 41 percent likelihood that the FSM compact trust fund will be unable to disburse any funds in 1 or more years during the first decade of trust fund disbursements. This likelihood increases over time, rising to 92 percent in fiscal years 2054 through 2063.

Figure 5 shows our May 2018 projections of the FSM compact trust fund's average disbursements as a percentage of maximum disbursement and

[19]We selected a nominal 6 percent projected rate of return, net of management fees, on the basis of our review of the capital market assumptions and projections used by the FSM and RMI compact trust fund money managers for the compact trust funds as well as historical market rates of return. The model approximates a projection based on our set of assumptions and may differ with varying conditions. Since inception, the FSM compact trust fund has had an average annual rate of return of 5.7 percent and the RMI compact trust fund has had an average annual rate of return of 6.2 percent. In addition to projecting the compact trust fund disbursements and balance on the basis of a 6 percent net return, we estimated the trust fund baseline on the basis of alternative return assumptions of 5 percent, 7 percent, and 8 percent. These varying assumptions also show a likelihood that available compact trust fund disbursements will not reach an amount equivalent to maximum disbursements permitted by the compact trust fund agreement and continuing risk of zero disbursements.

the likelihood of 1 or more years of zero disbursement, given the baseline scenario and a 6 percent net return.[20]

Figure 5: Projected FSM Compact Trust Fund Average Disbursements and Likelihood of Zero Disbursements, Fiscal Years 2024-2063



Source: GAO analysis of Federated States of Micronesia (FSM) compact trust fund documents. | GAO-19-722T

Notes: The projections shown are based on the current trust fund rules and the compact trust fund's unaudited balance at the end of fiscal year 2017. We assumed that the trust fund's annual net return will have a normal distribution with a mean of 6 percent and a standard deviation of 13 percent.

We calculated the average disbursement as a percentage of the maximum allowable disbursement by averaging, over each 10-year period and over 10,000 simulated cases, the ratio of simulated disbursement to the maximum inflation-adjusted allowable disbursement in the given period.

[20]The FSM also maintains its own trust fund separate from the compact trust fund (see app. VI of GAO-18-415 for additional information). We did not independently project the FSM Trust Fund's future balance or potential disbursements after 2023.

We calculated the likelihood of zero disbursement by counting cases with 1 or more years of zero disbursement in each of the given periods over 10,000 simulated cases.

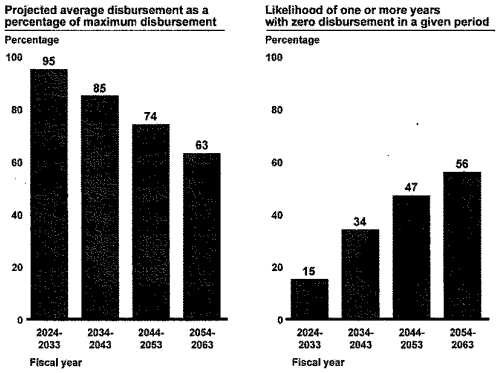
RMI compact trust fund projections. In May 2018, our model projected that, given the baseline scenario and a 6 percent net return, the RMI compact trust fund will experience declining disbursements relative to the maximum allowable disbursements and an increasing chance of zero disbursements.

- **Projected disbursements.** We projected that in its first decade of disbursements, the RMI compact trust fund will, on average, be able to provide disbursements nearly equal to the inflation-adjusted amount of 2023 annual grant assistance as defined by the trust fund agreement—the maximum allowable. However, in each subsequent decade, the projected disbursements as a percentage of the maximum disbursements decline by about 10 percentage points. In addition, from year to year, the amount available to disburse may fluctuate substantially. Depending on the compact trust fund's performance in the previous year, disbursements may be higher or lower than the average amount if the balance in the C account is not sufficient to provide additional disbursements.
- **Likelihood of providing zero disbursement.** We projected a 15 percent likelihood that the RMI compact trust fund will be unable to disburse any funds in 1 or more years during the first decade of trust fund disbursements. This likelihood increases over time, rising to 56 percent in fiscal years 2054 through 2063.

Figure 6 shows our May 2018 projections of the RMI compact trust fund's average disbursements as a percentage of maximum disbursement and its likelihood of 1 or more years of zero disbursement, given the baseline scenario and a 6 percent net return.[21]

[21]The RMI also maintains its own D account, separate from the compact trust fund (see app. VI of GAO-18-415 for additional information). We did not independently project the D account's balance or potential disbursements from the D account after 2023.

Figure 6: Projected RMI Compact Trust Fund Average Disbursements and Likelihood of Zero Disbursements, Fiscal Years 2024-2063



Source: GAO analysis of Republic of the Marshall Islands (RMI) compact trust fund documents. | GAO-19-722T

Notes: The projections shown are based on the current trust fund rules and the compact trust fund's unaudited balance at the end of fiscal year 2017. We assumed that the trust fund's annual net return will have a normal distribution with a mean of 6 percent and a standard deviation of 13 percent.

We calculated the average disbursement as a percentage of the maximum allowable disbursement by averaging, over each 10-year period and over 10,000 simulated cases, the ratio of simulated disbursement to the maximum inflation-adjusted allowable disbursement in the given period.

We calculated the likelihood of zero disbursement by counting cases with 1 or more years of zero disbursement in each of the given periods over 10,000 simulated cases.

For our May 2018 report, we conducted a series of simulations to determine the likely effects of potential strategies for improving the outlook of the FSM and RMI compact trust funds. For example, we developed and analyzed potential strategies in which

- annual disbursements are reduced below the maximum allowable disbursement;
- additional annual contributions are made to the trust fund prior to the end of fiscal year 2023; and
- the trust fund agreement disbursement policies are modified to limit the annual disbursement to a fixed percentage of the fund's moving average balance over the previous 3 years, up to the maximum disbursement amount defined by the current trust fund agreement.[22]

All of the potential strategies we analyzed would reduce or eliminate the risk of the compact trust funds experiencing years of zero disbursement. However, some of the potential strategies might require changing the trust fund agreements, and all of the potential strategies would require the countries to exchange a near-term reduction in resources for more-predictable and more-sustainable disbursements in the longer term. (See app. VII of our May 2018 report for detailed results of our analysis.[23])

Compact Trust Fund Committees Have Not Addressed Issues Related to Distribution Policies, Fiscal Procedures, and Disbursement Timing

The compact trust fund committees have not taken the actions we recommended in 2018 to prepare for the 2023 transition to trust fund income. The committees have not yet prepared distribution policies, required by the trust fund agreements, which could assist the countries in planning for the transition to trust fund income. In addition, the committees have not established fiscal procedures for oversight of compact trust fund disbursements as required by the trust fund agreements. Further, the committees have not yet addressed a potential misalignment between the timing of their annual calculation of the amounts available to disburse and the FSM's and RMI's budget timelines, potentially complicating each country's planning and management.

[22]A moving average balance is continually recomputed as new data become available. For example, the moving average balance at the end of fiscal year 2024 would average the balances at the end of fiscal years 2022, 2023, and 2024, and the moving average balance at the end of fiscal year 2025 would average the balances at the end of fiscal years 2023, 2024, and 2025.

[23]GAO-18-415.

Trust Fund Committees Have Not Developed Distribution Policies Required by the Compact Trust Fund Agreements

The compact trust fund committees have not yet developed, as the compact trust fund agreements require, policies to guide disbursements from the trust funds after fiscal year 2023. Under the agreements, each trust fund committee must develop a distribution policy, with the intent that compact trust fund disbursements will provide an annual source of revenue to the FSM and RMI after the scheduled end of compact grant assistance.[24] The trust fund committees could use distribution policies to address risks to each fund's sustainability. For example, the committees have the discretion to disburse an amount below the established maximum. Our analysis of potential strategies for improving the funds' outlook shows that reducing the size of disbursements would improve each compact trust fund's long-term sustainability. Without a distribution policy that provides information about the size of expected disbursements, the FSM and RMI are hampered in their current and ongoing efforts to plan for the potential reduction in U.S. compact assistance after 2023.

Trust Fund Committees Have Not Established Fiscal Procedures Required by Compact Trust Fund Agreements

The compact trust fund committees have not yet established fiscal procedures for compact trust fund disbursements after fiscal year 2023. Each trust fund agreement requires the respective committee to determine the fiscal procedures to be used in implementing the trust fund agreement. The committees are to base their procedures on the compact fiscal procedures agreements, unless the parties to the trust fund agreement agree to adopt different fiscal procedures.[25] No compact trust fund disbursements are to be made unless the committee has established such trust fund fiscal procedures. Without fiscal procedures in place, the trust fund committees will not be able to provide disbursements and the United States, the FSM, and the RMI will lack clear guidance to ensure oversight for trust fund disbursements.

[24]A distribution is defined as the transfer of funds from the compact trust fund to the government of the FSM or the RMI. This statement refers to such transfers as disbursements.

[25]The compact fiscal procedures agreements extend, unless terminated by mutual consent, for as long as the United States provides (1) compact sector grants; (2) grants provided under section 105(f)(1)(B) of the amended compacts' implementing legislation (which includes the SEG); (3) federal programs and services; or (4) in the case of the RMI, any additional grant assistance, services, or programs.

Trust Fund Committees Have Not Addressed Issues Related to Disbursement Timing

The timing for the compact trust fund committees' calculation of the amounts available for annual disbursement to the FSM and the RMI after fiscal year 2023 does not align with the countries' budget and planning timelines.[26] The amounts available for disbursement in a given fiscal year cannot be determined until each fund's returns have been determined at the end of the prior year. Further, if the disbursement amounts are calculated from audited fund returns as determined by annual audits required by the trust fund agreements, the amounts may not be determined until as late as March 31, 6 months into the fiscal year for which the disbursement is to be provided.[27] However, both the FSM and the RMI government budget cycles are completed before the annual amounts available for disbursement will be known. As a result, the FSM and RMI would have to budget without knowing the amount to be disbursed, complicating their annual budget and planning processes.

Trust Fund Committees Continue to Discuss Potential Actions to Address Our Recommendations

The compact trust fund committees, chaired by Interior, have continued to discuss potential actions to address the recommendations in our May 2018 report.[28] In May 2018, we made six recommendations to Interior—three parallel recommendations regarding each country's trust fund. We recommended that the Secretary of the Interior ensure that the Director of the Office of Insular Affairs work with other members of the trust fund committees to

- develop distribution policies,
- develop the fiscal procedures required by the compact trust fund agreements,[29] and
- address the timing of the calculation of compact trust fund disbursements.

[26]According to a representative of Graduate School USA, which has studied the compact trust funds in prior years, predictions of the funds' balance before the end of the fiscal year are not reliable. The representative said that the compact trust funds' rates of return as of the end of July—that is, 2 months before the end of the fiscal year—are not a reliable predictor of their rate of return at the end of the fiscal year.

[27]According to the trust funds' administrator, there has never been a significant difference between the preliminary, unaudited compact trust fund balances at the end of the fiscal year and the final, audited balances.

[28]GAO-18-415.

[29]We recommended that the Director of the Office of Insular Affairs also work with the compact joint economic management committees to develop the fiscal procedures.

Interior concurred with our recommendations and has stated that it plans to implement them before the FSM and RMI transition to trust fund income in 2023. The FSM and RMI also concurred with our recommendations to Interior. According to the Trust Fund Administrator and Interior officials, the distribution policy was discussed at trust fund committee meetings convened since our May 2018 report. At their September 2019 meetings, the FSM and RMI compact trust fund committees did not make any decisions regarding steps to address our recommendations.

The FSM's and RMI's transition to relying on income from the compact trust funds will likely require significant budgetary choices. However, the lack of trust fund distribution policies as well as the lack of alignment between the trust fund committees' annual disbursement calculations and the countries' budget cycles, hampers the countries' ability to plan for the transition. In addition, without the required fiscal procedures governing trust fund actions after 2023, the trust fund committees will be unable to make disbursements and the United States, the FSM, and the RMI will not have assurance of necessary oversight for trust fund disbursements. However, as of September 2019, Interior had not implemented our recommendations to address these issues. Further, while Interior has continued to discuss possible actions to address our recommendations with the trust fund committees, it targeted implementation of our recommendations for 2023.

Chairmen Grijalva and Engel, Ranking Members Bishop and McCaul, and Members of the Committees, this concludes my statement. I would be pleased to respond to any questions you may have.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact David Gootnick, Director, International Affairs and Trade, at (202) 512-3149 or gootnickd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Emil Friberg (Assistant Director), Ming Chen, Neil Doherty, Mark Dowling, Reid Lowe, Moon Parks, and Michael Simon.

Appendix I: Status of U.S. Grants and Programs in the FSM and RMI After 2023

The amended compacts, compact–related agreements, the amended compacts' implementing legislation, and other U.S. laws provide grants or eligibility for U.S. programs and services for the Federated States of Micronesia (FSM) and Republic of the Marshall Islands (RMI). The amended compacts provide compact sector, Kwajalein-related, and audit grants. Under current law, compact sector and audit grants are each scheduled to end in 2023, but the RMI military use and operating rights agreement (MUORA) extends the time frame of Kwajalein-related compact grants for as long as the agreement is in effect. The amended compacts' implementing legislation provides additional grants, including authorizing a supplemental education grant (SEG), and identifies several specific U.S. programs as available to the FSM and RMI. Under current law, the additional grants end in 2023, but the statutory authorizations for some programs identified in Pub. L. No. 108-188 provide for the continued eligibility of the FSM and RMI to receive benefits under the programs. However, after fiscal year 2023, the FSM and RMI will no longer be eligible under current U.S. law for some programs that the SEG replaced. The compact-related programs and services agreements with each country identify additional programs and services that the United States makes available to the FSM and RMI. While these agreements will end in 2024, under current law, some U.S. agencies may continue to provide programs and services similar to those provided in the agreement under other authorities. Based on the status of current law, the FSM's and RMI's eligibility for other programs we identified that have been provided under other current U.S. laws will not change after fiscal year 2023.

Compact Sector and Audit Grants End in 2023, but Kwajalein-Related Grants for the RMI Will Continue

Under current law, compact sector grants provided to the FSM and the RMI under section 211(a) of the amended compacts are scheduled to end in 2023. However, the RMI is scheduled to continue to receive $7.2 million, partially inflation adjusted, related to the U.S. military base in Kwajalein Atoll and provided under section 211(b) of its compact. Under the terms of the RMI MUORA, the United States agreed to provide these Kwajalein-related grants for as long as the MUORA is in effect. The MUORA continues until 2066 and may be extended at the discretion of the United States until 2086.[1] The amended RMI compact provides for $18 million, partially inflation adjusted, in annual payments to the RMI government to compensate for impacts from the U.S. Army Garrison–

[1]The United States may terminate the RMI MUORA after 2023 with 7 years' advance notice. If termination occurs prior to 2053, the United States is required to make a termination payment equivalent to 1 or more years of annual grant assistance.

Kwajalein Atoll. These payments will continue for as long as the MUORA is in effect. Annual compact grants of up to $500,000 (not inflation adjusted) to each country to pay for required annual audits of compact grants are scheduled to end in 2023. See table 3 for a summary of compact sector, Kwajalein-related, and audit grants.

Table 3: Status under Current Law of Compact Sector, Kwajalein-Related, and Audit Grants to the FSM and RMI after Fiscal Year 2023

Country receiving assistance	Compact grant name and reference	Description	Status under current law as of end of fiscal year 2023[a]
FSM and RMI	§ 211(a) compact sector grants	Economic assistance directed to specific sectors, with a focus on Health and Education. The base amount of the grants declines yearly in fiscal years 2004 through 2023.[b] In 2004, FSM grants totaled $76.2 million. Grants will decline, before partial inflation adjustment, to $62.6 million in 2023. In 2004, RMI grants totaled $35.2 million. Grants will decline, before partial inflation adjustment, to $27.7 million in 2023.	Grants will end.
RMI	RMI compact § 211(b)(1) Ebeye Special Needs	$5.1 million annually, partially inflation adjusted, to address the special needs of the community at Ebeye and other Marshallese communities within Kwajalein Atoll.[c]	Grants will continue as long as the MUORA is in effect.
RMI	RMI compact § 211(b)(2) Ebeye Special Needs	$1.9 million annually, partially inflation adjusted, to address the special needs of the community at Ebeye and other Marshallese communities within Kwajalein Atoll, with emphasis on the Kwajalein landowners.	Grants will continue as long as the MUORA is in effect.
RMI	RMI compact § 211(b)(3) Kwajalein Environmental Grants	$200,000 annually, partially inflation adjusted, to support increased participation of the RMI Environmental Protection Authority in the U.S. Army Kwajalein Atoll Environmental Standards Survey and to promote the RMI government's capacity for independent analysis of the survey's findings and conclusions.	Grants will continue as long as the MUORA is in effect.
RMI	RMI compact § 212 – Kwajalein Impact and Use	$18 million annually, partially inflation adjusted, provided to the RMI government to compensate for any impacts of the U.S. military on Kwajalein Atoll.[d]	Payments will continue as long as the MUORA is in effect.
FSM and RMI	Audit grants provided in FSM compact § 212(b) and RMI compact § 213(b)	Annual grant assistance, not adjusted for inflation, equal to the lesser of (1) one half of the cost of the annual audit or (2) $500,000.[e]	Grants will end.

Legend: FSM = Federated States of Micronesia, MUORA = military use and operating rights agreement, RMI = Republic of the Marshall Islands

Source: GAO analysis of the Compacts of Free Association with the Federated States of Micronesia (FSM) and Republic of the Marshall Islands (RMI). | GAO-19-722T

[a]Status shown is based on current law as of May 2018.

[b]The U.S. Department of the Interior (Interior) estimates that, with partial inflation adjustments, compact sector grants in fiscal year 2023 will total approximately $81.5 million for the FSM and approximately $36.0 million for the RMI, including 211(a) and 211(b) funds.

[c]Ebeye Special Needs grants to the RMI under §211(b)(1) provided $3.1 million annually in fiscal years 2004 through 2013 and $5.1 million annually thereafter.

[d]Interior estimates that, with partial inflation adjustments, the payment to the RMI for Kwajalein impact and use in fiscal year 2023 will be approximately $23.4 million.

[e]In each year through fiscal year 2018, the amount provided through audit grants to the FSM and the RMI has been the maximum of $500,000.

FSM and RMI Are No Longer Eligible for Many Programs Replaced by the Supplemental Education Grant

The supplemental education grant (SEG) authorized by the amended compacts' implementing legislation is scheduled to end in fiscal year 2023 and, under current law, FSM and RMI eligibility for most programs that the SEG replaced will not resume after fiscal year 2023. Absent changes to current law, the FSM and RMI will not be eligible after fiscal year 2023 for the following programs that the SEG replaced during fiscal years 2005 through 2023: U.S. elementary and secondary education grant programs, adult education and literacy programs, career and technical education programs, job training programs, and Head Start early education programs. However, under other provisions of current law, qualifying individuals in the FSM and RMI will be eligible after fiscal year 2023 for undergraduate education grants and work-study programs that the SEG replaced. See table 4.

Table 4: FSM and RMI Eligibility under Current Law after Fiscal Year 2023 for Programs Replaced by the Supplemental Education Grant (SEG) Provided in the Amended Compacts' Implementing Legislation, Pub. L. No. 108-188

Program description	Eligibility under current law as of end of fiscal year 2023[a]
Department of Education: Supplemental Education Grant (SEG) Authorization of appropriations of $12.23 million for the Federated States of Micronesia (FSM) and $6.1 million to the Republic of the Marshall Islands (RMI), adjusted for inflation for each of fiscal years 2005 through 2023 in lieu of eligibility for the various education, health, and labor programs listed below.[b]	SEG ends. Eligibility varies for programs replaced by the SEG after 2023. See below for FSM and RMI eligibility for programs replaced by the SEG.
Programs replaced by the SEG in fiscal years 2005-2023	
Department of Education: Part A of title I of the Elementary and Secondary Education Act of 1965 (Improving Basic Programs Operated by Local Educational Agencies).	Not eligible
Department of Education: Title I of the Carl D. Perkins Vocational and Technical Education Act of 1998 (Career and Technical Education).	Not eligible
Department of Education: Subpart 3 of part A of title IV of the Higher Education Act of 1965 (Federal Supplemental Educational Opportunity Grants).	Eligible

Program description	Eligibility under current law as of end of fiscal year 2023[a]
Department of Education: Part C of title IV of the Higher Education Act of 1965 (Federal Work-Study Programs)	Eligible
Department of Education: Title II of the Workforce Investment Act of 1998.[c] (Adult Education and Literacy programs.)	Not eligible
Department of Health and Human Services: Head Start Act (early childhood education, health, and nutrition services for low-income children and their families.)	Not eligible
Department of Labor: Title I of the Workforce Investment Act of 1998.[c] (Statewide and local workforce investment systems, Job Corps, and various national programs such as Native American, migrant, and veterans programs.)	Not eligible

Source: GAO analysis of the U.S. Code, Pub. L. No. 108-188, and other public laws. | GAO-19-722T

[a]Eligibility shown is based on current law as of May 2018. The availability of grants and programs in the future is subject to the availability of appropriations provided for that purpose.

[b]In fiscal year 2017, $16.7 million was appropriated to the Secretary of Education for the SEG: $11.1 million for the FSM and $5.6 million for the RMI. In each country, this amount is lower than the authorized SEG amount and is also lower than the authorized amount after inflation adjustments.

[c]The Workforce Investment Act of 1998 was repealed and replaced by the Workforce Innovation and Opportunity Act (Pub. L. 113-128), which does not include eligibility for the FSM and RMI.

Some Programs and Services in the Programs and Services Agreement Will End, while Others May Continue under Other Authorities

Although the programs and services agreements with the FSM and RMI will end in fiscal year 2024, current U.S. law enables U.S. agencies to continue providing some programs and services now provided under the agreements. After the agreements end, no current provisions of U.S. law will enable the Federal Emergency Management Agency (FEMA) to provide disaster response funding, enable the Federal Deposit Insurance Corporation to provide deposit insurance, or enable the U.S. Postal Service to provide the services that it currently provides to the FSM and RMI. However, the National Weather Service, the U.S. Department of Transportation's (DOT) Federal Aviation Administration (FAA), and the U.S. Agency for International Development (USAID) could, under other legal authorities, provide services similar to those they now provide under the programs and services agreements.

- **National Weather Service.** The programs and services agreements authorize the National Weather Service to fund the operations of weather stations in the FSM and RMI, which it can continue to fund

after the end of the agreements under other authorities, according to Department of Commerce officials.

- **Federal Aviation Administration.** The programs and services agreements authorize DOT's FAA to provide technical assistance in the FSM and RMI, which it can continue to provide after the end of the agreements under other provisions of current U.S. law. However, DOT officials stated that FAA would require new bilateral agreements with the FSM and the RMI in order for the countries to continue to receive the civil aviation safety services that FAA currently provides under the programs and services agreements. The FAA would also seek reimbursement for any technical assistance it provides to the FSM and RMI. With regard to the civil aviation economic services provided under the programs and services agreements, DOT officials stated that, while the FSM and RMI could voluntarily decide to allow U.S. air carriers to continue operations in the FSM and RMI, new bilateral agreements would be needed to assure that result.[2]
- **U.S. Agency for International Development.** Following a U.S. presidential disaster declaration, FEMA provides the funding for disaster relief and reconstruction, which is programmed through USAID.[3] Under current law, FEMA funds will no longer be available to the FSM and RMI for this purpose once the agreements end; however, USAID will be able to provide foreign disaster assistance funding to the two countries under the same terms as it provides this assistance to other countries. After the programs and services agreements end, FEMA will be able to support disaster relief efforts only if USAID or the countries request such support on a reimbursable basis.

[2]An FAA official in the Office of the Airports noted that three FSM and RMI airports (Majuro, Kwajalein, and Yap) are also extended operations sites that provide emergency diversionary landing sites. U.S. Aviation regulations require flight paths to be within a certain range of an airport in case of emergency. Therefore, without the emergency diversionary landing sites at FSM and RMI airports, planes transiting the Pacific would have to fly different and longer routes, increasing airline operating costs, according to DOT.

[3]In recent years USAID has programmed FEMA-provided funds for disaster response and reconstruction in the FSM states of Chuuk and Yap to meet immediate humanitarian needs and facilitate recovery from the impact of Typhoon Maysak in March and April 2015 and for disaster assistance in the RMI in response to a prolonged drought conditions in 2015-2016.

In addition, according to State and Interior officials, telecommunications-related services that the two agencies provide to the FSM and RMI under the programs and services agreements will continue as long as the FSM and RMI provide appropriate authorization for such services. Table 5 shows the status, under current law, of programs and services currently provided to the FSM and the RMI under the programs and services agreements after the agreements end in fiscal year 2024.

Table 5: Status under Current Law of Programs and Services Identified in U.S.–FSM and U.S.–RMI Amended Compacts' Programs and Services Agreements after the Agreements End in Fiscal Year 2024

Country receiving assistance	U.S. agency	Program or service	Description	Status under current law after programs and services agreements end[a]
Federated States of Micronesia (FSM) and Republic of the Marshall Islands (RMI)	Department of Commerce National Weather Service	Weather services and related programs	The National Weather Service provides funding for the operation of weather stations in Majuro, RMI and in Pohnpei, Chuuk, and Yap states in the FSM.	According to Department of Commerce officials, the Secretary of Commerce may continue funding if the Secretary determines that maintaining service at these locations is essential to proper execution of Commerce Department duties.
FSM	Federal Deposit Insurance Corporation	Federal deposit insurance	The Federal Deposit Insurance Corporation insures the Bank of the FSM.	According to Federal Deposit Insurance Corporation officials, the corporation will not have authority to insure a foreign-chartered institution in the FSM.
FSM and RMI	Federal Emergency Management Agency (FEMA) and U.S. Agency for International Development (USAID)	Disaster services and related programs	FEMA provides disaster-related preparedness grants and provides USAID with funds to support disaster relief and reconstruction following a U.S. Presidential disaster declaration. The disaster response itself is implemented by USAID.	According to FEMA officials, FEMA will not have the authority to provide assistance directly to the FSM and RMI or to provide funding to USAID for such purposes. FSM and RMI will remain eligible to receive assistance from USAID on the same terms as other foreign countries pursuant to the Foreign Assistance Act.

Country receiving assistance	U.S. agency	Program or service	Description	Status under current law after programs and services agreements end[a]
FSM and RMI	Postal Service	Postal services and related programs	The Postal Service provides transportation of mail to and from each country, includes each country in the U.S. zip code system, and has committed to assist each country with the acquisition of membership in international postal unions, upon request.[b] Each country's Postal Administration retains the revenue it receives from postage sales while the U.S. Postal Service pays for all transportation costs of the countries' mail to and from the countries.	According to USPS officials, no current provisions of U.S. law will enable the Postal Service to provide the services it currently provides after the agreements end. According to U.S. Postal Service officials, the postal rates would likely be the international rates applicable for the countries under USPS pricing tables. According to U.S. Postal Service officials, the continuing exchange of mail between each country and the United States will depend on the ability of the FSM and RMI to secure membership in the Universal Postal Union. If they do not, the Postal Service will need to negotiate beneficial bilateral arrangements with the countries.
FSM and RMI	Department of State and Department of the Interior	Telecommunications services and related programs.	Frequency spectrum management within the FSM and RMI and the operation of telecommunication services of the U.S. government necessary to fulfill its obligations under the amended compacts.	According to State and Interior officials, services may continue if the FSM or the RMI provides appropriate authorization to the United States to provide such services.
FSM and RMI	Department of Transportation (DOT) Federal Aviation Administration (FAA)	Civil aviation safety services and related programs	FAA provides assistance with airport navigational and safety services.	According to FAA officials, similar assistance may be provided under various FAA authorities, but FAA would be required to seek reimbursement for these services.

Country receiving assistance	U.S. agency	Program or service	Description	Status under current law after programs and services agreements end[a]
FSM and RMI	DOT FAA	Civil aviation economic services and related programs	Permits FSM and RMI airlines to operate between U.S. destinations. Provides technical assistance to the FSM with regulation of air service.	FSM and RMI airlines will no longer be permitted to operate between U.S. destinations. According to DOT, FSM, and RMI officials, no FSM or RMI air carriers provide service to U.S. destinations. According to FAA officials, technical assistance may be provided under various FAA authorities, but FAA would be required to seek reimbursement for these services.

Source: GAO analysis of the compact programs and services agreements, the U.S. Code, and discussions with agency officials. | GAO-19-722T

[a]Status shown is based on current law as of May 2018. The availability of grants and programs in the future is subject to the availability of appropriations provided for that purpose.

[b]As of our May 2018 report, according to the U.S. Postal Service, the United States had received no request for assistance in acquiring membership in international postal unions from either country. The Department of the Interior had provided an average of $2.5 million to reimburse the costs of the U.S. Postal Service to provide services to the FSM and RMI, but, according to the Postal Service, the reimbursement by the department had not covered its costs in each year that it provided services. In fiscal years 2015 and 2016, according to the U.S. Postal Service, the annual reimbursement shortfall experienced by the U.S. Postal Service averaged $8.7 million per year. Appendix X of GAO-18-415 provides more information from the U.S. Postal Service regarding the amount of the reimbursement shortfall.

Programs Identified in Amended Compacts' Implementing Legislation Generally Continue after Fiscal Year 2023

Although additional grants provided to the FSM and the RMI under the amended compacts' implementing legislation will end in fiscal year 2023, the countries' eligibility for programs now provided under that legislation will generally continue under current U.S. law. Grants provided under the amended compacts' implementing legislation for (1) judicial training in the FSM and the RMI, and (2) agricultural and planting programs on the RMI's nuclear-affected Enewetak Atoll are scheduled to end. However, under current U.S. law, legal authorities permitting the operation of other programs will remain available to the FSM and RMI after fiscal year 2023. Eligibility under these legal authorities continues either because the amended compacts' implementing legislation does not specify an ending date or because other provisions in current U.S. law make the FSM and RMI eligible for the program.

Programs provided in the amended compacts' implementing legislation include U.S. Department of Agriculture Rural Utilities Service grant and loan programs; U.S. Department of Education Pell grants for higher education and grants under Part B of the Individuals with Disabilities Education Act for children with disabilities; programs for nuclear-affected

areas in the RMI; and additional programs provided by the Departments of Commerce and Labor as well as law enforcement assistance provided by the U.S. Postal Service. See table 6 for a summary of the programs identified in the amended compacts' implementing legislation and their status as of the end of fiscal year 2023.

Table 6: Status under Current Law after Fiscal Year 2023 of Programs and Grants Provided in the U.S.–FSM and U.S.–RMI Amended Compacts' Implementing Legislation, Pub. L. No. 108-188

Country receiving assistance	U.S. agency	Program or grant	Description	Status under current law as of end of fiscal year 2023[a]
Federated States of Micronesia (FSM) and Republic of the Marshall Islands (RMI)	Department of Agriculture	Rural Utilities Service grants and loans	The Rural Utilities Service provides financing and grants to support infrastructure development such as electricity, telecommunications, and water and wastewater systems.	Eligibility will continue.
FSM and RMI	Department of Commerce	Economic programs and services	Programs and Services of the Department of Commerce Economic Development Administration and relating to tourism and to marine resource development.	Eligibility will continue.
FSM and RMI	Department of Education	Pell grants	Grants for postsecondary education expenses to qualifying students on the basis of financial need.	Eligibility will continue.
FSM and RMI	Department of Education	Special education grants	Individuals with Disabilities Education Act grants to local school systems for the education of children with disabilities.	Eligibility will continue.
RMI	Department of Energy	Radiological Health Care Program	Medical care and logistical support thereto for the remaining members of the population exposed to radiation by U.S. nuclear testing.	Program will continue.
RMI	Department of Energy	Runit Island Environment Monitoring	Monitoring of the containment structure and groundwater of Runit island in the nuclear-affected Enewetak atoll at least every 4 years.	Program will continue.
FSM and RMI	Department of the Interior	Judicial training grants	$300,000 annually, partially adjusted for inflation, for each fiscal year from 2004 through 2023 for the training of judges and officials of the judiciary.	Grants will end unless Congress authorizes and appropriates additional funds.
RMI	Department of the Interior	Planting and Agricultural Maintenance Program on Enewetak	$1.3 million, partially adjusted for inflation, for each fiscal year from 2004 through 2023 to restore vegetation on Enewetak, a nuclear-affected atoll.	Program will end unless Congress authorizes and appropriates additional funds.

Country receiving assistance	U.S. agency	Program or grant	Description	Status under current law as of end of fiscal year 2023[a]
RMI	Department of the Interior	Four Atoll Health Care	Health care for nuclear-affected areas.	Program will continue.
FSM and RMI	Department of Labor	Job Corps[b]	The programs and services of the Department of Labor under subtitle C of title I of the Workforce Investment Act of 1998 (29 U.S.C. 2881 et seq.; relating to Job Corps).[c]	Eligibility will continue.
FSM and RMI	Postal Service	Law enforcement assistance	Technical and training assistance, including training and equipment for postal inspection of illicit drugs and other contraband.	Program will continue.

Source: GAO analysis of Pub. L. No. 108-188, the U.S. Code, and discussions with agency officials. | GAO-19-722T

[a]Status shown is based on current law as of May 2018. The availability of grants and programs in the future is subject to the availability of appropriations provided for that purpose.

[b]According to the U.S. Department of Labor, there are currently no Job Corps activities in either the FSM or the RMI.

[c]The Workforce Investment Act of 1998 was repealed and replaced by the Workforce Innovation and Opportunity Act (Pub. L. 113-128).

Programs Identified in Other Legislation Generally Continue after Fiscal Year 2023

In addition to being eligible for the programs provided through the compact, its associated agreements, and the amended compacts' implementing legislation, the FSM and RMI are also eligible for a number of programs under other provisions of current U.S. law. The FSM and RMI have each received funds from the U.S. Department of Agriculture for forestry and rural housing programs, multiple U.S. Department of Health and Human Services public health program grants, U.S. Department of the Interior technical assistance and historic preservation programs, and the DOT FAA airport improvement program, among others. Under current U.S. law, the legal authorities permitting the provision of these programs in the FSM and RMI would not necessarily change after 2023. Table 7 shows the FSM's and RMI's eligibility for these additional grants and programs under current law after fiscal year 2023.

Table 7: FSM and RMI Eligibility under Current Law after Fiscal Year 2023 for Other U.S. Grants and Programs That Have Been Made Available

Country receiving assistance	U.S. agency	Type of grant or program	Description	Status under current law as of end of fiscal year 2023[a]
Federated States of Micronesia (FSM) and Republic of the Marshall Islands (RMI)	Department of Agriculture	Forestry Service programs	Assistance with forestry planning, forest stewardship and preservation, and wildfire prevention and suppression.	Eligibility will continue.
FSM and RMI, but currently active only in RMI	Department of Agriculture	Mutual Self-Help Technical Assistance Grant	Assistance to lower-income families in rural areas in building their own homes. Funding is provided to an entity that must give technical assistance.	Eligibility will continue, according to Department of Agriculture officials.
FSM and RMI, but currently active only in RMI	Department of Agriculture	Section 502 Single Family Housing Loan and Guaranteed Loan Programs	Assistance to low-income applicants to obtain decent, safe and sanitary housing in eligible rural areas.	Eligibility will continue.
FSM and RMI	Department of Agriculture	Section 504 Housing Repair & Rehabilitation Loans and Grants	Assistance to very low-income applicants 62 years or older to remove health and safety hazards or repair their homes when they are located in rural areas with populations of 20,000 or less.	Eligibility will continue.
FSM and RMI	Department of Education	TRIO Talent Search and TRIO Upward Bound	Outreach and student services programs designed to identify and provide services for individuals from disadvantaged backgrounds such as low-income individuals, first-generation college students, and individuals with disabilities.	Eligibility will continue as long as the FSM or RMI institution receiving the grant remains an approved institution as defined in 20 U.S.C. § 1002(a)(2).
RMI	Department of Energy	Environmental Monitoring Program	Periodic monitoring of the four nuclear-affected atolls—Bikini, Enewetak, Rongelap and Utrik	Program will continue.
FSM and RMI	Department of Health and Human Services	Multiple programs authorized by the Public Health Services Act	Public health, medical, and disease control and prevention grants.	Eligibility will continue according to Health and Human Services officials.
FSM and RMI	Department of the Interior	Historic Preservation Grants in Aid	Historic preservation and community projects focused on heritage preservation.	Eligibility will continue.

Country receiving assistance	U.S. agency	Type of grant or program	Description	Status under current law as of end of fiscal year 2023[a]
FSM and RMI	Department of the Interior	Technical assistance grants	Grants for short-term, noncapital projects. Priorities include accountability; financial management; economic development; training and education; energy; life; safety and health issues, among others.	Eligibility will continue to the extent such assistance may be provided to States, territories or units of local government.
FSM and RMI	National Science Foundation grants	Grants to improve science, technology, engineering, and math education	Currently: Advancing Informal Science Learning/Geo-literacy Education in Micronesia and Advanced Technological Education/Partnership for Advanced Marine and Environmental Science Training for Pacific Islanders.	Eligibility will continue.
FSM and RMI	Department of State	Grants to combat trafficking in persons	Current project focuses on raising awareness of trafficking in persons; boosting law enforcement capacity, and establishment of national referral mechanisms for the protection of victims of trafficking.	Eligibility will continue.
RMI	Department of State	Humanitarian demining	Clearance of explosive remnants of war on inhabited areas of Wotje Island, Wotje Atoll, Jaluit Island, and Jaluit Atoll.	Eligibility will continue.
FSM and RMI	Department of Transportation	Airport Improvement Program	Grants to public agencies for the planning and development of public-use airports.	Eligibility will continue.
FSM and RMI	USAID	Pacific-American Climate Fund	Grants to civil society organizations to build funding and management capacity for programs to respond to climate change challenges.	This program will end before 2023, but eligibility for similar programs will continue, according to USAID officials.

Source: GAO analysis of Pub. L. No. 108-188 and the U.S. Code; and discussions with agency officials. | GAO-19-722T

[a]Status shown is based on current law as of May 2018. The availability of grants and programs in the future is subject to the availability of appropriations provided for that purpose.

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Mr. SHERMAN. Thank you.

We will now go to recognizing members. Rather than recognizing myself, I will recognize the Chair of the full Committee, Mr. Engel.

Chairman ENGEL. Thank you, Mr. Chairman. I want to thank Mr. Sherman for his hard work in working for this very important issue and, also, in our 2172 Foreign Affairs room. So, thank you so much, Mr. Chairman.

Thank you to the witnesses for testifying on the many elements of the important and unique friendship relationship between the United States and the Freely Associated States.

I am very happy that we were able to organize this joint hearing with Chairman Grijalva, Vice Chairman Sablan, and the other members of the Natural Resources Committee, who have, along with the Foreign Affairs Committee, taken the lead on relations with the Freely Associated States over the years.

I look forward to working with the Natural Resources Committee as we engage on these issues in the months and years ahead to ensure that we have a good outcome to upcoming negotiations on new Compacts of Association, so the U.S. and the Freely Associated States can strengthen our ties, safeguard our sovereign interests, and ensure our mutual defense well into the future.

Despite the deep historic ties between our nations and the region's strategic importance, there is, frankly, not a lot of awareness about the Freely Associated States here in the United States. This hearing provides a good opportunity to put them back on the radar screen. Our relations with the Freely Associated States are a very important part of our overall Indo-Pacific strategy. The way we handle the compacts will demonstrate not only how we treat some of our closest friends, but America's commitment to the Pacific as a whole. So, I am very glad that we have an opportunity today to discuss how the United States and the FAS can deepen and broaden our bilateral engagement.

And again, I want to thank Mr. Grijalva, Mr. Sablan, and Mr. Sherman.

I have one question that I would like to ask Ms. Oudkirk. I have long believed that the United States should have diplomatic representation in every country of the world. Recently, during his visit to the Federated States of Micronesia, Secretary Pompeo said he was examining how our government can best interact with the Freely Associated States to put our relationship on a sound footing for the decades to come. May I ask you, what do you think about reassigning responsibilities for the Freely Associated States from the Department of the Interior to the Department of State or some other agency? And what would be the advantages and disadvantages of doing so?

Ms. OUDKIRK. Thank you very much, Chairman Engel.

So, just to be very clear, we have accredited Ambassadors in place in each of the three Freely Associated States and embassies in each of those countries. So, the State Department does conduct our diplomatic relationship with those three countries as per normal, as we would with other countries in the world. The difference is, as Mr. Pula noted, the Department of the Interior implements the assistance under the Compacts. So, I think we believe we have a good arrangement, a good division of labor here. And addition-

ally, Mr. Gootnick describes many of the domestic programs that are made available to the Freely Associated States from the post office to the Weather Service, and that is also additional and somewhat unique. But the diplomatic and foreign affairs relationship is conducted by the State Department.

Chairman ENGEL. How many State Department officers are assigned to U.S. Embassies in Koror, Kolonia, and Majuro? And are these resources sufficient to achieve U.S. interests and goals?

Ms. OUDKIRK. If I may, sir, I will take that question back and give you a precise answer. I think that we believe that we are doing a good job. We are in the process of augmenting staff in many of our Pacific embassies, not just in the Freely Associated States. But I will get back to you with a precise number on the breakdown of the representatives country by country.

Chairman ENGEL. All right. Thank you very much. And thanks to all our witnesses for testifying today. Thank you.

Mr. SHERMAN. Thank you.

The gentlelady from Missouri is recognized.

Mrs. WAGNER. I thank the Chairman very much.

Ms. Oudkirk—is that correct?—as I asked Assistant Secretary Stilwell last week before the Asian-Pacific Subcommittee, have you considered traveling to Taipei, in accordance with the Taiwan Travel Act, to demonstrate America's support for Taiwan in the wake of the Solomon Islands' and Kiribati's to break with Taiwan?

Ms. OUDKIRK. I am traveling to Taiwan in 2 weeks. I am the U.S. senior official for APEC. So, in my APEC capacity, I will be traveling to Taiwan to consult with them on APEC-related issues.

Mrs. WAGNER. Much better answer than I received last week.

Mr. SHERMAN. Hallelujah.

Mrs. WAGNER. Yes, and the Chairman concurs. That is wonderful, and I am so pleased that you are going to do that. We need to make a strong statement about this, and I believe that Assistant Secretary Schriver underscored that also in his testimony. We cannot have China bullying our friends and allies in the region, and it is very important that Taiwan understands how important strategically and trade-wise and in our values and support that we have for them. So, I am very, very pleased to hear that.

Mr. CONNOLLY. Would the gentlelady yield just for 1 second?

Mrs. WAGNER. Absolutely.

Mr. CONNOLLY. I just want to associate myself with her remarks. I am the Co-Chair of the Taiwan Caucus. And on both sides of the aisle, I think what you just expressed expresses our views as well.

Thank you. I thank my friend.

Mrs. WAGNER. Absolutely. And I just love it when we have these wonderful bipartisan moments of agreement.

[Laughter.]

Ms. Oudkirk, what steps will the Trump Administration take to make sure that support for Taiwan among the Marshall Islands and Palau, the Freely Associated States that recognize Taipei's sovereignty, make sure that does not erode further?

Ms. OUDKIRK. So, thank you very much, Congressman Wagner.

Taiwan is a democratic success story. It is a reliable partner. It is a force for good in the world. The United States will continue, and this Administration will continue, to support Taiwan, espe-

cially as it seeks to expand its already significant contributions to addressing global challenges and, in particular, its support to its diplomatic partners in the Pacific, including the Republic of the Marshall Islands and Palau.

We believe that China's active campaign to alter the Cross-Strait status quo, including by enticing countries to discontinue their diplomatic ties with Taiwan, is harmful. This effort undermines regional stability. It undermines a framework that has been established for decades and that has enabled peace, stability, and development across the Indo-Pacific.

Mrs. WAGNER. Thank you. I very much appreciate your testimony for the record, and I think it is a very good setup for your trip in 2 weeks to Taiwan. I look forward to an out-read on that, and I think many on the Committee do. We hope that you will come back and visit with us about that.

Assistant Secretary Schriver, can you explain how the Freely Associated States fit into our defense posture in the Pacific a little more broadly?

Mr. SCHRIVER. Thank you.

They are very important partners across a range of activities, as I mentioned in the testimony, the research and development, the security cooperation on issues like North Korea. With respect to posture, in particular, they provide opportunities for logistic support. If you look at the distances from Hawaii to Guam and through other areas of the Indo-Pacific, there are nodes there that are helpful in logistic support, and certainly in the case of a conflict, they would be absolutely critical. They provide access for training, such as Pacific Partnership. There are possibilities of future facilities, but no decisions have been made at this point to build out further, other than in the areas I mentioned.

Mrs. WAGNER. If the U.S. Department of Defense no longer has the right of denial over foreign military activity in the Freely Associated States, how would that affect U.S. national security?

Mr. SCHRIVER. We would be greatly concerned, particularly if the absence of that right of denial then led to a more permissive environment for access to certain actors and, in particular, we would be concerned about Chinese access there. So, we are grateful for that, and we think it is a mutually beneficial relationship.

Mrs. WAGNER. You may not have time to answer this, but let me just say, Assistant Secretary Schriver, China is clearly seeking to build military, dual-use infrastructure throughout the Pacific Islands, such as piers that can accommodate Chinese navy ships. What are China's dual-use infrastructure plans for the region and what would these facilities mean for our defense?

Mr. SCHRIVER. I think the Chinese are very opportunistic and they are looking for permissive environments where they can use economic assistance and infrastructure support such as piers that will create later access opportunities for the PLA. So, it is something we watch very carefully and want to make sure that our influence and our relationships are as strong as possible to prevent that.

Mrs. WAGNER. Thank you. My time has expired. I yield back.

Mr. SHERMAN. At this point, I will recognize the Chair of the full Natural Resources Committee, the gentleman from Arizona.

Chairman GRIJALVA. Thank you, Mr. Chairman. And thank you for the hearing and for the work of our respective staffs on both Committees for putting this together; and to the witnesses, of course.

Dr. Gootnick, the situation with the Trust Fund and the predictions in terms of its viability going forward, absent any real change, any readjustment, any renegotiation, the scenario you laid out, maybe you can repeat that part of it again?

Dr. GOOTNICK. Sure. The Trust Funds were established with the intent of preserving the corpus, the body of the Trust Fund, and that was the focus at the time they were set up. There are three separate accounts—the corpus, the disbursement account, and a rainy day fund, if you will, and there are rules that govern funds being shifted between those funds and funds that are available for disbursement. That is the constraint that in the short run may lead to years where there are zero disbursements or a number of years where the disbursements do not equal the value of the Sector Grants that end in 2023. Now there is no specific provision that the Trust Funds would meet the value of the Sector Grants, but that is kind of a benchmark that a number of people have used.

Chairman GRIJALVA. That is perhaps an expectation at some point, that it would meet the benchmark, but it is not part of the agreement?

Dr. GOOTNICK. The agreement does not——

Chairman GRIJALVA. Got you.

Dr. GOOTNICK [continuing]. Explicitly and fully limit the distribution to the inflation-adjusted Sector Grants.

Chairman GRIJALVA. Mr. Pula, if I may, we have heard primarily about national security in opening statements and in much of the testimony. And I do not disagree with that. There is an urgency there, and that urgency has to be dealt with.

But, since 1951 when Interior assumed the responsibility, and the Resources Committee assumed the responsibility of that jurisdiction, security has been part of the issue. But I want to get from you—there is a humanitarian side to this issue as well. Understand the national defense/security thing. It is not an issue of argument or "either/or," but it is a "both" question. And the humanitarian concerns that we have in terms of the degrees of services and attention that we bring to the people of the FAS, let's talk about that humanitarian side of this issue and the responsibility that this Congress and Interior have to make sure that that is part of the equation. And sometimes I hope we do not lose that part in the discussion about the need to backstop China and do all those other things that I do not disagree with at all, but there is a human side to this and those other people on that island and the migration attendant to that. If you would?

Mr. PULA. Thank you, Mr. Chairman.

You know, I have been doing this job for the Department of the Interior for over 20 years, and I can tell you and the members of the Committees that dealing with the Freely Associated States has been a special part of my personal work and in terms of the Department, in cooperation with the State Department, with the Ambassadors that are in the three countries. It has been an experiment of——

Chairman GRIJALVA. More to the point, the investment that we are currently making——

Mr. PULA. Yes.

Chairman GRIJALVA [continuing]. To deal with all the issues, and to strengthen the relationship, my perception is that it is not enough. And so, I am asking.

Mr. PULA. Well, let me say, Mr. Chairman, the law, the Compact, or the current agreement provids funding that we work with. Now if your question is, is that enough? My answer would be—it depends on who you ask. The way we at the Department of the Interior working with the three Freely Associated States, as you may well recall, during the cold war, when we came up in 2003 in the beginning of this amended Compact which ends 2023, the agreement that we now have provides for some accountability. And the reason why I said that, the first 15 years funding went to the countries, and Congress felt, well, so what do we have to show for it? So, in 2003, the United States provided funding to six sectors. In those six sectors, basically, the primary ones are health, education, infrastructure, and then, the other minor ones.

Chairman GRIJALVA. So, the answer on the investment question I asked you is "It depends."?

Mr. PULA. Yes.

Chairman GRIJALVA. Yield back. I think my time is up. Appreciate.

Mr. SHERMAN. Thank you.

I now recognize the Resident Commissioner.

Miss GONZALEZ-COLON. Thank you, Mr. Chairman.

My first question will be, Mr. Schriver, in your written testimony you note a concern with "China's use of coercive tools to attempt to erode Pacific Island serenity and to induce them to behave in accordance with Chinese interests." What do you mean by that in terms of the tools? What tools?

Mr. SCHRIVER. We see economic coercion, the use of debt trap diplomacy. We see diplomatic and political pressure, the sense that China is large in the region, not going away, and you need to deal with us on our terms. So, they have a range of ways of applying pressure, and it is increasingly difficult, particularly for smaller States, to stand up to that, which is why I think our partnership with the Freely Associated States and others is so important.

Miss GONZALEZ-COLON. And you also say for those Pacific nations to behave in accordance with Chinese interests. What specifically does China want them to do?

Mr. SCHRIVER. Well, there is tremendous pressure.

Miss GONZALEZ-COLON. Taking a loan?

Mr. SCHRIVER. Ma'am, first of all, I would say there is tremendous pressure on the remaining diplomatic allies of Taiwan to switch diplomatic recognition. We saw two States, countries, last week male that sovereign choice to change, and there is pressure on Palau, pressure on the Marshall Islands.

There is a range of other things that China may ultimately apply pressure—their positions on the South China Sea, their positions in international fora. We see them apply pressure to their partner countries in those instances, and certainly the Pacific Islands could be susceptible to that as well.

Miss GONZALEZ-COLON. Does the United States currently have any plans to build any additional U.S. military facilities on those Freely Associated States?

Mr. SCHRIVER. We are, I think, in a process now of reviewing plans and reviewing posture. I think we are grateful for the opportunity to have these relationships that give us options. As we look at the logistical needs, the access needs for contingency planning, we will certainly be in consultation with our partner countries on those issues.

Miss GONZALEZ-COLON. Thank you.

Mr. Pula, one of the main issues is you have got a lot of experience in the Department of the Interior in the renegotiation of the Compacts and the renewal of one of them. In your experience, what will be the financial impact if funds are not continued beyond 2023?

Mr. PULA. Thank you for the question. As we look at the Trust Fund, the current Compact agreement, the funding the direct assistance that we provide now for the last 15 years until the end of 2023 will end, and then, the Trust Funds will kick in. In short, if you look at the balance of the Trust Funds, they will not meet the level of the current aanual funding that goes to both RMI and the FSM. Of course, that all depends on how the market does regarding the Trust Funds. So, to answer the question, there are gaps. The RMI's Trust Fund is a little better. The FSM has a larger gap. And we hope, when we get there, as was mentioned by my colleague from the State Department, Secretary Pompeo had already announced renegotiation. So, in that sense, those are some of the things that the Administration is working together on to figure out how we can help in this process going forward beyond 2023.

Miss GONZALEZ-COLON. You are the Chair of the Trust, correct?

Mr. PULA. Yes, I am.

Miss GONZALEZ-COLON. And being the Chair of the Trust, is any oversight currently in place to that trust? Any review of the processes there that you can share with us?

Mr. PULA. OK, I am sorry, can you——

Miss GONZALEZ-COLON. You are the Chair of the Trust?

Mr. PULA. Yes.

Miss GONZALEZ-COLON. My question is, if the Department of the Interior is doing an oversight of the Trust, as we speak?

Mr. PULA. Right. The way the Trust Fund is set up, we have three members from the U.S. and two members from both the RMI——

Miss GONZALEZ-COLON. Do you have the money to run the Trust right now or not?

Mr. PULA. Oh, do we have a manager?

Miss GONZALEZ-COLON. Yes.

Mr. PULA. Yes, we hire financial folks that help us on a daily basis, yes.

Miss GONZALEZ-COLON. In that experience—and I know my time is running—but what detailed assessment of what stays and what may go away if the Compacts are not renegotiated?

Mr. PULA. Well, I can say this: the Trust Funds will not be enough in terms of the funding. Like I said, that is something that we are sort of like discussing how to help. The portfolio itself or

the Trust Funds of both FSM and RMI are sort of diversified based on the markets. But, at this point, we hope that it will work toward——

Miss GONZALEZ-COLON. And if you can provide it for the record later on, what recommendations specifically for the renewal or the agreements you may ask from these Committees?

Having said that, I will yield back.

Mr. SHERMAN. Thank you.

Now I will recognize the gentleman.

Mr. SABLAN. Thank you. Thank you very much, Chairman Sherman.

I am going to have some questions that I would ask the witnesses to respond in writing. I do not have enough time. But let me start.

Secretary Schriver, you testified before the Senate Energy and Resources Committee 2 months ago that the Administration, quote, "strongly supports extending Compact financial assistance". End quote. But the source of funding was not answered at that hearing. Today, you testify again that the Administration strongly supports extending Compact financial assistance to secure long-term U.S. strategic interests in the region. So, in this intervening 2 months, has the Administration identified a source of funding?

Mr. SCHRIVER. We do not have a final answer on that, but the work has continued, work with OMB and our interagency colleagues, to identify our proposal that we would bring to the Congress to accomplish that.

Mr. SABLAN. Yes, thank you. That is good because we would not want to have a repeat of what happened with the Republic of Palau, where it took 7 years to get Congress to approve it.

Secretary Oudkirk—I hope I got that right, Sandra—thank you very much for the visit recently; also, for the briefing for one of my meetings.

But Compact extensions must be enacted into law, as we did with the Palau Compact in 2017 with Public Law 115–91. That implies getting congressional buy-in as the Compacts are negotiated. Do you agree?

Ms. OUDKIRK. Yes, sir.

Mr. SABLAN. So, Secretary Pompeo has announced that negotiations are beginning with the Federated States of Micronesia. I hope we can count on the Administration to cooperate and communicate fully with the Committees as these negotiations progress. May I have your commitment to do that?

Ms. OUDKIRK. Yes, sir. And just to clarify, we have begun consultations. We do not yet have a negotiating mandate.

Mr. SABLAN. Thank you. And I know you have a lot on your plate. So, any idea who will be conducting these negotiations? And I ask this question because the Palau Compact extension was handled by a State Department career officer; whereas, the previous FSM and Marshall's negotiations were handled by special representatives of the President. And this is important because the negotiator must be able to get commitments from other Federal agencies like the Postal Service, FEMA, FAA, FDIC. The negotiator has to have clout and must be able to speak for the President, right?

Ms. OUDKIRK. Yes, sir. So, right now, we are in the consultative process. We are working to determine who the negotiator will be. We have not made a determination on that yet, which is why I would draw a distinction between the consultative period that we are in now—we are listening; we are asking questions; we are trying to draw lessons learned. We are not actively negotiating the extension.

Mr. SABLAN. Thank you. But, within the lines, I was just making a suggestion. I hope you take that into consideration.

And a basic element of the 2003 Compact was setting up self-sustaining Trust Funds to replace annual grants. GAO reports that the Trust Funds are unlikely to meet that goal. So, is it going to be one of your goals in negotiating Compact renewals to adequately capitalize these Trust Funds, so they can replace the annual grants?

Ms. OUDKIRK. So, Mr. Congressman, just as we are hoping to consult with you and take your advice on how to best configure our negotiating team and what our goals and objectives should be in undertaking this step, which does have a long and far-reaching impact, we are also looking to gain lessons learned from our colleagues at GAO, from colleagues throughout the interagency, and our negotiating partners, the governments of the three Freely Associated States, the people living in those countries, to set objectives, and then, to negotiate toward a goal that provides the most benefits for the most reasonable cost.

Mr. SABLAN. Yes. So, I do not doubt, as both you and Secretary Schriver have said that you do understand, that there are powers at work in the Pacific and that they will step in and offer economic support if the United States gives up the field. So, Secretary Oudkirk, how about the—my time is up, Mr. Chairman.

Mr. SHERMAN. Without objection, the gentleman will be granted another minute.

Mr. SABLAN. Thank you.

A very important issue for me, Secretary Oudkirk, the Special Education Grant that replaced many Federal education programs, that grant was not made a permanent appropriation and has never been full-funded. What is your plan for making sure education gets reliable funding when this is negotiated, when the renegotiation happens? And this is important because, as I always say about the Marianas and everywhere, education is the key to future prosperity and well-being for the individuals at this site. So, we have to make sure that education is funded. Would you agree with me on that?

Ms. OUDKIRK. The State Department shares your concern and support for a well-educated population as the foundation for democracy, though I will defer on the specifics of the special education funding to my colleagues from either DOI or GAO, or we can take the question back.

Mr. SABLAN. Right. This should be, also, in negotiating. Right now, schools in the Freely Associated States or in the Federated States of Micronesia are closed at noon because there are no school meals. And you cannot educate, fully educate, students if you are only a half-day in session.

Thank you, and I yield back, Mr. Chairman. I will have questions for the record.

Mr. SHERMAN. Thank you.

I will now recognize the gentlelady from American Samoa. Then, I will recognize myself for questions.

Mrs. RADEWAGEN. Thank you, Mr. Chairman.

So, this question is for the panel. The administration of the FSM and RMI Trusts has been cumbersome and unnecessarily contentious with joint U.S. Insular Management Committees provided for in 2003. The 2010 Palau Compact extension is more efficient, but not less effective with Insular ownership and management within U.S. guidelines. Is there any reason not to replicate the Palau model in laws regarding the FSM and RMI? Secretary Schriver?

Mr. SCHRIVER. With your permission, I will defer to my colleagues who have more direct responsibilities for those matters.

Mr. PULA. All right, I will take it. The Palau model is a sinking fund, their Trust Fund. So, it basically kind of ends. The RMI and FSM model that kicks in after 2023 is hopeful, and I want to emphasize and underline that, to be a perpetuity kind of fund. As a matter of fact, I had heard—of course, I could not confirm—that Palau is kind of interested in looking at the models of FSM and RMI in that extent.

So, right now, the way that the Trust Funds for the FSM and RMI are set up, once the funding is picked up, still the committees, both the Trust Fund committees in both countries, still have to make some decision based on the current law. And some of the changes, I think, that the countries would like to do in order to help moving forward after 2023 is part of some of the discussions that we are going to be having with the countries as we move forward.

Mrs. RADEWAGEN. Secretary Schriver, the RMI is home to the Ronald Reagan Ballistic Missile Defense test site on Kwajalein Atoll. When Army General Martin Dempsey, former Chairman of the Joint Chiefs of Staff, visited the area, he called Kwajalein the world's premier range and test site for intercontinental ballistic missiles and space operations support and noted that, quote, "There are a lot of things we do here because of where we're located that we cannot do anywhere else in the world." Could you please describe the importance of Kwajalein to the United States?

Mr. SCHRIVER. It is critically important, and I would certainly associate myself with General Dempsey's comment. It has the unique features of that access, but also its geographic location, which does make it ideal for the ballistic missile defense testing. If you want to simulate trajectories and where our interceptors would be fired from, it is absolutely ideal. There are other research and development projects that are conducted there, and I mentioned in my opening remarks the work on hypersonics. And there are a number of tests coming up. So, it remains a critical facility which we highly value.

Mrs. RADEWAGEN. Thank you, Mr. Chairman. I yield back.

Mr. SHERMAN. Thank you.

Mr. Assistant Secretary, as Ms. Oudkirk testified, we have the right to exclude military action from other States, but they can just call it space or call it something else and say it is not military. China had its space tracking station looking at our missile tests.

Do we anticipate China trying to reestablish such a space tracking station and should we be concerned?

Mr. SCHRIVER. I have not seen any specific reporting about future intentions, although their ambitions in the space area are quite robust. So, I think it is——

Mr. SHERMAN. But do you think—you know, we do missile testing in the area.

Mr. SCHRIVER. Yes.

Mr. SHERMAN. Is the Department of Defense concerned having the Chinese monitor that from this territory, the Marshall Islands?

Mr. SCHRIVER. Certainly anyplace where they can advantage themselves for that kind of collection we would be concerned.

Mr. SHERMAN. So, they can do a better job of monitoring than they could from just sending a ship there? Does having a land base enhance their ability?

Mr. SCHRIVER. Potentially. There are technical details that I——

Mr. SHERMAN. Please take a look at that.

Mr. SCHRIVER. Yes.

Mr. SHERMAN. We have talked a lot about the need to fund our efforts. The biggest pot of money is the defense budget. It is, on the one hand, the current system we have has a lot to speak for it, but if it is just a matter of getting the money—and I am not talking about changing who does the work—could the Pentagon support the idea that the cost of the Freely Associated State Compacts, et cetera, come in the defense budget?

Mr. SCHRIVER. We are engaged in that discussion internally. I think there are some questions about the expertise for programs such as education and health that we do not have——

Mr. SHERMAN. Trust me, you will give the money over to Mr. Pula.

[Laughter.]

Mr. SCHRIVER. Yes. Of course, we have a number of programs that do benefit directly, the local population, I mentioned the radar facilities in Palau.

Mr. SHERMAN. Right, but I am not talking about who spends the money. I am talking about getting the money for this important service. I mean, just by way of insight, I think the biggest funding for breast cancer research is in the military budget. If you want to do something good for the country or the world, you put it in the military budget. So, I hope that you would continue to pursue the idea that the money would be the military budget, but would immediately be transferred to State for what they are doing, to Interior for what they are doing, and, of course, for what you are doing. This is too important to our national defense to say, well, it was a good idea for our national defense, but we could not find any money in the Interior budget, so we did not do it.

Ms. Oudkirk, cryptocurrency is something that the Marshall Islands is looking at. I had a chance to talk last May with President Heine and urge her not to go down that road. I serve on the Financial Services Committee. Our Chair has echoed the words of President Trump that this is a very bad road to go down. What is the State Department doing to discourage the Marshall Islands from adopting what is being called a sovereign cryptocurrency?

Ms. OUDKIRK. Sir, with your permission, I will take that question back.

Mr. SHERMAN. OK.

But if you look at the policy of the government, both on the Democratic side and the President, this is a huge risk to our national security. As important as what the Defense Department does, a lot of our power comes not from his ships, but from our ability to control the world financial payment system. Our sanctions, for example, rest on that. And you should not allow something under an entity that you are coordinating with to undermine that without making it a major concern.

Ms. OUDKIRK. Yes, sir, completely understood, and it is also a very technical issue and one where the Treasury Department——

Mr. SHERMAN. It is not that technical. You just say, "It is critical to the United States that the Marshall Islands not go down the road of a sovereign cryptocurrency. We do a lot for you. We are going to do more, especially when we put it in the Defense Department budget. Please do not do this."

[Laughter.]

And finally, climate change, are we addressing climate change and what risk does this pose to the FAS?

Ms. OUDKIRK. Sir, I had the honor of accompanying Secretary Bernhardt to the Pacific Island Forum in Tuvalu last month. Climate change was an absolutely top priority for the Pacific Island States there. Secretary Bernhardt was very eloquent in describing all of the work, the U.S. approach to the climate issue, and all of the work that the United States does from NOAA, the Coast Guard, FEMA, and others, to deal with the issues of resilience and adaptability. This is an issue that is of absolute importance to our partners in the Pacific, and it is important that we engage with them and explain our approach and the many things and the many programs that we have across the region to work on adaption and resilience and handling extreme weather, making weather predictions, et cetera.

Mr. SHERMAN. My time is expiring. I will simple say that, if we emitted less carbon and less methane, perhaps that would help as well.

And I will ask you to respond for the record about Chinese efforts to influence the internal politics of the Freely Associated States.

And with that, we will recognize Mr. Yoho, the gentleman from Florida.

Mr. YOHO. Thank you, Mr. Chairman.

I appreciate you all being here.

Since post-World War II, the Indo-Pacific region has been considered open and free and passable by all. Not until recently have we seen this aggression from China, and it is disturbing to see how aggressively they are. And then, through their coercion and intimidation, we see what they are doing with other countries, offering a pot of money with hooks to it, you know, the predatory lending reminiscent of our robber barons of the 1800's.

What people need to understand—and I think this Administration has shown a strong commitment to the Indo-Pacific strategy, you know, with the Freedom of Navigation that we have done that was postponed and not performed in previous administrations. Is

that signal getting out? Are people seeing a difference and they are feeling a little bit more confident? Mr. Schriver?

Mr. SCHRIVER. Certainly we hear a lot from allies and partners that they welcome our increased presence and our increased Freedom of Navigation Operations. We are also doing, outside the 12 nautical miles, a lot more joint sails and joint patrols with other countries. So, again, we get a demand signal and we get statements of appreciate from partners and allies. So, I think it is.

Mr. YOHO. OK. And I have seen other countries step up, as you have seen. I have seen Canada say they are going to, and the UK, and all these. And those are all positive signals that, as a coalition, we are going to make sure that the Indo-Pacific region stays open to trade as it has done.

And there is only one aggressor, and that aggressor, of course, as we have heard, is China. People said it is a threat. It is only a threat if you are afraid of it, No. 1 and, No. 2, if you are unprepared for it. With the tools this Committee passed through last year that the President and the Senate—that the President signed into law with the bill that created the United States International Development and Finance Corporation, which is due to roll out in October, are we identifying projects and letting the people in those areas know that it is different than what the BRI Initiative of China has?

And, Ms. Oudkirk, you look like you are ready to say something there.

Ms. OUDKIRK. Thank you very much, Congressman.

I think I can speak for the entire Administration in saying we are delighted that Congress provided us tools through the BUILD Act to enhance our ability to support U.S. business, as we put forward a model that competes with that, with the closed, secretive model of China's Belt and Road Initiative.

We are looking forward to something called the Indo-Pacific Business Forum, which will be held——

Mr. YOHO. Right.

Ms. OUDKIRK [continuing]. In early November in Bangkok. That Forum will be an opportunity——

Mr. YOHO. That is in November, is it not?

Ms. OUDKIRK. November 4th, yes.

Mr. YOHO. And we have representation there?

Ms. OUDKIRK. Secretary Ross is leading——

Mr. YOHO. Good.

Ms. OUDKIRK [continuing]. A large trade delegation. You are all welcome to come.

Mr. YOHO. I might be there.

Ms. OUDKIRK. And we will have other parts of the Administration there as well. But that really is going to be the big, public opportunity for us to unveil the implementation of the economic side of the Indo-Pacific Strategy. So, the various alphabet soup—Asia EDGE on Energy, DCCP on telecommunications, ITAN on infrastructure, there is a list of projects. Hopefully, there will be signings; there will be deals made. It should be a really good follow-on event to the event that the Cabinet Secretaries had last summer here in Washington at the U.S. Chamber where they unveiled the Indo-Pacific——

Mr. YOHO. OK. Let me go ahead and interject here. Because you guys are the boots on the ground; you are the ones that are the face of America. You can only do what we do as far as creating tools and use those tools, but I hope the message gets out clear.

We talk a lot about the military strategic importance of that area, which it is. It is vital, but more so for an open and free trade area. And then, the emphasis needs to really be put on the people of those areas, because that is really the resources that are so important. Yes, it is important militarily and strategically, but it is important for the people of those areas. And that is where we should put our emphasis.

And I am reading your notes, Ms. Oudkirk. You were talking about the amount of tourism that China was going in there, and it boosted their economy up a bunch. But China got upset because they were not recognized. And so, they told everybody do not go there. This is the coercion they are going to use over and over and over again that we do not do. And I hope that message gets out and that you use the tools available.

And real quick—am I over? I am over? No, still going. I was looking at the wrong red button.

One of the other things I wanted to ask you about—and I think this is for you, Mr. Pula—you were talking about the different Trusts, FSM and the RMI. The other ones, are those sovereign wealth funds? If not, can they be converted to those? And if so, what would you need? Is that something we need to do?

Mr. PULA. Those are not sovereign wealth funds.

Mr. YOHO. Can we create a vehicle like that?

Mr. PULA. That is something we can look into.

Mr. YOHO. I would sure like to look at that.

And then, Ms. Oudkirk, you were talking about there are three Ambassadors to that area, that those areas have full diplomatic recognition. Others are by the Interior Department, correct? Is there a way that we could strengthen that and have them to have full diplomatic recognition? And you can submit your answer to the record because I am out of time.

Mr. SHERMAN. I will just comment that the United States also, like China, does use our economic power, economic power that I hope is not undermined by Marshall Islands sovereign cryptocurrency.

The gentleman who has been here from the very beginning, further from me geographically in this room and from the area, but he has been here from the beginning, the gentleman from California.

Mr. BERA. Thank you, Mr. Chairman.

Yes, I agree with a lot of what my colleague from Florida just talked about. And I think the issue of maritime sovereignty, maritime strength, the issue of Taiwan having visited multiple times is absolutely bipartisan and reflects the values of the United States in terms of freedom of democracy, freedom of choice, free markets.

Obviously, I think many of us on this Committee have been very concerned with China's overreach and lack of respect for that maritime sovereignty and rule of law, and certainly was critical of the Obama Administration in their lateness in acting on the South

China Sea, but I also applauded their decision to start the Freedom of Navigation Operations as well.

Assistant Secretary Schriver, under your leadership, the U.S. has increased the pace of those operations, but at this juncture what I think many of us feared was China establishing that foothold in the South China Sea and gaining some confidence in that. As they start to think about the second island chain, and so forth, how do you think this changes the calculus from the Chinese perspective, given where they were with the first one?

Mr. SCHRIVER. I suspect they are evaluating our response, our actions, and those of other partners, based on what they did with the buildout of the outposts in the South China Sea, the deployment of military systems, and now seeing how countries are reacting to that, first and foremost the United States. We have increased Freedom of Navigation. We have more joint patrols, joint sails with other countries. We are increasing our capacity-building. Another program we have to assist countries in the maritime is the Southeast Asia Maritime Security Initiative, where we help with their ability to sense and see and contribute to maritime security.

So, I hope what they see is a response that is really counterproductive to what China's ultimate aims are. They would be far better off pursuing their interests through peaceful means and allowing that area to remain free and open, and not try to change the qualitative nature of it. Because we are open to having a free and open Indo-Pacific that benefits all, including China. But if one country tries to change international law, then we will get a strong response.

Mr. BERA. Well, thank you for that update. Certainly there is a lot of support. I cannot speak for every member of this Committee or this body, but I think most of us, if I listen to the comments, fully support that increased presence and sending that signal to China that they can have a prosperous future as well, but you have got to have the rule of law and the rule of the open seas.

Either Assistant Secretary Schriver or Ms. Oudkirk can answer this next question. We have a close relationship with other nations who play a major role in supporting the Freely Associated States. Australia and New Zealand are part of our Five Eyes, you know, our closest relations, but Japan also has a relationship. I would just be curious if you could give us an update on how Australia, New Zealand, and Japan are also supporting the Freely Associated States.

Ms. OUDKIRK. So, I will take the non-military aspects of that. We work very closely with development partners. I would say Australia, New Zealand, Japan, India increasingly has shown an interest, and Taiwan for its diplomatic partners. We work to ensure that our assistance programs, whether they are on the soft side, you know, training programs, or on the more delivery of assistance are coordinated, that they do not duplicate, that they do not create gaps.

This is an effort that we have broadly across the Pacific in support of the various strategies, our Indo-Pacific Strategy, the Australian Pacific Step-Up. And so, that is something that is ongoing and it is the subject of constant diplomatic engagement.

Mr. BERA. Great.

Mr. SCHRIVER. If I could just add briefly, Secretary Esper took his first trip as confirmed Secretary to the Indo-Pacific, and he included Australia and New Zealand, the first Secretary of Defense visit to New Zealand since 2011. It was not only to invest in that relationship that is important, but it was to talk about the Oceania region.

As my colleague mentioned, Australia has a Step-Up program. New Zealand has the Reset. So, we are talking about how we can be partners together in protecting the sovereignty and increasing capacity in this area.

On the DoD side, we have specific projects throughout the Pacific Island region. There is work going on in the PNG that we are doing with the Australians about a particular base. There is work in Fiji, where the Australians have worked on the peacekeeping training facility and we are doing the training. So, it is expansive throughout the region, and it is really a way to leverage the like-minded nature of those close alliances.

Mr. BERA. Great. Well, thank you for that. And again, for the Chinese that would be watching this, this is an important region.

Mr. SHERMAN. I now recognize the gentleman from Tennessee.

Mr. BURCHETT. Thank you, Mr. Chairman, members.

This area actually holds a little bit of history in my family. My father was in the United States Marine Corps and fought on the island of Peleliu. So, some of these islands are—he and my mom are both in heaven, but they were wonderful people. And daddy went back for the 50th anniversary of the invasion of Peleliu, and they treated him like royalty and it was one of his fondest memories.

And I remember my mama was there for about 30 minutes and she slipped on some coral and busted her head open, and my dad made a joke about how that he was there for, I think, 20-something days in combat and never got a scratch and mama was there 30 minutes and she got a Purple Heart. And the Navy surgeon, actually, after my mom and daddy both died, I was going through some stuff, and the Navy surgeon actually wrote my parents a very nice letter just how memorable it was.

And daddy, one of the greatest, I guess, disappointments of his life was, after the war, they went to China, actually, and were escorting the Japanese soldiers off the island because the Chinese were killing them. But daddy had a real love for the Chinese folks and he hated the fact that we, in his words, "We turned them over to the communists." And he said they could have been one of our greatest allies and we blew that.

But, anyway, my question really has to do with, if China tried to coerce any of the Freely Associated States, the FAS, to switch their diplomatic relations from Taiwan to mainland China, could our defense veto or the right of strategic denial prevent this? And if any of you all could answer that, that would be fine. Thank you all so much.

Ms. OUDKIRK. OK. Thank you very much, Congressman. I will address the issue of sort of Taiwan's diplomatic partners.

So, we were very disappointed in the decisions of the governments of the Solomon Islands and of Kiribati last week to switch recognition. We do believe that, as I said earlier, the status quo sit-

uation across the Straits is a situation that has enabled peace and prosperity in the region for decades.

We believe that countries who choose to recognize China in the hopes that it will provide economic benefits or concessionary loans ultimately will be disappointed, as have many other countries who have taken out those loans for other reasons, once they realize the terms of the loan. I think when we look at China's Belt and Road Initiative, we see that it is a program by China for China.

And kind of to answer a little bit of the question that I got earlier, the wonderful thing about U.S. deals and U.S. investment around the world is that investment is led by U.S. companies. It is made on commercial terms. We deeply appreciate the support that Congress has given us through the BUILD Act and other economic tools that will help us support our private sector. But, at the end of the day, it is the private sector that needs to lead, and that is what makes us different from China.

Mr. BURCHETT. Any others just want to comment on that?

Mr. SCHRIVER. I certainly agree that we were disappointed by the decision that those countries made. I think we underscore the unique aspects of our defense relationship with the Freely Associated States, so that there might be even additional costs if they were to make a similar choice. But they are certainly under pressure. And so, one of the reasons we at the Defense Department talk about the economic aspects of our Compact, seemingly an economic issue, not a defense issue, is that it is really the comprehensive relationship that keeps them, I think, more aligned with us on a range of things, to include the security challenges associated with China.

Mr. BURCHETT. Thank you all very much. I hope that we can—a lot of lives were lost to secure that security. Although it is mainly on the History Channel now, it lives in me. My daddy, as I stated, he never got a scratch hardly. His were all internal. As a little boy, I can remember, even until the day he died, when I would wake him up, I would never go over the top of him. I would grab him by his toe because I really did not know where he was when he woke up. And he was an incredible human being.

And so, thank you all so much for what you do. Thank you.

Mr. SHERMAN. I would point out to the Committee that I am working on legislation to try to identify China debt trap debt instruments and encourage countries simply not repay without hurting their international credit rating.

With that, I will recognize the gentlelady from Pennsylvania who has been here the longest in this room, if not the longest in Congress——

Ms. HOULAHAN. No, not so long.

Mr. SHERMAN [continuing]. For 5 minutes.

Ms. HOULAHAN. Thank you. I appreciate it.

And it is nice to see you again, Assistant Secretary Schriver.

My first question is for you and Mr. Pula as well. We talked a little bit about climate change. And I was wondering if you might, or anybody, comment on the implications possibly on the migration of people and whether or not that has any implications to national security and, also, to trade as well. I am particularly interested in,

if people are leaving, what sort of void does that leave behind in terms of national security and, also, trade?

Mr. SCHRIVER. Thank you.

We at the Department of Defense have cited climate change and the impact as having a national security impact, and that is true in the region of the Pacific Islands and the Freely Associated States. Most of our efforts are on shoring up the resiliency of our facilities there, like the facility we spoke about at Kwajalein.

The issues associated with migration in the Freely Associated States are unique because of their ability to travel to the United States. But, potentially, migration could leave both access opportunities for adversaries and it could lead to other humanitarian situations where the Department of Defense has a supporting role. So, it is something, again, that we have reported on and been very public about our concerns, and we do have a role in responding to that.

Ms. HOULAHAN. Mr. Pula.

Mr. PULA. Thank you for the question.

On the climate change, I had the privilege to accompany Secretary Zinke last year to the Pacific Island Forum in Nauru. As we all know, the small island nations in the Pacific are very big in the climate change issue. I recall correctly Secretary Zinke's point to the reporters, when the question of climate change was asked, he said, the United States has been doing its part in terms of lowering CO2 levels, working on the climate change. "You might want to ask those questions to China and other countries." So, I think with this Administration, they have been working hard on resiliency and all that, as we engage, also, with the folks in the Freely Associated States, as well as our other friends in the Pacific Island countries.

With the migration part, again, just yesterday on my way back from Honolulu, I sat next to a 3-year-old and mother on the plane from Chuuk who were traveling to Nevada. I was talking to the mother and I was surprised. They said they were on their way to Denver to visit some families.

I guess the point I am trying to make is, with folks from the Freely Associated States traveling to the United States, some of whom live here—some of them go back in the migration. But connecting with the climate change issue, I think with the Marshall Islands, the President of the Marshall Islands has spoken at the U.N. and other areas because of the low-lying atolls. These are issues that the Administration is aware of and we have been dealing with as much as we can, and as we speak to our friends and colleagues from FAS.

Ms. HOULAHAN. And some of the legislation that I helped put forward actually has to do with asking our State Department to be more involved in helping other nations to meet their Paris Climate Accord agreements as well. And so, it is critical, this issue of climate change, and I do believe it has implications to national security in that particular area of the world.

I only have a minute left, but I was wondering, I know Mr. Burchett talked a little a bit about the issues of Belt and Road. You all talked about that as well. Can you specifically speak to Vanuatu and Samoa in terms of the concern, if any, that you have in terms of China coming in for developing a port, and whether or not we

are doing the right things and enough things to invest in that area? I only have about a minute left.

Mr. SCHRIVER. Starting with the port, there has been public reporting of the Chinese involvement in building out a port in Vanuatu. Interestingly, there was public backlash in Vanuatu about the suspicions that the port and the pier, in particular, would be used not just for commercial purposes, but potentially host military vessels. So, that backlash led to clarifications from the government there that they are for commercial purposes, but that can change in the future. So, we are concerned about that.

I think we are engaging Vanuatu in ways to demonstrate that we can be a preferred security partner. I traveled there with an interagency team, including Coast Guard colleagues who talked about their law enforcement needs and the interests in protecting their sovereign territorial waters from illicit activity. And so, we are trying to use the tools available to us to show that we can be the preferred partner.

Ms. HOULAHAN. Thank you. I have run out of time. I yield back.

Mr. SHERMAN. Recognize the gentleman from Hawaii.

Mr. CASE. Thank you, Mr. Chair.

And I would like to start out by following up on your comments about our new Pacific Islands Caucus, which is a first-ever congressional caucus focused on the Pacific Islands, roughly 24 jurisdictions across the entirety of the Pacific Islands that are all integral to the future of not only the Pacific, but the Indo-Pacific and our country. And so, we welcome the community here and all those listening.

Mr. SHERMAN. If the gentleman will yield, I want to praise you for coming up with the idea and getting us organized in creating that caucus. I yield back.

Mr. CASE. Well, thank you very much. The members on the dias, most of us are members and all of us are very interested in this. So, we welcome your suggestions on how to fully engage on these subjects with the Congress.

This is to the three members of the Administration here. We have got three separate departments here. I support the Compacts. I support our relationship on a number of levels, whether you want to talk about trust responsibilities that go back generations to shared support of friends with shared values, to our military aspects of mutual defense. However, the impact of the Compacts thus far on specific jurisdictions in our country are not acceptable anymore. And I speak primarily of the locations where the Compact migrants come to. These are Guam. These are CNMI to some extent, certainly Hawaii, and not just restricted to those. For example, Arkansas has a large Compact population. And there is virtually no compensation to us for the price of welcoming those migrants to our jurisdictions.

We welcome them. We have an incredibly strong and growing community of Compact country migrants in Hawaii, maybe 20,000, somewhere in that range when you count those that have become American citizens.

However, the cost to Hawaii is probably somewhere around $300 million-plus today. That is a State expense, a State expense. The GAO is studying this right now, correct? You are engaged in a

study commissioned by the Senate which I strongly support to actually update the calculations, which at Fiscal Year were roughly $148 million for Hawaii in the areas of health and education, but also other areas.

Now we just cannot accept that anymore, because I suspect that cost is going to accelerate because we are going to have an increasing number of migrants from the Compact countries if the Compacts continue, as I hope they do. And the cost per person is probably going to accelerate, too.

So, the attitude and the response—and I was here in Congress the last time the Compact came to Congress for approval, and I regret that we did not make more of an issue of it at the time. At the time, we sought to double the Compact impact aid paid from, I think it was $15 million to $30 million, which was nothing.

Now we review our obligation as accepting the Compact migrants. However, the attitude of the Administration was we will negotiate the Compacts, and the actual impact on the rest of the country and specific jurisdictions like Hawaii is not our business; we are just going to negotiate the Compacts. And I am saying it is your business. I am asking you to acknowledge that this is your business. And I hope that you will strongly, as you get into these negotiations, for all of the jurisdictions that bear a disproportionate result from the migrants, that you will make that your business, and not just say, "Well, Congress, we negotiated these here. Here are the Compacts for approval, and by the way, it is up to you to determine how to fund the Compact impact." So, it is not going to be OK with me, I can tell you that, and I think that is probably true of other Members that represent these jurisdictions.

So, I do not need a response from you, but I am just telling you this is your business. I hope you will deal with it.

Let's see, I want to talk briefly about the interchange having to do with the State Department, Ms. Oudkirk. I had a very interesting interchange with a journalist from the Pacific Islands. There was a program put on by the East-West Center, which is one of our preeminent institutions located in Honolulu that outreaches to the Indo-Pacific, invaluable to our relationships. And these journalists came in to talk with me freely off the record. We had a great discussion. They were all from their countries. And I asked them, what is the one thing that we can actually do to strengthen our relationships? And they basically said it is about relationships, personal relationships. And their perception, almost to a person—and these are people from across the Indo-Pacific—all felt that, basically, China was out-personalizing us in this department.

Now it strikes me that, yes, of course, we have a diplomatic presence, but I would be curious to see what that diplomatic presence has looked like in terms of a trend over the last 10 or 20 years. I hope it has been going up, but probably not.

And what also strikes me is that a lot of our soft power outreach is now borne by the Department of Defense. They do a great job in many of these areas, but they should not be doing that. It really should be State that is doing this.

So, I would simply leave you with that comment, that there is a significant perception at least that, in terms of the development of relationships, we are not doing a good job.

Thank you.

Mr. SHERMAN. Thank you.

I will now recognize the gentleman from Guam.

Mr. SAN NICOLAS. Thank you, Mr. Chairman.

I am going to echo some of the sentiments from my colleague from Hawaii, but maybe be a little bit more pointed in so doing.

Mr. Pula, in your response to my Chairman on the Natural Resources Committee, when you said that "it depends" in terms of who you ask with respect to whether or not the U.S. investment into the FAS States was sufficient for them to be able to reach a level of self-sufficiency. I do not think it depends on who you ask. I think it is blatantly obvious that it has been an abject failure.

Not only has the corpus of the Trust not grown to a level to meet the need of the funding, not only have the grants and technical assistance been sufficient for the areas to be able to reach a level of self-sufficiency not to rely on those fundings, but both of those funding levels have not even factored in the inordinate amount of subsidy that is provided by the host regions, to include the territories, the State of Hawaii, and the others that were mentioned by my colleague.

If we had not hosted this level of migration, the corpus and the Trust Fund and its growth would be even more under water, and the grants that they are receiving would be even less sufficient. So, I do not think there is any debate as to whether or not the Compact relationship was sufficient or not for these areas to be able to reach a level of independence. I think it is very, very obvious that it has not.

On Guam, the population of the FAS residents is more than two out of the four States that comprise the FSM. It is over 50 percent of the entire population of the Republic of Palau, and it is over 50 percent of the entire population of the island of Majuro that is the largest atoll in the Republic of the Marshall Islands. And so, the subsidy that has been provided, at least just from Guam, for the Compacts and their lack of ability to be able to make up for whatever these areas are needing is enormous.

Not only does the population of the FAS make up almost 10 percent of the population on Guam, but the Compact impact fundings that Guam receives is less than 2 percent of what its overall budget is for its annual Fiscal Year operations. We get less than 2 percent of the funding in Compact impact for our budget, and our population on the FAS is nearly 10 percent. So, the subsidy is enormous. And we need to factor all those things when we are looking at this on an equal basis.

Part of the way for us to be able to move away from the need for subsidy, in terms of whether it is being done in host areas or if it is going to be absorbed by more Trust Funds, is to ensure the areas are able to develop to a level that they are not going to be having their population moved to areas to get subsidized. And it is also to be able to ensure level of developments, that we are not relying on Trust Fund moneys to subsidize the lack of development. But development is grossly lacking in these areas, and I would like to argue due in large part to our inability to necessarily expend the resources that are provided in a way that is going to facilitate that new element.

And so, I wanted to ask specifically about the Joint Economic Management Committee and the Joint Economic Management and Financial Accountability Committee. These two Committees are responsible for administering the grants that are provided to the FSM and the RMI. With respect to all the grants that have been provided, is there a balance that is basically unexpended in JEMCO and JEMFAC? Mr. Pula?

Mr. PULA. Thank you, Congressman, for the question.

Yes, there are balances. It is the funding that we provide——

Mr. SAN NICOLAS. What is the total value of the balances right now?

Mr. PULA. Well, let me say this: we will get that information to you. I cannot get it off the top of my head.

Mr. SAN NICOLAS. Just an estimate, the balances in JEMCO that have been unexpended in terms of grants?

Mr. PULA. Well, for the FSM, because of the infrastructure, the slowness of how it went for the FSM, I would say it is over $100 million.

Mr. SAN NICOLAS. Over $100 million in unexpended grants that are supposed to help these areas to develop. How about in JEMFAC?

Mr. PULA. In JEMFAC, I would say a few million dollars, not as much, and those are like the unused funding in the Sector Grants not spent totally, because it is on an annual basis.

Mr. SAN NICOLAS. If we want to reduce the amount of dependence of these areas, we need to make sure the funding that we are providing to be able to make them more self-sufficient is actually being deployed to encourage that self-sufficiency.

Secretary Schriver, I just wanted to ask real quick, does the INDOPACOM strategy factor in a status-quo relationship with the FAS?

Mr. SCHRIVER. If I understand the question, it does assume we will continue with that status of Freely Associated States and Compacts. If that status were to change, Indo-Pacific Command would adapt.

Mr. SAN NICOLAS. And just to close, Mr. Chairman, the need for us to make sure we get the grant deployment right, and the need for us to make sure we get these funding levels right, is because, if we do not, and the ground changes out there, and we have a change in whether or not China is involved, or what have you, it is going to cost us exorbitantly more in the adjustments that INDOPACOM is going to have to make in order to compensate for that.

Thank you, Mr. Chairman.

Mr. SHERMAN. And last, but certainly not least, the lady from Virginia.

Ms. SPANBERGER. Thank you, Mr. Chairman.

And thank you to our witnesses who are here today.

This week at the U.N. General Assembly, President Hilda Heine of the Republic of the Marshall Islands emphasized that her country could be one of the first to see large-scale migration as a result of rising sea levels. I understand the Freely Associated States all view climate change and sea level change as an existential threat. And my question is, what impact, in your view, is this likely to

have on the security and the stability of the region? And what are your Departments doing to plan for these challenges of the anticipated large-scale migration? And what do we see as the threat or the challenge facing the United States as a result of this regional change and challenge? And I will open it up to all of our witnesses.

Mr. SCHRIVER. Thank you. I will just address the security aspect. We have identified in the Department of Defense public reporting that climate change and its impact is a national security threat and that we have a role in addressing that. Primarily, we look at the resiliency of our facilities, protection of our facilities, and we would certainly put the Reagan Ballistic Missile Test facility at the top of that list.

I think, beyond that, if we get into different scenarios of how migration could occur—and we have already spoken about the unique status that allows these citizens to come to the United States—but there could be potential other humanitarian situations where the Department of Defense would be involved in a supporting role, logistics, response, et cetera. But it is something that we have identified as a concern.

Ms. SPANBERGER. Thank you very much.

Ms. Oudkirk.

Ms. OUDKIRK. So, the United States recognizes that addressing environmental degradation and climate change is a priority for the Pacific Island State, including the Freely Associated States. And this is because of the threat of sea level rise and the region's extreme vulnerability to natural disasters.

So, the State Department works with interagency partners to support a variety of programs that provide resilience and adaptation in the Pacific Islands. This ranges from improving drinking water quality and wastewater management to support weather forecasting infrastructure, to improve early warning and disaster resilience and response. And then, of course, in the case of a natural disaster, to provide the immediate recovery and response assistance through the Office of Foreign Disaster Assistance.

Ms. SPANBERGER. OK.

Ms. OUDKIRK. So, this year the U.S. Government pledged $36.5 million in new foreign assistance to the Pacific Islands. Much of that was concentrated in programs that broadly address environmental, climate, or fisheries-related issues. And we are committed to continuing to work—we talked earlier about other development partners—working with development partners and bilaterally to address these challenges.

Ms. SPANBERGER. So, I appreciate the focus on some of the preventative things that we are doing to ensure that we are mitigating challenges, but if we are working toward a place where this threat is recognized as the threat of sea level change will lead to large-scale migration, specific to the challenge potentially of large-scale migration, do you have any comments on what we, as a country, have been doing to either help with that threat, and then, how it might impact us?

Ms. OUDKIRK. I defer to DOI on migration because of the unique FAS relationship.

Ms. SPANBERGER. Yes. Thank you.

Mr. PULA. I do not want to take that question.

[Laughter.]

Congresswoman, thank you. But I do want to come back just a little bit to my friends, the Congressman from Hawaii and also from Guam, regarding the Compact impact. I know that is——

Ms. SPANBERGER. As it relates to migration?

Mr. PULA. Yes, migration.

Ms. SPANBERGER. OK.

Mr. PULA. Because a few years back Governor Abercrombie, I went over there to Honolulu, gave him a $10 million check. He looked at me. He threw it on the ground and said, "Nik, this is not enough for what the State of Hawaii gave out." So, I am well aware of the brunt for years now since the Compact began.

The migration part—because it is allowable in the Compact for the folks in FAS to travel freely without visa, they do come and go back. They do not always come and just stay as population grows. There are some areas, of course, where the population is kind of decreasing because they are leaving, and I think a lot of them are coming not necessarily because of climate change, but because of seeking for a better future—schools and jobs, and what not.

But in our Department, we try to do our best with technical assistance whenever our friends from the Freely Associated States ask for things. For example, we fund quite a bit of outside islands of the Marshall Islands, these reverse-osmosis machines to help with the flooding, sea level, and all that. But, primarily, of course, the issue, as we all know, is much bigger than we all can handle.

Ms. SPANBERGER. Thank you for your answers. I am out of time. I yield back.

Mr. SHERMAN. Thank you.

I want to thank this panel for joining us. We will now empanel the next panel consisting of the Ambassadors from the Marshall Islands and the Federated States of Micronesia.

While people are standing up and sitting down, I will put in a plug for a hearing of the Asia and Pacific Subcommittee in the fourth week of October. We are going to focus on human rights in South Asia, and those concerned with the Indo-Pacific region I think will find that interesting. There has been a lot of interest in human rights in South Asia.

I know Mr. Cox, and people may think I am skipping the gentleman from California. I have been informed that he did not want to ask questions of the first panel. If I am wrong, I will bring them back. OK.

So, we will concentrate on human rights in South Asia after we return from this recess.

I will now turn over the chair to Kilili Sablan, the gentleman from the Northern Mariana Islands, who, on behalf of the Natural Resources Committee, will chair the portion of this hearing with the second panel. Thank you.

Mr. SABLAN [presiding]. Thank you.

And good afternoon, everyone.

That was a good hearing. I actually had over a dozen questions that I could not ask, but I will ask for the record.

At this time, I would like to recognize and welcome His Excellency Gerald M. Zackios, Ambassador to the United States from the Republic of the Marshall Islands, and, of course, His Excellency

Akillino Susaia, Ambassador to the United States from the Federated States of Micronesia.

And so, I would start with Ambassador Zackios, please. You have 5 minutes, and the light turns green when it starts. When it goes orange, you have a minute remaining, and when it goes red, of course, your 5 minutes is up.

Please. Thank you.

STATEMENT OF HON. GERALD M. ZACKIOS, AMBASSADOR TO THE UNITED STATES FROM THE REPUBLIC OF THE MARSHALL ISLANDS

Ambassador ZACKIOS. Chairman Sablan, distinguished leaders, and members of the Committees, thank you for this meeting. It is very timely. President Heine would have been here if she could, but matters of State required her attention. She conveys a warm "yawk-way" and appreciation to the Committee.

Since you have our full statement, I am going to highlight its key points. The first is that, during the years of U.S. administration on our islands, we came to feel, as President Reagan promised in advocating for Compacts of Free Association, "You will always be family to us." We are proud to enable U.S. control over a strategic expanse of the Pacific larger than Texas, including shipping lanes coveted by other nations; to be the location of what the Joint Chiefs have described as the world's premier range and test site for ICBMs and space operations; to be a U.N. member second only to Israel in voting with the United States, and to have a higher rate of enlistment in the U.S. military than most U.S. States.

The Trump Administration and many in Congress from both parties want to continue our free association long beyond 2023. The RMI's current government does, too. The biggest potential threat comes from the financial influence of China, as has been shown in other Pacific Islands. For example, our government was challenged by a Chinese proposal to build a port and 1,000 homes on Rongelap in return for its autonomy from our government.

A pivotal issue is that the Trust Fund, established by the 2003 Compact amendment to replace annual U.S. grant assistance after Fiscal Year 3, will not have enough money, despite good returns. It is critical that the Trust Fund be kept capitalized so that it can accomplish its purpose. As matters stand now, our Nation will experience severe economic shocks and shortfalls in funding for critical priority Compact sectors of health and education. If not done by Fiscal Year 4, this certainly can be done over a 20-year Compact extension.

A first step can be taken by the U.S. making the contributions it pledged in both its 1986 and 2003 Compact laws. Twenty million was to be provided if it could substantiate economic losses due to the U.S. nullifying tax and trade provisions of the Compact after it was signed. The first reaction of some in the RMI to the announcement of Compact extension negotiations was to recall this unfulfilled commitment.

The 2003 amendments replaced many U.S. education programs with a supplemental education grant. The $6.1 million a year indexed for inflation has never been provided. It is now 5.5 million

in dollars worth less. The grant should be a permanent appropriation, as is other Compact provisions.

Current Federal programs and services agreement also need to be continued, such as the Postal Service, FEMA, Weather Services, Federal Aviation Authority programs, and special education programs and Pell Grants. The RMI cannot replace them.

There are other issues for negotiations that are of immediate priority concern. The preeminent one is the source of funding. It was not worked out for Palau Compact extension until 7 years after the 2010 agreement. The budget baseline needs to be addressed. Additionally, many agencies operate in the RMI, some unique and requiring special funding.

The negotiations need to be conducted on the U.S. side in a way that will bring all involved seriously to the table and appreciative of the importance of their programs. The Compacts were negotiated by Ambassadors representing the U.S. President. Special representatives at the State Department renegotiated the 2003 Compact extension. The Palau extension model of regular State Department officers negotiating was insufficient.

Finally, I must note a concern the Compact does not address and cannot effectively address, but must concern us all. The rising ocean is an existential threat that can reduce the size of our Nation and totally wipe it off the map.

Thank you for this opportunity to discuss our concerns, and I am happy to answer any questions.

[The prepared statement of Ambassador Zackios follows:]

Statement of
His Excellency Gerald M. Zackios
Ambassador of the Republic of the Marshall Islands
to a joint hearing of the
U.S. House of Representatives Committees on Natural Resources and Foreign Affairs
on Sustaining U.S. Pacific Insular Relationships
Washington, DC
September 26, 2019

Distinguished Leaders and Members of the Committees:

Thank you for the opportunity to testify on the priorities and concerns of the Republic of the Marshall Islands (RMI) regarding our free association with the United States of America. President Heine would have been here were it not for an important, previously scheduled meeting of our parliament. She conveys her warm *Iakwe* and thanks to the committees for this timely hearing.

From U.S. Administration to Free Association

The relationship between our nations really began when missionaries from Boston arrived in the Marshall Islands in the 1800s. This was long before the U.S. took most of the islands of Micronesia from Japan in war 75 years ago. Indelible bonds deeper than mere friendship were forged over the subsequent four decades of U.S. territorial administration.

There were sacrifices, most notably in the Marshall Islands due to the U.S. use of what had been populated islands for 67 nuclear bomb tests, with lasting, devastating effects on our people, land, and waters. The Trust Territory of the Pacific Islands was also closed off to the outside world due to U.S. security concerns, limiting economic development. Yet, after the four decades, we came to feel, as President Reagan promised in advocating insular acceptance of the Compacts of Free Association, "You will always be family to us."

The U.S. had committed to the United Nations to develop the only Strategic Trust Territory into self-government. As the U.S. later faced U.N. pressure for our independence, however, it extended Federal programs to deepen our ties and it suggested nationhood in a free association with the U.S.

Free association with the Marshall Islands, the Federated States of Micronesia, and Palau preserved U.S. strategic control over an expanse of the Pacific wider than the continental U.S. In the case of the Marshall Islands, which is just southwest of Hawaii, it is an area larger than Texas. The area includes vital shipping lanes coveted by other nations. The Compact also ensured ongoing U.S. control over foreign interactions that impact national security.

In the Marshall Islands, the Compact further gave the U.S. continued use of the Ronald Reagan Ballistic Missile Defense Test Site, which the Joint Chiefs of Staff have described as

"the world's premier range and test site for intercontinental ballistic missiles and space operations."

Additionally, our shared values, kinship, and appreciation for the U.S. resulted in the Marshall Islands being a U.N. member that is second only to Israel in voting with the U.S. And, throughout the Freely Associated States, our young women and men are inspired to volunteer for the U.S. military at a rate that the Pentagon says is higher than that of most U.S. States.

The Compacts with the Marshall Islands and the Federated States of Micronesia (FSM), which were approved by U.S. law and the U.N. Security Council, have been in effect now for a third of a century. The agreements were amended by U.S. law in 2003. Most financial provisions expire in Fiscal Year 2023. The Palau Compact has slightly different dates.

The U.S. Executive branch – and many Members of Congress of both parties – want to ensure continuation of the relationship long beyond 2023 , as does the current government of the RMI.

This was one of the main points of discussion between the Presidents of the Freely Associated States and President Trump in the Oval Office during the FAS Presidents Working Visit to Washington, DC this past May, the first ever such meeting. It was further discussed in a similar first ever meeting called by Secretary Pompeo in the FSM last month, after which negotiations to extend the three compacts was officially announced.

China: A Challenge to our Partnership

By far our relationship's largest challenge comes from financial involvement and influence from the People's Republic of China -- as was just shown by the actions taken by other Pacific island nations to end their relationships with Taiwan.

The U.S. Indo-Pacific Commander testified to the Senate Armed Services Committee in February that the Freely Associated States "are threatened by" the "use of Beijing's economic leverage."

The U.S. National Defense Authorization Act (NDAA) for Fiscal Year 2018 required the Secretary of Defense to submit to Congress's defense committees an independently prepared assessment of U.S. security and foreign policy interests in the Freely Associated States, the status of U.S. obligations, and Chinese economic influence. This report highlights the substantial, growing influence and threat posed by China.
https://www.rand.org/pubs/research_reports/RR2973.html

Chinese economic activity with the Marshall Islands last year totaled $2.2 billion. It is indisputably important to our economy and budget. By contrast, U.S. trade was only $311 million.

Earlier this year, there was a Chinese proposal to build a port and 1,000 homes on Rongelap Atoll in the Marshall Islands – in return for the atoll's autonomy from our national government. Even today, the PRC continues to aggressively court our leaders through visits to China.

Adequacy of the Trust Fund

A pivotal issue for the negotiations concerns the Trust Fund for the People of the Republic of the Marshall Islands established by the 2003 Amendments to the Compact. The theory was that it was to grow until 2023, at which time income from it would replace annual U.S. grant assistance.

The Trust Fund's return on investment has been good, but its capital is insufficient for reasons that include U.S. contributions being invested almost three years late. Last year, the GAO found that the Fund would only be able to support "declining disbursements" and that there is "an increasing chance of zero disbursements" in some years (https://www.gao.gov/assets/700/691840.pdf). This is clearly unacceptable. It is problematic for the U.S. as well as for our people.

The Senate Energy and Natural Resources Committee held a hearing on U.S. interests in the Freely Associated States in July of this year. The statements of Administration officials and senators from both sides of the aisle were generally very encouraging. The Assistant Secretary of Defense testified that DoD and the Executive branch's interagency group "strongly support extending Compact financial assistance." An Assistant Secretary from another department, however, said, "the idea that the trust funds would provide the same amount was actually never in the Compact."

No community would be satisfied with reduced essential services. It is critical that the Trust Fund be capitalized so that it can accomplish its real purpose of replacing annual U.S. financial assistance to the full extent of current U.S. grants adjusted for inflation on an ongoing basis. If not done by FY23, this certainly can be done over a 20-year Compact extension.

A joint US-RMI Trust Fund Committee has considered many possible distribution formulas from the Trust post-2023. However, none provide the intended rate of return to allow a smooth and sustainable transition from annual grant assistance to Trust distributions. All would result in the substantial likelihood of severe economic shocks to our nation's economy; critical shortfalls for investments in the core Compact sectors of health and education; and substantial migration to the U.S., further shrinking the economy.

The 2018 GAO report recommended that the U.S. work with the RMI to find a solution that will guarantee the sustainability of the Fund. As we noted in our comments on the report, we agree with the GAO's findings. An important first step can be taken by the U.S. by making a contribution that it previously pledged to make.

This contribution concerns an issue that dates to the original negotiation and approval of the Compact. It involves $20 million that the U.S. specifically promised the Marshall Islands in both its 1986 and 2003 Compact laws. The grant was to be made if we could substantiate economic losses of at least that amount due to the U.S. decision to nullify tax and trade provisions of our Compact as signed by the U.S.' representative.

In 2010, the U.S. State, Interior, and Treasury Departments found that "the RMI has reasonably demonstrated net adverse impacts"to justify the $20 million. In 2018, the GAO report recognized this finding and that same conclusion was reached in a report required of the President of the U.S.

The first reaction of some leaders in the Marshall Islands to the recent announcement of Compact extension negotiations was to recall this unfulfilled commitment.

We are, however, pleased that you and your colleagues in the House in June recognized this obligation by including $5 million in the Interior Appropriations bill and that Chairwoman Murkowski of the Senate Interior Appropriations Subcommittee has expressed her desire to begin to provide funding.

As long as it is unresolved, however, this issue will be a diversion from and complicating factor in Compact extension negotiations that the U.S. Executive branch wants to begin just months from now.

As I noted, as of FY24, the Trust was to replace the current U.S. Compact Sector grants. These grants and the separate Supplemental Education Grants provide 25% of our national budget.

A resolution to the Trust Fund shortfall may be accomplished through a longer term of investment as well as through additional contributions. The USDA Graduate School did a study on options for making the Trust viable and sustainable in a manner that will not cause economic shocks and instability in the Marshall Islands. We have also asked that the Fund's investment advisor develop some options.

There is one other issue regarding the Trust Fund: It's ownership and management. The 2010 agreement that extended provisions of the Palau Compact made improvements in this area – within U.S.-agreed requirements. Fiscal responsibility doesn't require micromanagement, just reasonable guidelines.

Supplemental Education Grant

The elimination of eligibility for many U.S. Federal education programs that the RMI received during the term of the original Compact was addressed in 2003 through an annual Supplemental Education Grant (SEG) of $6.1 million, adjusted for inflation. Though progress has been made on the funding, the SEG has never been fully funded. As it is not

structured as a permanent appropriation, it has has been reduced to approximately $5.5 million and it has decreased in value.

Nonetheless, the SEG is an essential part of our education sector. It currently funds our national kindergarten program. We are very concerned about the survival of the SEG post-2023 because it is not covered by the Trust Fund and it is not part of any ongoing institutionalized U.S. Federal program, although it replaced such programs.

The SEG should be a permanent appropriation and adjusted for inflation in the same manner as other financial assistance under the Compact.

Expiring Federal Programs and Services Agreement

The amended Compact provides for several Federal programs and services to be made available to the RMI by way of a separate agreement, the Federal Programs and Services Agreement (FPSA). These programs and services include those of the Postal Service; Disaster Assistance (through the Federal Emergency Management Agency); the Weather Service; the Federal Aviation Administration; and the Department of Transportation (Economic Authority). These programs were renewed in 2003 for 20 years and are set to expire at the end of FY 2023. Given our tiny economy of scale, the RMI would not be able to replace the essential services provided by these agencies.

The amended Compact also extended several other critical Federal programs. Special Education Programs and Pell Grants are now only to continue in the RMI through FY 2023. The College of the Marshall Islands (CMI) is a U.S. Land Grant institution that relies substantially on Pell Grants for its operations and programs.

Without extension of these crucial programs, essential services will be terribly compromised.

The Negotiations

Experience has taught us that there are other issues for the negotiations that are of immediate, priority concern. The pre-eminent one is the source of funding for U.S. assistance. Chairwoman Murkowski understandably made her first question to Administration representatives at the Energy and Natural Resources Committee hearing whether this had been determined. The Deputy Assistant Secretary of State acknowledged that it had not been yet.

It is logical that this was the top question: the issue was not worked out for the Palau Compact extension until seven years after the agreement was signed. None of us would want a repeat of that situation. Relatedly, you may want to address the U.S. budget baseline as soon as possible.

The funding issue relates to the divided responsibilities and interests regarding the Freely Associated States within the U.S. Executive branch: The State Department is responsible for

relations and heads the interagency group, the Interior Department provides most special financial assistance, and the Defense Department has the greatest interests.

Additionally, many other agencies operate programs, some unique and requiring special funding. The negotiations need to be conducted on the U.S. side in a way that will bring all of the agencies involved seriously to the table and appreciative of the importance of their programs.

The Compacts were negotiated by ambassadors representing the President. Special representatives at the State Department negotiated the 2003 compact extensions. The Palau extension model of regular State Department officers negotiating was problematic throughout the U.S. Executive branch and even in the State Department.

Compact Migration

I must note that a key motivation for our people approving the Compact was the right to enter, reside, work, and study in the U.S. without visas or employment authorization documents. Our population is less than miniscule compared with that of the U.S. but the rights of our citizens to enter the U.S. goes back to President Reagan's "family" pledge. It may be the greatest reason that our relationship has grown deeper since the Compact.

We appreciate the actions of Members of Congress, the President, and other U.S. Executive branch officials who enacted a special law and administratively clarified that our citizens in the U.S. are entitled to receive Real ID Act compliant documentation. We also trust that Homeland Security Department officers will be aware of and respect the rights of our citizens as they implement the new 'public charge' regulation.

An Existential International Issue

Finally, I must mention an overwhelming concern that the Compact does not address – and cannot effectively address - but must concern us all. It is an existential issue for the Marshall Islands and, because of that, it is a vital issue for U.S. military and economic security interests in our nation.

The Marshall Islands are low lying flat coral atolls only 2 meters above sea level. The rising ocean is an existential threat that can reduce the size of our nation and, then, totally wipe it off the map.

A U.S. Government study for the military found that, unless something is done, its world's best missile and space operations test site on our Kwajalein Atoll will be underwater in three decades.

Additionally, there is international and congressional concern, particularly from Hawaii, about the leakage of radioactive waste from U.S. nuclear tests conducted in our islands and buried at the Runit Dome, in Enewetak Atoll. The Runit Island "dome" has been

cracked but the biggest concern now is that radioactive material is seeping out as sea level rise has raised the water table. A provision in the House-passed National Defense Authorization Act would require a study of the Runit Dome.

*

The Marshall Islands is very grateful for this opportunity to discuss its concerns regarding our free association with the United States and steps that can enhance the special and unique partnership between our nations. I greatly appreciate the attention that you, other Members of Congress, and other U.S. officials have given to our needs and issues. We hope that our relationship is further strengthened and enhanced so it can endure.

I am happy to try and answer any questions the committee may have.

Kommol tata (Thank you very much)!

Mr. SABLAN. Thank you very much, Ambassador Zackios.

And now, my friend, Ambassador Susaia, please, you have 5 minutes, sir.

STATEMENT OF HON. AKILLINO H. SUSAIA, AMBASSADOR TO THE UNITED STATES FROM THE FEDERATED STATES OF MICRONESIA

Ambassador SUSAIA. Thank you, Chairman, Ranking Members, distinguished members of the Committees. Thank you for convening this joint hearing and for the opportunity to testify before you today.

I have submitted for the Committees copies of my full written statement. So, I wish to summarize the key points of the statement for the purpose of this hearing.

The United States is and has been the closest friend and ally of the Federated States of Micronesia, as the FSM continues to grow and flourish as a young nation. The U.S. and the FSM have done much in recent months to acknowledge and celebrate the special relationship between our two countries.

In May, our newly elected President, David W. Panuelo, came to Washington to meet with President Donald Trump and several Cabinet Secretaries. That visit reinforced the fact we have no greater friend in the world than the United States, and the United States respects and values the relationship it has with the FSM.

We were, then, delighted to host two Cabinet Secretary officials, Secretary of Veterans Affairs Robert Wilkie and Secretary of State Mike Pompeo. This was the first time our Nation has been accorded such opportunities in our young history.

The U.S. and the FSM have a longstanding strategic partnership that reflects the common values of our two countries, including our commitment to promoting sovereignty, the rule of law, democracy, and regional security. In 1986, the FSM and the United States entered the Compact of Free Association. The 1986 Compact was renewed and amended with the entry into force of the 2003 amended Compact of Free Association, which remains in effect today.

Under these Compacts, the FSM has continuously granted the U.S. security and defense rights in the Territory of the FSM. FSM citizens have the right to live, work, and study in the United States without a visa. Under the 2003 amended Compact, the United States committed to provide certain key financial assistance through Fiscal Year 2023 and to provide U.S. Federal programs and services in the FSM.

The Federated States of Micronesia is fully committed to its relationship with the United States which contributes to the strength and prosperity of both our nations. We look forward to being a part of the United States enhanced effort to promote a free and open Indo-Pacific and to advance our defense partnership even further.

While the defense and immigration provisions in the amended Compact will continue after 2023, ensuring the continued strength of our partnership, certain financial assistance provisions of the amended Compact will expire after Fiscal Year 2023. These provisions include Federal programs and services, Supplemental Education Grants and Sector Grants. U.S. contributions to the U.S.-FSM Compact Trust Fund are also set to expire. This financial as-

sistance is a central pillar of our strong relationship and has further strengthened the bonds between our two countries.

We were pleased to hear Secretary Pompeo's announcement last month in Pohnpei that the U.S. is prepared to work with the FSM on an extension of this support beyond Fiscal Year 2023. We look forward to starting these negotiations with the U.S. very soon. The potential end of this financial assistance has created uncertainty for our government and our people. These discussions and the decisions that will result will allow us to remove that uncertainty and move forward most effectively with our strategic partnership with the United States.

In preparation for these discussions, the FSM has established a Joint Committee on Compact Review and Planning that will be responsible for negotiating with the United States. Recently, the Committee announced the appointment of the chief negotiator. In response, the FSM is still awaiting further information from the U.S. on a proposed schedule for beginning discussions.

To conclude, Chairman and members of the Committees, the FSM government appreciates the House Natural Resources' and Foreign Affairs' longstanding commitment to the enduring partnership between the U.S. and the FSM. Although the year 2023 may seem distant now, there is much work to be done that will require coordinated efforts among the various parts of the FSM government and both the Executive and legislative branches of the U.S. Government. Given the number of issues to be addressed and the great importance of these issues to both of our countries, we believe that this work should begin as soon as possible. We look forward to keeping the Committees informed of significant developments as this process moves forward.

We hope that these negotiations can serve as an opportunity for the U.S. and the FSM to reaffirm our unique friendship and strong partnership and our mutual commitment to promoting security and stability in the Indo-Pacific region.

Thank you, Chairmen, for holding this hearing on this important topic.

[The prepared statement of Ambassador Susaia follows:]

TESTIMONY OF AMBASSADOR AKILLINO H. SUSAIA
FEDERATED STATES OF MICRONESIA

House Committee on Natural Resources
House Committee on Foreign Relations

Hearing on Sustaining U.S. Pacific Insular Relationships

September 26, 2019
Washington, DC

Chairman Grijalva (D-AZ), Ranking Member Bishop (R-UT), Chairman Engel (D-NY), Ranking Member McCaul (R-TX), and Members of the Natural Resources and Foreign Affairs Committees, thank you for convening this joint hearing and for the opportunity to testify before you today. Both the timing of this hearing and the subject of it could not have been better.

The United States is and has been the closest friend and ally of the Federated States of Micronesia while FSM continues to grow and flourish as a young nation. The U.S. and the FSM have done much in recent months to acknowledge and celebrate the special relationship between our two countries. In May, our newly elected President, David W. Panuelo, came to Washington to meet with President Donald Trump and several cabinet secretaries. That visit reinforced the fact that we have no greater friend in the world than the United States and that the U.S. respects and values the relationship it has with the FSM. We were then delighted

to host two U.S. cabinet officials, Secretary of Veterans Affairs Robert Wilkie and Secretary of State Mike Pompeo. This was the first time our nation has been accorded such opportunities in our young history.

Secretary Wilkie's visit to the FSM to attend the joint inauguration ceremony of our political leadership was extremely important to the people of the FSM. We appreciated his statement recognizing FSM citizens who have served in the U.S. military. FSM citizens have proudly served in the U.S. military for decades, and continue to volunteer to serve in the U.S. military at per capita rates higher than most U.S. states. Some of those men and women have paid the ultimate sacrifice. Many FSM citizens who are veterans of the U.S. military are living in the U.S. and pursuing opportunities here, while many others have returned home to Micronesia to use their new skills to help in our nation building efforts.

A week after Secretary Wilkie's visit, President Panuelo was delighted to receive Secretary Pompeo to the FSM in a highly anticipated meeting. Secretary Pompeo announced during his visit that the U.S. will begin negotiations on the provisions of the U.S.-FSM Amended Compact of Free Association which are set to expire after Fiscal Year (FY) 2023. As I will discuss in a moment, the expiring provisions of the Amended Compact provide critical programs and services as well

as financial support for the FSM economy. The extension of these provisions will advance the national interests of our two countries.

Background on the Special U.S.-FSM Relationship

The U.S. and the FSM have a longstanding strategic partnership that reflects the common values of our two countries, including our commitment to promoting sovereignty, the rule of law, democracy, and regional security.

In 1986, the FSM and the U.S. entered into an agreement…the Compact of Free Association. The 1986 Compact was renewed and amended with the entry into force of the 2003 Amended Compact of Free Association, which remains in effect today.

Both the 1986 and 2003 Compacts fulfill important strategic objectives for both countries. Since the first Compact entered into force, the FSM has continuously granted the U.S. security and defense rights in the territory of the FSM, which constitutes a large section of the Pacific Ocean of key strategic importance to the U.S. This includes the right of the U.S. military to operate in the FSM, and to deny foreign militaries access to or use of FSM's territory. This

defense partnership is vital to securing and maintaining peace and prosperity in the Indo-Pacific region.

In addition, under the Compact, FSM citizens have the right to work, study and live in the U.S., and are productive and valued members of their communities. This aspect of our relationship further strengthens the bonds between our two countries.

Through the 2003 Amended Compact, the U.S. committed to provide certain key financial assistance through FY 2023, a date that is rapidly approaching. This financial assistance includes sector grants supporting areas such as health, education, and infrastructure, as well as annual contributions to the Compact Trust Fund. The Compact Trust Fund was created to help lead the FSM to long-term budgetary self-reliance. The U.S. also supports the FSM education sector through annual Supplemental Education Grants, and many U.S. federal agencies provide key programs and services in the FSM.

Looking ahead

The Federated States of Micronesia is fully committed to its relationship with the U.S., which contributes to the strength and prosperity of both our nations. We are well aware of the U.S. Government's increased attention to security in the Indo-Pacific region and the steps it has announced to work more closely with the Freely Associated States. This was further underscored by President Panuelo's visit to Washington, and the recent visits to the FSM by Secretaries Wilkie and Pompeo. We look forward to being a part of this enhanced effort to promote a free and open Indo-Pacific and to advance our defense partnership even further.

While the defense and immigration provisions in the Amended Compact will continue after FY 2023, ensuring the continued strength of our partnership, certain provisions of the Amended Compact related to programs and services and Supplemental Education Grants and Sector Grants will expire after FY 2023. U.S. contributions to the U.S.-FSM Compact Trust Fund are also set to expire after FY 2023. This financial assistance is a central pillar of our strong relationship and has further strengthened the bonds between our countries.

We were pleased to hear Secretary Pompeo's announcement last month in Pohnpei that the U.S. is prepared to work with the FSM on an extension of this support beyond FY 2023.We look forward to starting these discussions with the U.S. very soon. The potential end of this financial assistance from the United States has created uncertainty for our government and our people. These discussions and the decisions that will result will allow us to remove that uncertainty, and move forward most effectively with our strategic partnership with the U.S.

In preparation for these discussions, the FSM has established a Joint Committee on Compact Review and Planning (JCRP) that will be responsible for negotiating with the U.S. on extending U.S. assistance after FY 2023. Recently, the JCRP announced the appointment of a Chief Negotiator. The FSM is awaiting further information from the U.S. on a proposed schedule for beginning the discussions on the expiring provisions of the Compact of Free Association.

While these discussions have not yet begun, we believe that this hearing provides an opportunity to highlight the expiring provisions of the Amended Compact with the hope that the message will be made clearer that the FSM seeks an extension of the Compact of Free Association.

Federal Programs and Services

U.S. federal programs and services have a visible and profoundly important presence in the daily lives of FSM citizens. Numerous U.S. federal agencies provide programs and services in the FSM, including the Federal Aviation Administration, National Oceanic and Atmospheric Administration, U.S. Postal Service, Small Business Administration, Departments of Agriculture, Defense, Education, Health and Human Services, Interior, Homeland Security, and State. The Bank of the FSM is FDIC-insured and has been since 1986, and this FDIC insurance provides essential support to our banking sector. We look forward to working with the U.S. Executive Branch and U.S. Congress to ensure that expiring authorities for these critical services are extended beyond FY 2023.

Supplemental Education Grants

As the Government Accountability Office (GAO) noted in its 2018 report to Congress, Supplemental Education Grants, totaling over $10 million a year, will expire after FY 2023 absent additional action by the U.S. Congress. These grants provide critical support for students in the FSM, particularly in the areas of early

childhood education and teacher training. We look forward to working with the U.S. Congress to address the continuation of these critical funds.

Additional Financial Assistance

The FSM anticipates that the discussions with the U.S. will address potential additional contributions to the U.S.-FSM Compact Trust Fund and potential additional Sector Grants. With respect to the Trust Fund, the GAO noted again last year that the corpus is projected to only be in the range of $1 billion in 2023, far less than what is needed to provide income to support key FSM operational needs now met by Compact Sector Grants. Studies by the International Monetary Fund and the Asian Development Bank confirmed the GAO's conclusions on this issue. We look forward to working with the U.S. Congress to address the need to build the Compact Trust Fund corpus so that it can contribute to the long-term budgetary self-reliance of the FSM. We also look forward to discussions of additional Sector Grants to support the FSM economy while the corpus of the Compact Trust Fund continues to grow.

Conclusion

The FSM Government appreciates the House Natural Resources and Foreign Affairs Committees' longstanding commitment to the enduring partnership between the U.S. and FSM. Although the year 2023 may seem distant now, there is much work to be done that will require coordinated efforts among the various parts of the FSM Government and both the Executive and Legislative Branches of the U.S. Government. Given the number of issues to be addressed, and the great importance of these issues to both of our countries, we believe that this work should begin as soon as possible. We look forward to keeping the Committees informed of significant developments as this process moves forward. We hope that these negotiations can serve as an opportunity for the U.S. and the FSM to reaffirm our unique friendship, our strong partnership, and our mutual commitment to promoting security and stability in the Indo-Pacific region.

Thank you again for holding this hearing on this important topic. I look forward to answering any questions the Committees may have.

Mr. SABLAN. Thank you. Thank you very much, Ambassador.

And at this time, I would yield to the gentleman from Guam, Mr. San Nicolas, for 5 minutes.

Mr. SAN NICOLAS. Thank you, Mr. Chairman.

Ambassador Zackios and Ambassador Susaia, very nice to see you, my friends. "Yawk-way."

[Speaking foreign language] for making the time to be with us here today and for all of your advocacy for the region that I know is a very difficult task that you undertake with all of your hearts.

Mr. Chairman, I think that the implementation negotiation that we are talking about here today needs to move beyond a continuation discussion and it needs to include opportunities for our FAS allies to really strengthen to an American standard. When we shortchange the FAS, that is an ultimate reflection of the United States' commitment to its allies, and really you are the only freely associated allies we have. It is an actual step above almost all of the other diplomatic relationships that we have throughout the globe. And so, if our freely associated allies are not a reflection of American excellence, then how can we go out as America and truly make the case that embodying American excellence is something that is going to be worthwhile? I think we need to really understand that and we need to make a commitment to that.

With that, Mr. Chairman, I have to put on the record certain things that I believe we need to consider to include in this implementation agreement in order for our allies to be able to have access to some of the most robust programs that this country has to offer.

First of all, Mr. Chairman, we need to make sure that we include the ability for our FAS allies to have access to capital the same way that U.S. territories are able to access that capital. Right now, a U.S. territory is able to go out into the bond market and is able to float a triple tax-exempt debt that they can use for development. Right now, our FAS allies are stuck in the international bond market, which has exorbitant interest rates compared to what you would be able to get for a triple tax-exempt bond in our domestic markets.

Being able to extend access to our domestic markets to our FAS allies would grant them the ability to finance dramatic infrastructure projects that could be life-altering for the people and for the economy of the FAS. They can build schools. They can build hospitals. They can build roads. They can expand their airports. They can grow and develop, so they are not dependent on grants and not even dependent on interest from a Trust Fund.

Second, Mr. Chairman, we need to look into making sure that our FAS citizens are able to access something that all of the other administered areas under the Department of the Interior are able to access, and that is Medicaid. If you live in a territory and you are administered by the Department of the Interior, your citizens are able to access Medicaid. If you are a Native American, your tribal government, you are still able to access Medicaid. FAS citizens are the only citizens that are under an administering relationship of the Department of the Interior that are not able to access Medicaid.

Accessing Medicaid will not just be the extension of a benefit to the Freely Associated States; it would actually help the host areas in terms of being able to take on the cost of the hosting. On Guam, we are not able to extend Medicaid to freely associated citizens. In Hawaii, they are not able to extend Medicaid to freely associated citizens. So, the cost of subsidizing the health care for these citizens is borne at a rate that we are not able to access as if they were full citizens of the United States.

So, when we have JEMCO and JEMFAC underinvesting in health care in the Freely Associated States, and we have their citizens moving to host areas in order to get that health care, they are coming in and they are being subsidized at the full cost of somebody who actually is not able to have this Medicaid. So, being able to extend that program will not only help the host areas, but if we can also extend that program into the FAS, perhaps even considering reprogramming grant funding that is sitting in JEMCO and sitting in JEMFAC, and having it be used for matching funds for Medicaid, that could actually not only help to fund the health care needs of the areas, but it would provide a base level of funding to be able to bring in new service providers and new investment, so we have less need for migration out for the purposes of health care.

Mr. Chairman, I wanted to put my friends on the record, particularly with JEMCO and JEMFAC, because I believe that that is a reflection of underutilization of existing resources. And I think that we really need to talk about why we are not using the resources that are already provided in order for us to be able to meet the needs of our allies in the Freely Associated States.

So, I will go ahead and start with you, Ambassador Susaia, if I may. Can you elaborate on the amount of funds that is sitting in JEMCO and what the FSM believes is not only the reason for that money sitting there, but the impact for not being able to access those grants?

Ambassador SUSAIA. Thank you, Chairman. Thank you, Congressman San Nicolas.

I heard the answer from Director Pula when you asked the same question to him. I know that we have challenges, too, in our country, FSM, in terms of utilizing the infrastructure funds, mainly the infrastructure funds, because of several issues. Like, in some of our States, the government does not have eminent domain to lands on which some of these projects are supposed to be built, like schools, dispensaries, and others. So, that is contributing to the delay.

But, on the other hand, the conditions and the restrictions that are placed by the Compact or the fiscal procedures agreement, the supplementary agreement to the Compact, is also contributing to the delay and the backlog of the use of these funds. For instance, the bonding requirements for projects, construction projects, is very prohibitive for companies, local companies, in the FSM to bid for these projects. So, we end up advertising for companies to come here from Guam or Honolulu or California, and the amount of these projects is not that huge in terms of these companies' profit. So, the delay is always finding companies to bid for these projects.

So, to me, I think those are the bottlenecks that we are facing in terms of implementing these infrastructure funds.

Mr. SABLAN. Ambassador, thank you.

If my colleagues would agree, we may have a second round of questions, but Guam's Congressman's time is up.

I would like to ask unanimous consent—there is four of us here; Dr. Gootnick is still in the room—does anybody have any objection to Dr. Gootnick joining the panel?

Do you have any objection, Dr. Gootnick, to coming in and joining the panel?

Miss GONZALEZ-COLON. He may regret it.

[Laughter.]

He may regret it, but——

Mr. SABLAN. You are more than welcome, but you do not have to. But you know how important you are here, Dr. Gootnick.

And so, thank you. Thank you.

Dr. Gootnick is seated as a participant in the panel, too.

And at this time, I recognize my friend and distinguished Resident Commissioner from Puerto Rico, Miss Gonzalez-Colon, for 5 minutes.

Miss GONZALEZ-COLON. Thank you, Mr. Chairman.

I would like to introduce for the record the statement of Ranking Member Michael McCaul from Foreign Affairs and——

Mr. SABLAN. Without objection.

Miss GONZALEZ-COLON. Thank you.

[The prepared statement of Mr. McCaul follows:]

Statement for the Record from Representative Michael T. McCaul
Sustaining U.S. Pacific Insular Relationships
September 26, 2019

Assistant Secretary Shriver, Deputy Assistant Secretary Oudkirk, and Directors Pula and Gootnick, welcome. This hearing could not be more timely – the United States is finally pivoting to the Pacific region, driven by the highest levels of our Administration. In May, President Trump held the first ever Oval Office meeting with the three Presidents of the Freely Associated States. Last month, Secretary Pompeo became the first ever U.S. Secretary of State to visit Micronesia. Secretary Bernhardt and other senior Administration officials have kept up an impressive tempo of high-level engagement.

This strong commitment to enhanced U.S. relations with the Pacific is driven by the eastward and aggressive spread of China's malign influence. We've worked with the regional countries since the Second World War to steward regional security and prosperity, and we will and must do more.

The small islands states of the Pacific are *large ocean nations*, with EEZs covering 7.7 million square miles – close to twice the size of the United States' landmass. The 14 sovereign states of the Pacific stand alongside us as equals in the United Nations, and they are neighbors to our own U.S. territories of American Samoa, Guam and the Commonwealth of the Northern Mariana Islands.

The United States has an especially close bond with the Freely Associated States of Palau, the Republic of the Marshall Islands, and the Federated States of Micronesia. We work in lockstep on the international stage. Their citizens live, work, and study in the United States. All three countries serve in the U.S. armed forces at per capita rates higher than most U.S. states, and their citizens have sacrificed their lives in combat in Iraq and Afghanistan. As President Trump and the Freely Associated States leaders said in May, together we "remember the sacrifices of our sons and daughters to guarantee a more secure world where freedom can thrive."

The Compacts of Free Association give the United States access to waters stretching from our West Coast, through Hawaii, and reaching the Philippines. In addition, the agreements give the United States the "right of strategic denial" to third countries. The Compacts also lets us keep military equipment in the region, including $2 billion worth of military infrastructure at Kwajalein Atoll that facilitates U.S. space and missile defense research.

This security partnership is all the more important as the region is threatened by an authoritarian regime that seeks to make the Pacific less free and less open. Under General Secretary Xi Jinping, China's Communist Party has cast away its foreign policy strategy of "hide your strength and bide your time" and embraced a more aggressive and provocative posture in the Indo-Pacific.

Throughout the region—and increasingly in the Pacific Islands— China is using predatory lending and debt traps to build infrastructure. It uses leverage and corruption to manipulate the domestic and foreign policies of sovereign states. It is no coincidence that the Solomon Islands and Kiribati ended their diplomatic recognition of Taiwan last week.

As we have for generations, the United States will remain engaged throughout the Pacific, pursuing relationships that respect these partners' sovereignty. And our democratic allies with deep roots in the region – Australia, New Zealand, Japan, Taiwan, France, and others – will remain committed as well. After their meeting in May, President Trump and the three Presidents of the Freely Associated States committed to "a free, open, and prosperous Indo-Pacific region," recognized "our unique, historic, and special relationships, and reaffirm[ed] our countries' commitments to the Compacts of Free Association."

The Compacts allow for special and unusually close partnerships. These are unique on the world's stage, and especially important in light of China's authoritarian expansion into the Pacific. I'm grateful to all the witnesses for appearing before the Committees to discuss U.S. interests in these partnerships, and I look forward to addressing the Compact renewals efficiently and responsively.

Miss GONZALEZ-COLON. And first of all, I want to say thank you and welcome to the Ambassadors. I know it is a long way coming here to DC and to manage all these issues.

I was reviewing the General Accounting Office report on the Fund, on the Trust Funds, and how those funds are distributed. One of the questions we did to the Department of the Interior was in terms of if there is any oversight. There are many recommendations regarding the policies that are going to be implemented, the fiscal changes that may be happening in those forms.

My question to you and to this panel will be in terms of, what changes specifically do you understand should be addressed to have more opportunity to use those funds? Because everybody is talking about making changes. What kind of changes specifically are you seeking, if any? Ambassador Zackios?

Ambassador ZACKIOS. Thank you, Congresswoman, for the question.

I think the first thing that we feel is important to consider post-2023 is the FPA. We feel that the distribution policy that currently is in the FPA that addresses use of resources from the Trust Fund needs to be revisited.

We see, and I understand from the earlier questions about management, FPA as it applies to grants and programs under the current agreement does not necessarily under the Compact apply to the Trust Funds. So, I think we need to address that issue.

I would end my answer here by saying that in talking about the issue of our Trust Fund, I think fiscal responsibility does not necessarily translate to micromanagement. I think these are independent countries, and I think we could work together to make sure that resources that are provided are put to good use without the burdens of micromanagement that will stifle a lot of the efforts that we are trying to achieve from these resources to help these countries.

Thank you.

Miss GONZALEZ-COLON. Ambassador.

Ambassador SUSAIA. Yes. I think the fact remains that the forecast of projected revenue was an issue that remained. It is insufficient. So, it is not so much to change the wording of the Compact for how to utilize the Trust Fund proceeds. It is really the fact that the return on the investment to date is not sufficient to fund, to replace the Sector Grants.

So, it is our hope that, if we can extend the term of the Compact and continue to receive the same level of funding, or whatever the abilities were to buildup the corpus, so that eventually we will have more budgetary, several lines to take care of the Sector Grants.

Miss GONZALEZ-COLON. Can you describe, both of you describe the practices you have been doing in your nations in order to have or increase budgetary and economic self-reliance during the last years, and how those two islands may be impacted if there is no negotiation of a new agreement? I mean, what services are going to be impacted directly immediately if you do not have a new Compact?

Ambassador ZACKIOS. In addition to most of this, Congressman, that would be mostly affected, health and education are key sectors

that will be really affected by these. So, the continuation of the extended provisions is very important, as I have cited, and the funding of the Trust Fund, so that it can address this.

To your point of what we have done, the Marshall Islands has invested its own resources into the Trust Fund, $30-plus million. When it started, when the Compact was initiated, we put $30 million, and then, that plus additional.

We have also gone out, as required by the Compact, to find subsequent contributors. So, the Marshall Islands had engaged Taiwan to become a subsequent contributor in the Trust Fund. We hope that, as is required also under the Compact, the U.S. can also help us find subsequent contributors instead of also putting more resources into the Trust Fund in the upcoming negotiation by extending the full term of the Compact extension period to address the shortfalls in the Trust Fund.

Miss GONZALEZ-COLON. Thank you. I know my time has expired. But, Ambassador, you can submit it for the record later on.

Mr. SABLAN. Yes, thank you, Congresswoman Gonzalez-Colon.

I have just been told that the Committee is going to need the room after this. So, we will not be able to have additional time for a second round.

Let me take my 5 minutes and ask—I will, Ambassadors, submit questions for the record. I would like for you to respond to those in writing.

But let me go this way. Ambassador Susaia and Ambassador Zackios, today we heard the importance of sustaining the relationship between the United States and the Freely Associated States. So, as we look ahead to 2023, how can our Committees or the U.S. Congress be more helpful? Or are there any further recommendations you would like us to keep in mind? A minute and a half. Ambassador Susaia?

Ambassador SUSAIA. Thank you, Chairman. If I may, I would like to take the first crack at the question, and my colleague here can help.

We are mindful of the role that the Congress plays in the review and approval of any agreement that will be negotiated between our negotiators and the U.S. Especially your Committees on Natural Resources and Foreign Affairs, the role that you play in terms of the jurisdiction of these types of agreements.

And so, I wish, on behalf of the FSM, to ask that the review and approval process, knowing how the legislative process in the Congress plays, that it be done on a timely and expeditious basis. As you alluded to in your earlier statements to the other panel, the experience that Palau has, we really do not want to go that route, down that same road.

Thank you, Chairman.

Mr. SABLAN. Any other thoughts and ideas you have, you could submit them in writing.

Ambassador SUSAIA. Yes.

Mr. SABLAN. Ambassador Zackios, please.

Ambassador ZACKIOS. I would like to associate myself with those comments by Ambassador Susaia, but also say that, in the case of the Marshal Islands, one thing that we would like the Committees to bear in mind, the joint Committees—and we want to thank the

House for passing the $20 million that will go into the Trust Fund. I think that is a very important start, as we discuss this issue. So, the commitment to pay the $20 million, I think it is a very important one to start the relationship.

And we were asked other questions about the need to continue this relationship. It is a very important relationship. We say that it started after World War II. I would, in fact, say that it started in the 1800's when the Boston missionaries actually visited the islands.

But the relationship and the extension of this relationship is very important, as we have heard also the pressure that is being put on these small island countries. China is very aggressively in the islands and is trying to influence, of course, these countries to change their relationship. The Marshall Islands is firm with its commitment to the U.S. In fact, President Heine said that we are open to providing additional space for strengthening up the partnership for defense purposes.

Mr. SABLAN. Thank you.

Ambassador ZACKIOS. So, the extension of this relationship, the speed at which we will conclude this relationship, the level of the people that will participate, and the amount of resources that is required is fully important for the Committees.

Mr. SABLAN. Thank you, Ambassador.

Ambassador Zackios, one of the 16 people who petitioned the United Nations Committee on the Rights of the Child this week for action on climate change was from the Marshall Islands. I do not know how we can talk about reviewing the Compact of Free Association with your nation without acknowledging that lots of the Marshalls is in danger of disappearing in the years ahead. And so, I have to think that this reality must be in the minds of many in the Marshalls and in your mind and may influence what you want to achieve in the Compact renewal and negotiations. I let you know that I acknowledge that and that I will continue to encourage my colleagues to keep that in mind also.

Dr. Gootnick, I brought you back for two reasons. And I have got 45 seconds. One, Dr. Gootnick, is that there is always this disagreement on how to allocate, how to determine, how to put value on the cost of Compact impact aid. I mean, of course, the territories and the State of Hawaii, for example, always have their own numbers. And everyone who comes in and is signed up as someone who identifies as Chuukese, as FAS, even if that person is fully employed and contributing to that State or territory, even if that person happens to be Chuukese, but is born in the State or territory, there has been no definition of how to identify, use a common denominator to estimate the cost of Compact impact, but it is huge. There is no question about it.

But I want to ask you, Dr. Gootnick, and if you cannot answer right now, then please submit for the record. GAO's 2018 report noted that the Federated State of Micronesia and the Republic of Marshall Islands Compact Trust Funds face risks and will not provide disbursements in some future years. So, has GAO concluded how much additional contributions are needed to reduce the risk of no disbursements?

Dr. GOOTNICK. So, I think the issue is more with respect to the structure of the Trust Fund. The Trust Fund, when it was set up, was very much set up in an effort to maintain the corpus of the Trust Fund. So, the net effect of that, of the Trust Fund rules, is that it constrains disbursement. And I do not know that I have a specific figure for you, and I do not know that one could develop——

Mr. SABLAN. You can provide it for us.

Dr. GOOTNICK. I will think about your question.

Mr. SABLAN. Thank you.

Dr. GOOTNICK. I am not sure that under the current rules one could come up with a specific answer to it.

Mr. SABLAN. Thank you, but give us your best answer. I know you will. You always do.

Dr. GOOTNICK. I would like to mention, since you brought me back, one quick point on Compact migration. The first thing is there is no question that the right to migrate is a lynchpin of the Compacts. So, it is there. There is also no question that Compact citizens migrate primarily for economic reasons, for work, to educate their children, and to take care of health care needs. At the same time, there is also no question that there are financial costs.

I have teams that have been out to the affected jurisdictins in the past and a team that is just recently returned, speaking to State officials, speaking to Compact migrants, and speaking to Micronesian officials. It is the case that the single most significant thing and prevalent thing that is cited is access to Medicaid; that prior to 1996, there was access to Medicaid. Subsequent to 1996 welfare reform, there have been a number of machinations in Hawaii, for example, but there is not access. And I think with respect to the Federal Government's role, while not taking a position one way or the other, that is the biggest issue that is out there.

Mr. SABLAN. Thank you, Dr. Gootnick.

I do not want to be accused that I am abusing this seat. But, at this time, I would like to recognize the distinguished gentlelady from American Samoa, Ms. Radewagen, for 5 minutes.

Mrs. RADEWAGEN. Thank you, Mr. Chairman. I will try to keep it short. I have several questions I wanted to ask, but in the interest of time I will submit them, and then, ask for the answers to be submitted later.

But there are many unaddressed issues relating to the U.S. testing of 67 nuclear bombs on formerly populated islands in the RMI. And this question is for Ambassador Zackios. Most recently, as you noted in your testimony, there is great concern about the leakage of radioactive waste from the U.S. nuclear tests buried at the Runit Dome on Enewetak. The House-passed National Defense Authorization Act for Fiscal Year requires a study of Runit, and I want to say that I am greatly concerned about the current situation on Enewetak. Are there other lingering issues from the U.S. nuclear legacy that should be kept in mind in a Compact extension?

Ambassador ZACKIOS. Thank you, Congresswoman.

In addition to what I stated in my testimony about the Runit Dome and the conveyance of gratitude for the efforts that are currently undertaken, yes, there are issues that are unresolved from the nuclear testing program under the Section 177 agreement. Of

course, as we understand, that agreement is an espousal agreement, but it also provides for a Changed Circumstance Petition. The Marshall Islands submitted a Changed Circumstance Petition through Congress in the year 2000, and that petition to address this lingering issues of shortfalls, to address cancers, land remediation, and other things relative to the testing program has not been fully addressed.

So, I think it is also important to look at the changed circumstance and other issues that are currently before the Congress, including what is already before the Congress with regards to Runit Dome.

Mrs. RADEWAGEN. Thank you, Ambassador.

So, I guess I will put a second question in there. After all, I am entitled to 5 minutes.

A recent report by the RAND Corporation noted that China is likely to seek ways to challenge American dominance with its Pacific Island allies by floating economic incentives to the FAS in exchange for loosened ties to Washington. RAND further concluded that, quote, "Going forward, the United States should demonstrate their commitment to the region by maintaining appropriate levels of funding to the FAS and strengthening engagement with the FAS more broadly. Failure to do so would be a self-inflicted wound that could come at the expense of the foreign policy and defense interests of the United States."

So, Ambassador Zackios, please tell us how China is developing influence in the RMI and what more can the United States do to demonstrate its commitment to the region?

Ambassador ZACKIOS. Thank you, Congresswoman.

With respect to that question, it is a very important question. First, I would say that China is developing its influence in the islands. If we can look at it actively, that is currently taking place between the U.S. and China in the Marshall Islands: $2.2 billion of trade was done between China compared to $311 million of trade with the Marshall Islands. Additionally, telecommunication, Huawei is very involved in the islands through their telecommunications system. And there is so much personal "pursue action" by China. It is courting our leaders to China, taking them to Beijing.

So, the importance, as you have rightly stated, about putting resources there is very important, sufficient resources to address this relationship. We talked about discouraging this, and we talked about what other opportunities we have to look at in preparing yourself. We have the ship registry, and it was said in testimony earlier that China is penalizing our vessels that fly the RMI flag, as you are fully aware. We are the second largest flag in the world. And they are paying heavier taxes because of our relationship with the United States. So, those are issues that China is doing in the islands.

As I said in my statement, they were trying to build a project and proposal on Rongelap Atoll, which is very proximate to Kwajalein, 1,000 houses, and that created a place almost similar to Hong Kong that would at autonomous from the Republic of the Marshall Islands. In fact, their last attempt was to move a motion of no confidence by pressuring our leaders to move a motion of no confidence

in our current government because of this pressure to make the change.

Mrs. RADEWAGEN. Thank you, Your Excellencies.

Thank you, Mr. Chairman.

Mr. SABLAN. Thank you. Thank you very much.

Without objection, all members may have 5 days to submit questions, statements, and extraneous materials for the record, subject to the length limitations in the rules.

Having no further business, this hearing—oh, yes, of course, thank you. Thank you very much.

I am sorry, I have a Virgin Islander here who is reminding me. [Laughter.]

Thank you very much.

I will come back and talk to you, Dr. Gootnick. Thank you always, sir. We will continue to need your guidance, and particularly on this one issue that is never going to go away, how to find—which Interior should do—some kind of methodology to determine the cost, the value of Compact impact to several jurisdictions that are actually paying for the cost of migration now.

But thank you, everyone.

And this hearing is adjourned.

[Whereupon, at 12:45 p.m., the Committees were adjourned.]

APPENDIX

JOINT FULL COMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6128

Eliot L. Engel (D-NY), Chairman

COMMITTEE ON NATURAL RESOURCES

Raúl M. Grijalva (D-AZ), Chairman

September 26, 2019

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend an OPEN joint hearing of the Committee on Foreign Affairs and the Committee on Natural Resources to be held in Room 2172 of the Rayburn House Office Building (and available live on the Committee website at https://foreignaffairs.house.gov/):

DATE: Thursday, September 26, 2019

TIME: 10:00 a.m.

SUBJECT: Sustaining U.S. Pacific Insular Relationships

WITNESSES:

Panel I
The Honorable Randall G. Schriver
Assistant Secretary of Defense for Indo-Pacific Security Affairs
U.S. Department of Defense

Ms. Sandra Oudkirk
Deputy Assistant Secretary for Australia, New Zealand, and the Pacific Islands
Bureau of East Asian and Pacific Affairs
U.S. Department of State

Mr. Nikolao Pula
Director
Office of Insular Affairs
U.S. Department of the Interior

David Gootnick, Ph.D.
Director of International Affairs and Trade
U.S. Government Accountability Office

Panel II
His Excellency Gerald M. Zackios
Ambassador to the United States
Republic of the Marshall Islands

His Excellency Akillino Susaia
Ambassador to the United States
Federated States of Micronesia

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF FULL COMMITTEE HEARING

Day *Thursday* Date *09/26/2019* Room *2172 RHOB*

Starting Time *10:00 a.m.* Ending Time *12:45 p.m.*

Recesses [*0*] (____to ____) (____to ____) (____to ____) (____to ____) (____to ____) (____to ____)

Presiding Member(s)
Rep. Brad Sherman, Rep. Gregorio Sablan

Check all of the following that apply:

Open Session [✓]
Executive (closed) Session [ ]
Televised [✓]
Electronically Recorded (taped) [✓]
Stenographic Record [✓]

TITLE OF HEARING:
Sustaining U.S. Pacific Insular Relationships

COMMITTEE MEMBERS PRESENT:
See attached.

NON-COMMITTEE MEMBERS PRESENT:
Members of the Committee on Natural Resources

HEARING WITNESSES: Same as meeting notice attached? Yes [✓] **No** [ ]
(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*
SFR - McCaul, Ambassador Hersey Kyota

QFR - Engel, Titus Omar, Sablan, Case, San Nicolas

TIME SCHEDULED TO RECONVENE _____
or
TIME ADJOURNED *12:45 p.m.*

Evan Busey
Full Committee Hearing Coordinator

HOUSE COMMITTEE ON FOREIGN AFFAIRS

FULL COMMITTEE ATTENDANCE

PRESENT	*MEMBER*
X	Eliot L. Engel, NY
X	Brad Sherman, CA
	Gregory W. Meeks, NY
X	Albio Sires, NJ
X	Gerald E. Connolly, VA
	Theodore E. Deutch, FL
	Karen Bass, CA
	William Keating, MA
	David Cicilline, RI
X	Ami Bera, CA
	Joaquin Castro, TX
X	Dina Titus, NV
	Adriano Espaillat, NY
X	Ted Lieu, CA
	Susan Wild, PA
X	Dean Phillips, MN
	Ilhan Omar, MN
	Colin Allred, TX
	Andy Levin, MI
X	Abigail Spanberger, VA
X	Chrissy Houlahan, PA
	Tom Malinowski, NJ
X	David Trone, MD
X	Jim Costa, CA
	Juan Vargas, CA
	Vicente Gonzalez, TX

PRESENT	*MEMBER*
	Michael T. McCaul, TX
X	Christopher H. Smith, NJ
X	Steve Chabot, OH
	Joe Wilson, SC
X	Scott Perry, PA
X	Ted Yoho, FL
	Adam Kinzinger, IL
X	Lee Zeldin, NY
	James Sensenbrenner, Jr., WI
X	Ann Wagner, MO
X	Brian J. Mast, FL
	Francis Rooney, FL
	Brian K. Fitzpatrick, PA
	John Curtis, UT
X	Ken Buck, CO
X	Ron Wright, TX
X	Guy Reschenthaler, PA
X	Tim Burchett, TN
X	Greg Pence, IN
	Steve Watkins, KS
	Michael Guest, MS

116th Committee on Natural Resources
ATTENDANCE

DATE: 9/26/19 CONVENED: 10:02 am ADJOURNED: 12:45pm

Hearing / Markup on: Sustaining Insular Relationships

DEM. MEMBERS (26)		PRESENT	ABSENT
Mr. Grijalva, AZ (*Chair*)	1	✓	
Mrs. Napolitano, CA	2		✓
Mr. Costa, CA	3	✓	
Mr. Sablan, CNMI, *Vice Chair, Insular Affairs*	4	✓	
Mr. Huffman, CA	5		✓
Mr. Lowenthal, CA	6		✓
Mr. Gallego, AZ	7	✓	
Mr. Cox, CA	8	✓	
Mr. Neguse, CO	9		✓
Mr. Levin, CA	10		✓
Ms. Haaland, NM, *Vice Chair*	11		✓
Mr. Van Drew, NJ	12		✓
Mr. Cunningham, SC	13	✓	
Ms. Velazquez, NY	14		✓
Ms. DeGette, CO	15		✓
Mr. Clay, MS	16		✓
Ms. Dingell, MI	17		✓
Mr. Brown, MD	18		✓
Mr. McEachin, VA	19		✓
Mr. Soto, FL	20		✓
Mr. Case, HI	21	✓	
Mr. Horsford, NV	22		✓
Mr. San Nicolas, GU	23	✓	
Mr. Cartwright, PA	24		✓
Mr. Tonko, NY	25		✓
	26		✓
Mr. Bishop, UT (Ranking)	1		✓
Mr. Young, AK	2		✓
Mr. Gohmert, TX	3	✓	
Mr. Lamborn, CO	4	✓	
Mr. Wittman, VA	5		✓
Mr. McClintock, CA	6		✓
Mr. Gosar, AZ	7		✓
Mr. Cook, CA	8		✓
Mr. Westerman, AR	9		✓
Mr. Graves, LA	10		✓
Mr. Hice, GA	11		✓
Mrs. Radewagen, AS	12	✓	
Mr. Webster, FL	13		✓
Ms. Cheney, WY	14		✓
Mr. Johnson, LA	15		✓
Ms. González-Colón, PR	16	✓	
Mr. Curtis, UT	17		✓
Mr. Hern, OK	18	✓	
Mr. Fulcher, ID	19		✓

9/25/2019 4:19 PM

STATEMENT SUBMITTED FOR THE RECORD

STATEMENT OF
MR. HERSEY KYOTA,
AMBASSADOR OF THE REPUBLIC OF PALAU
REGARDING THE TOPIC OF
"SUSTAINING U.S. PACIFIC INSULAR RELATIONSHIPS"
SEPTEMBER 26, 2019

The Government of the Republic of Palau would like to express its appreciation to Chairman Raúl Grijalva of the House Committee on Natural Resources, and Chairman Eliot L. Engel of the House Committee on Foreign Affairs, for soliciting its input on "sustaining U.S. Pacific insular relationships." As the Chairmen are undoubtedly aware, this topic is exceptionally timely.

As you meet, the Republic of Palau is preparing to celebrate the 25th Anniversary of its sovereign nationhood, which came with the ratification of the Compact of Free Association, as well as the 75th Anniversary of its friendship with the United States of America. It has been 75 years of development and modernization, and we are incredibly proud of what this friendship has produced. The brave Marines who landed on our shores in 1944 would not believe their eyes if they could see Palau today.

Under the Trust Territory of the Pacific Islands Palau was able to recover from the trauma of its wartime experience, and to lay the foundations of modern, independent self-governance. After generations of colonial occupation, this was no easy task. But with the steadfast and generous support of the United States, sixteen states and many hundreds of islands came together as one nation. Democracy flourished in Palau, and in 1981 we ratified a Constitution after the American example, establishing a robust, 3-branch republican system with a strong emphasis on individual freedoms.

Since achieving independence in 1994, Palau has continued to flourish. Today our Republic is stable, democratic, fiscally responsible, and an active participant in the international community. We have become an example of international engagement in the Pacific region, and a leading global voice on issues of cultural and environmental preservation. The United States has been our strongest friend as we have worked toward these successes.

But with these proud achievements in mind, we know we still have a ways to go. Like so many of our Pacific neighbors, we are scrambling to adjust to international and transnational threats including drug smuggling, the illegal exploitation of our precious resources, and the increasingly profound impacts of climate change. Small island states are among the most vulnerable to climate disruptions, which are increasing in both regularity and severity. Our critical infrastructure, including that in key sectors like health care, education, and transportation, is

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www.palauembassy.com

under-developed and increasingly vulnerable. Our typical worker earns $7,000 USD per year, and our manageable national debt burden has come at the cost of capital spending.

We struggle to address these issues alone. Palau's tourism industry, developed over generations of careful environmental management and decades of targeted planning, is the envy of many Pacific nations. But even here, we struggle to turn fluctuating tourism-driven revenue streams into a consistent, reliable national budget.

Increasingly, our Pacific neighbors find themselves between the "rock" of underdevelopment and the "hard place" of malign foreign influence. The predatory lending practices of certain foreign governments have recently garnered great attention from the international community. But here in the Pacific, the realities of inadequate infrastructure, substandard healthcare and education, and stagnant growth make those practices possible. Palau has felt the pain, in recent years, of foreign governmental interference in our tourism industry. We can tell you from first-hand experience that no Pacific state is strong enough, or developed enough, to withstand that kind of pressure without help.

Together with the Republic of the Marshall Islands and the Federated States of Micronesia, we have enjoyed a key advantage over other island states. And that advantage is our close, committed Compact partnership with the United States of America.

The Compact of Free Association provides key support to healthcare, education, banking, fisheries management, security, aviation safety, and communications. It helps stabilize our national budget, with direct assistance and the Compact Trust Fund to help insulate against swings in revenue from sources like tourism. The Compact has been, and continues to be, a key element in our success story.

As a result, Palau is a model for the peaceful, responsible, rules-based international order. As the Asia-Pacific region becomes increasingly complex, the steady relationship between Palau and its Compact partners becomes even more striking. Together, we form a great archipelago of peaceful democratic stability, in an ever-more turbulent region.

Our Compact of Free Association is a 50 year partnership, with key provisions set to be revisited at the 15, 30, and 40 year marks. These key provisions include partnerships in communication and aviation safety, as well as those for financial and infrastructure assistance and the development of the Compact Trust Fund. While these are areas in which we have made strides, they are also areas with room for continued improvement.

The Compact is an ongoing relationship, and a remarkably successful one. As we celebrate its halfway point together, we should take note of its current strength. Palauans saw that strength at our 25th Anniversary Parade, which included contingents from the United States Marine Corps, United States Army, and our own local Veteran's Association of Palau. We see it in the ongoing

development of U.S. radar sites in Ngaraard and Angaur States. We see it in the increasing presence of American troops conducting exercises on Babeldaob Island, and in the increasing partnerships between our law enforcement agencies in their work to combat transnational crime. We saw it in the rapid-response of U.S. agencies to remove two large torpedoes from our lagoon over the summer, and in the American commitment to continuing de-mining and UXO clearance work. Such engagements build up ties of culture, and true friendship, between the people of our nations.

The work of the Compact is certainly not done, and the next 25 years will require sustained, responsive engagement from both sides. But the Compact partnership is a partnership worth continuing, and a critical ingredient to the maintenance of a free and open Indo-Pacific region.

RESPONSES TO QUESTIONS SUBMITTED FOR THE RECORD

Questions for the Record from Chairman Eliot L. Engel
Sustaining U.S. Pacific Insular Relationships
September 26, 2019

Question:

"Right of Strategic Denial:

The right of strategic denial, which was valuable in preventing Soviet military and diplomatic expansion during the Cold War, is still relevant in the context of great power competition today. To what extent can the United States invoke the right of strategic denial outlined under the Compacts to preclude state-owned enterprises or private firms with linkages to foreign militaries from investments in the FAS?"

Answer:

Assistant Secretary Shriver did not submit a response in time for printing.

Question:

"Independence Movements within the FAS:

The island of Chuuk is preparing for a vote on independence from the Federated States of Micronesia next year. U.S. Ambassador to FSM Robert Riley has publicly stated that the United States would not negotiate a Compact of Free Association with Chuuk if it declared independence. To what extent do independence movements within the Compact states affect our bilateral relations with the FSM, RMI, and Palau? How would the U.S. engage with Chuuk or other regions if they declare independence?"

Answer:

Ms. Oudkirk: The United States is deeply committed to the peoples of the Federated States of Micronesia, the Marshall Islands, and Palau. The United States is not in the position to guarantee that the same rights and obligations that flow between the United States and the Federated States of Micronesia under the Amended Compact to the Federated States of Micronesia would extend to an independent Chuuk, to include any hortatory Compact assistance. There are a number of legal and policy questions that would need further consideration.

Question:

"Palau Compact Review Agreement:

In 2010, the United States and Palau concluded a Compact Review Agreement to extend economic assistance for another 15 years totaling $215 million. The renewal agreement was not fully funded by Congress until FY2018, raising concerns about U.S. commitment to the Freely Associated States. To what extent has that delay in payment to Palau affected our reputation as a reliable partner for these countries?"

Answer:

Ms. Oudkirk: We have spent approximately $3.5 billion over the past 25 years to show the support of the American people for the Freely Associated States. Our budget processes in extending this support are identical to any other expenditure of funds. Our partners and allies are aware of our constitutional processes and separation of powers, even as they benefit from this largesse.

Question:

"What would be the impact on our relationship if economic assistance is pledged but once again delayed by Congress?"

Answer:

Ms. Oudkirk: Our commitment to the Freely Associated States is steadfast. Our partners and allies are aware of our constitutional processes and separation of powers which ensure transparency and protect the integrity of our budgetary processes.

Question:

"Renewing the Compacts of Free Association:

The Freely Associated States remain largely underdeveloped, and economic development will be a priority for them when renewing the Compacts. The average household income is $6,840 in the Marshall Islands; in Micronesia, 40% of the population lives below the poverty line and 25% don't have access to electricity.

If economic assistance for these countries is extended after 2023, how should we change the nature of our support? Should self-sufficiency still be a goal of Compact assistance? How should we coordinate with other partners like Japan, Australia, Taiwan, and New Zealand to financially support the Freely Associated States?"

Answer:

Ms. Oudkirk: Increased self-sufficiency and budgetary self-reliance is a goal for U.S. Compact assistance. We actively work with like-minded partners through our embassies and regular diplomatic meetings to improve donor coordination in the Freely Associated States.

Question:

"Which USG offices and officials will be taking the lead on negotiating renewed Compacts with the Freely Associated States? What will the timetable and process for this negotiation look like?"

Answer:

Ms. Oudkirk: The Department of State will lead these negotiations. We are coordinating closely across the interagency. These agreements are complex and require a thoughtful approach with extensive consultations to make sure that we get them right. An interagency group will travel to each of the Freely Associated States in October to understand in detail the specific needs of each of the three countries. We welcome the opportunity to work with Congress as we seek to secure long-term U.S. strategic interests in this vital region.

Question:

"Economic Coercion:

The Marshall Islands is home to the second largest ship registry in the world, which provides millions of dollars in annual government revenue. Beijing charges higher import tariffs at Chinese ports to Marshallese-flagged commercial shipping and has offered to lower these tariffs in exchange for the Marshall Islands switching diplomatic recognition away from Taiwan. What steps is the administration taking to safeguard the Freely Associated States from this type of economic coercion by Beijing?"

Answer:

Ms. Oudkirk: We want to ensure that the Pacific islands remain free and secure. The United States will continue to support security, economic development, and prosperity in the region, and we will position ourselves to remain the partner of choice. We work with the governments of the Pacific islands to improve education and healthcare and invest in infrastructure that is key to economic development, from water and sanitation to schools and medical clinics. We welcome contributions by China to regional development, so long as they adhere to high standards in areas such as transparency, rule of law, and sustainable financing, but we reject any effort to coerce nations to make choices that are rightfully the sole domain of sovereign states and their people.

Question:

"Has the Department of State identified other current diplomatic partners who are at risk of ending ties with Taiwan? What plans does the Department of State have for engaging these countries to prevent further destabilizing divergence from the cross-Strait status quo?"

Answer:

Ms. Oudkirk: The State Department is taking actions to demonstrate its continued support for Taiwan's participation in the international community – a reflection of the strong belief that it is a democratic success story, a reliable partner, and a force for good in the world. As we highlight Taiwan's strengths, we also point out Beijing's destabilizing and coercive actions, which attempt to alter the status quo and undermine the framework in the region that has enabled peace and development for decades. We will work with Taiwan and other nations to ensure Taiwan's friends and partners can resist such coercion.

Question:

"Are the travel restrictions imposed on Cambodian officials in 2017 and 2018 still active? Has U.S. policy on sanctioning officials responsible for undermining democracy changed?"

Answer:

Ms. Oudkirk: In 2017, the Department imposed U.S. visa restrictions on certain Cambodian officials believed to be responsible for, or complicit in, undermining democracy in Cambodia. The policy has not changed and those restrictions remain in place.

Generally, individuals who are subject to such U.S. visa restrictions may be eligible to travel to the United States under certain limited circumstances, if it is determined that their particular entry or proposed activities would not have potentially serious adverse foreign policy consequence for, or pose a national security threat to, the United States.

Question:

"Renewing the Compacts of Free Association:

The Freely Associated States remain largely underdeveloped, and economic development will be a priority for them when renewing the Compacts. The average household income is $6,840 in the Marshall Islands; in Micronesia, 40% of the population lives below the poverty line and 25% don't have access to electricity.

If economic assistance for these countries is extended after 2023, how should we change the nature of our support? Should self-sufficiency still be a goal of Compact assistance? How should we coordinate with other partners like Japan, Australia, Taiwan, and New Zealand to financially support the Freely Associated States?

Which USG offices and officials will be taking the lead on negotiating renewed Compacts with the Freely Associated States? What will the timetable and process for this negotiation look like?"

Answer:

Mr. Pula did not submit a response in time for printing.

Question:

"Compact Trust Fund Management:

The performance of the private equity portfolios for the Federated States of Micronesia and Marshall Islands' Compact Trust Funds have both significantly undershot their benchmarks. These funds were supposed to obviate the need for additional taxpayer funding for these compacts. The Marshall Islands fund's private equity portfolio has returned 3.61% annually since inception, against a benchmark of 11.6%, while the Federated States of Micronesia fund's private equity portfolio has returned 4.8% since inception, against a benchmark of 13.4%. Both are "fund of funds" investments managed by Mercer Private Investment Partners.

How do these Committees select investment advisors and money managers? How we can improve performance of the Trust Funds, given these funds' impact on the long-term wellbeing of FAS citizens? "

Answer:

Mr. Pula did not submit a response in time for printing.

Dr. Gootnick: The private equity portfolios of both the Republic of the Marshall Islands (RMI) and Federated States of Micronesia (FSM) compact trust funds have underperformed relative to their respective benchmarks, but each fund overall has underperformed to a lesser degree relative to the overall fund benchmark.

According to the compact trust funds' administrator, the compact trust funds have included a private equity portfolio to ensure greater diversification in the fund and thus limit the funds' reliance on stock market returns.

- RMI compact trust fund. The private equity portfolio of the RMI compact trust fund represented approximately 8 percent of the total fund as of the end of fiscal year 2018. Overall, including its other portfolios, the RMI compact trust fund had a 6.2 percent average annual rate of return, net of fees, as of the end of fiscal year 2018—0.1

percentage points below its benchmark of 6.3 percent—since its inception in October 2005.

- FSM compact trust fund. The private equity portfolio of the FSM compact trust fund represented approximately 6 percent of the total fund as of the end of fiscal year 2018. Overall, including its other portfolios, the FSM compact trust fund had a 5.7 percent average annual rate of return, net of fees, as of the end of fiscal year 2018—0.4 percentage points below its benchmark of 6.1 percent—since its inception in September 2004.

According to the compact trust funds' administrator, the benchmarks used in the annual report compare the funds' performance with the performance of a class of peers, but they do not compare the performances of the funds' private equity portfolios with a cohort of private equity portfolios that began at the same time. Benchmarking the compact trust funds' private equity portfolio to private equity portfolios that began earlier may not offer a precise comparison.

Each trust fund committee has the authority to appoint one or more investment advisers, and the committees can make changes. In fiscal year 2016, the RMI committee issued a request for proposals for an investment adviser. The committee selected Vanguard Investment Advisory Services to replace Mercer Investment Management, Inc., (Mercer) during fiscal year 2017. Mercer has served as investment adviser for the FSM compact trust fund committee since 2005. Mercer is currently retained by the FSM committee under an agreement signed in 2010, after a request for proposals issued in fiscal year 2009.

The trust fund committees may, with notice, terminate the contracts with their investment advisers and have adopted plans to periodically re-evaluate the advisers' performance. According to the funds' administrator, neither contract with the trust fund adviser has an expiration date; however, each contract may be terminated by either party with 30 days' notice. While the contracts do not expire, according to the trust fund administrator, each trust fund committee has adopted a resolution to reassess the contract with the trust fund adviser within 5 years from December 2016. The trust fund committees plan to seek an external independent evaluation of the funds and their management before the 5-year interval ends in 2021. According to the trust funds' administrator, on the basis of that evaluation, the committees can elect to continue with their current adviser, renegotiate the contract, or issue a public request for proposals for a new adviser.

Questions for the Record from Representative Dina Titus
Sustaining U.S. Pacific Insular Relationships
September 26, 2019

Question:

"How could the next Compact negotiations further address the remediation and health care needs of areas and populations affected by the lingering repercussions of nuclear testing in the Marshall Islands?"

Answer:

Ms. Oudkirk: The United States recognizes the effects of its nuclear testing and has accepted and acted on its responsibility to the people of Republic of the Marshall Islands (RMI). The 1986 Compact of Free Association provided for a separate agreement under Section 177 that constitutes a "full settlement of all claims, past, present and future," of the Government, citizens, and nationals of the RMI resulting from the U.S. nuclear testing program. Under this Section 177 Agreement, the United States provided $150 million to the RMI to establish a Nuclear Claims Fund and an independent Nuclear Claims Tribunal to adjudicate all claims. The United States has provided a total of more than $600 million to the affected communities for direct financial settlement of nuclear claims, resettlement funds, rehabilitation of affected atolls, and radiation-related health care costs. Adjusting for inflation, this amount equals over $1 billion in current dollars.

Question:

"Do you believe that further compensation should be provided?"

Answer:

Ms. Oudkirk: The 1986 Compact of Free Association between the United States and the Republic of the Marshall Islands (RMI), and the agreement entered into pursuant to Section 177 of the 1986 Compact constituted a full and final settlement of all claims pertaining to the U.S. nuclear testing program. Article IX of the Section 177 Agreement, entitled "Changed Circumstances," is the only provision for the Government of the RMI to request the U.S. Congress to consider the provision of additional compensation for injuries resulting from the U.S. nuclear testing program in the circumstances specified. Article IX explicitly states that it is understood that it does not commit the Congress to authorize and appropriate funds. In 2000, the RMI sought more than $3 billion in additional compensation in a "changed circumstances" request to Congress. In 2005, a U.S. interagency working group, convened at the behest of Congress, determined the request did not meet the criteria of "changed circumstances" as required by Article IX of the Section 177 Agreement. The Administration's position on this matter remains unchanged.

Question:

"Wouldn't this help to strengthen the U.S.-Marshall Islands relationship?"

Answer:

Ms. Oudkirk: The United States and the Marshall Islands enjoy a strong bilateral relationship that extends well beyond one single issue. We continue to work closely together bilaterally and multilaterally, such as through the United Nations, on diverse issues that support a free and open Indo-Pacific.

Question:

"How could the next Compact negotiations further address the remediation and health care needs of areas and populations affected by the lingering repercussions of nuclear testing in the Marshall Islands? Do you believe that further compensation should be provided? Wouldn't this help to strengthen the U.S.-Marshall Islands relationship?"

Answer:

Assistant Secretary Shriver did not submit a response in time for printing.

Mr. Pula did not submit a response in time for printing.

Dr. Gootnick: From 1946 to 1958, the United States used Bikini and Enewetak atolls in the Marshall Islands as nuclear test sites. Bikini and Enewetak residents had been evacuated prior to the testing program. In 1954, a shift in wind conditions spread radioactive fallout to two inhabited atolls: Rongelap and Utrik.

In 1986, the United States and the Republic of the Marshall Islands (RMI) entered into a Compact of Free Association, which recognized the RMI as a sovereign nation. Section 177 of the compact established a $150 million Nuclear Claims Trust Fund to compensate the Marshall Islands' people for medical and property damages caused by the U.S. nuclear testing program. The $150 million to establish the trust fund was provided to the RMI on October 30, 1986, soon after the compact took effect.[1] The compact provided the $150 million for nuclear test–related compensation as part what Congress intended to be a "full and final settlement" of claims.

Under Article IX of the Section 177 Agreement, a separate agreement entered into effect on the same day as the compact and incorporated by reference into the compact, additional compensation could be requested by the RMI if loss or damages to persons or property arose or were discovered that could not reasonably have been identified as of the effective date of the agreement and if such injuries rendered the provisions of the compact "manifestly inadequate." In September 2000, the Marshall Islands government submitted to the U.S. Congress a Changed Circumstances Petition requesting additional compensation pursuant to the compact. In November 2004, the U.S. State Department completed a report on the petition and concluded that none of the elements in the petition qualified as changed circumstances that would support

[1] See GAO, Marshall Islands: Status of the Nuclear Claims Trust Fund, GAO/NSIAD-92-229 (Washington, D.C.: Sept. 25, 1992).

an additional funding request under Article IX of the Section 177 Agreement. The people of Bikini and Enewetak atolls filed a lawsuit seeking additional compensation, without success.

My written testimony statement includes an appendix listing U.S. grants and programs in the RMI and their status after 2023.[2] The following tables show the status of programs we identified, most of which will continue, that relate to nuclear-affected areas.

Table 1: Status under Current Law after Fiscal Year 2023 of Programs and Grants Related to Nuclear-Affected Atolls Provided in the U.S.–RMI Amended Compact's Implementing Legislation, Pub. L. No. 108-188

Country assistance	U.S. agency	Program or grant	Description	Status under current law as of end of fiscal year 2023[a]
Republic of the Marshall Islands (RMI)	Department of Energy	Radiological Health Care Program	Medical care and logistical support thereto for the remaining members of the population exposed to radiation by U.S. nuclear testing.	Program will continue.
RMI	Department of Energy	Runit Island Environment Monitoring	Monitoring of the containment structure and groundwater of Runit island in the nuclear-affected Enewetak atoll at least every 4 years.	Program will continue.
RMI	Department of the Interior	Planting and Agricultural Maintenance Program on Enewetak	$1.3 million, partially adjusted for inflation, for each fiscal year from 2004 through 2023 to restore vegetation on Enewetak, a nuclear-affected atoll.	Program will end unless Congress authorizes and appropriates additional funds.
RMI	Department of the Interior	Four Atoll Health Care	Health care for nuclear-affected areas.	Program will continue.

Source: GAO analysis of Pub. L. No. 108-188, the U.S. Code, and discussions with agency officials. |

GAO-19-722T

[a]Status shown is based on current law as of May 2018. The availability of grants and programs in the future is subject to the availability of appropriations provided for that purpose.

[2] GAO, Compacts of Free Association: Trust Funds for Micronesia and the Marshall Islands Are Not Likely to Fully Replace Expiring U.S. Annual Grant Assistance, GAO-19-722T (Washington, D.C.: Sept. 26, 2019).

Table 2: Status under Current Law after Fiscal Year 2023 of RMI Eligibility for Other U.S. Grants and Programs Related to Nuclear-Affected Atolls That Have Been Made Available

Country assistance	U.S. agency	Program or grant	Description	Status under current law as of end of fiscal year 2023[a]
Republic of the Marshall Islands (RMI)	Department of Energy	Environmental Monitoring Program	Periodic monitoring of the four nuclear-affected atolls—Bikini, Enewetak, Rongelap and Utrik.	Program will continue.

Source: GAO analysis of Pub. L. No. 108-188, the U.S. Code, and discussions with agency officials. |

GAO-19-722T

[a]Status shown is based on current law as of May 2018. The availability of grants and programs in the future is subject to the availability of appropriations provided for that purpose.

Question:

"What concerns do your people have about the legacy nuclear testing issues? What are your concerns about the condition and future of Runit Dome? How secure is the radioactive waste that the U.S. military buried there?"

Answer:

Dr. Gootnick did not submit a response in time for printing.

Question:

"What concerns do your people have about the legacy nuclear testing issues?"

Answer:

Ambassador Zackios: The overriding concern is health: There have been tragically horrific effects from the 67 nuclear bombs that the US tested in the Marshall Islands while our nation was administered by the U.S. as a strategic trust for the United Nations. These include birth defects as serious as babies born without spines.

Today, the primary concern is cancer. There have been hundreds of cases. In 2004, the U.S. National Cancer Institute reported that more should be expected. An April 2010 report submitted by the U.S Department of Health and Human Services entitled "Reducing Environmental Cancer Risk, What We Can Do Now" states that the U.S. Government had not met its obligations in addressing the healthcare needs of the Marshallese people resulting from the nuclear testing program. Those obligations remain unmet.

Relatedly, some areas of our nation remain unlivable because of radiation contamination. Further, indigenous food sources remain unsafe, posing a further threat to health.

Based on what has developed since the Compact was negotiated, including the leakage of radioactive waste out from under the containment facility that was built on Runit Island within Enewetak Atoll without the originally planned concrete base, there is a strong case for additional compensation, as is provided for under Article IX of Section 177 of the Compact.

The agreement was a full and final settlement of what was known at the time of the negotiations of the Compact, but it specifically provided for additional compensation for further damages if identified afterwards under its "changed circumstances" provision. The Government of the Republic of the Marshall Islands first submitted a Changed Circumstances Petition to the U.S. Congress in 2000. It has not been acted upon.

Additionally, there is a need to discuss the fulfillment and payment of awards made by the Nuclear Claims Tribunal (NCT) provided for in Section 177 of the original Compact of Free Association in 1986. The NCT was established to adjudicate all claims of personal and property damages resulting from the nuclear testing program. It was later determined, however, that the funding was far from adequate: While the Tribunal was able to pay a little over 90% of personal awards for medical conditions, it was only able to pay out $3.9 million of the $2.2 billion in approved personal injury and property damage awards.

Question:

"What are your concerns about the condition and future of Runit Dome? How secure is the radioactive waste that the U.S. military buried there?"

Answer:

Ambassador Zackios: The residents of Enewetak atoll, which was resettled starting in 1980, face the special challenge of living on islands that were contaminated by 43 nuclear tests. The residents of the atoll currently living in a small portion of the atoll that the U.S. government declared safe for habitation after a three-year cleanup. Most of the atoll, including the northern area that is the ancestral home of many of the residents, was never cleaned up. We are concerned about the health, safety and environmental risks they face by living in the supposedly clean portion of an otherwise contaminated atoll - and by living in the shadow of a radioactive waste dump that was placed in the atoll.

The dump was created when more than 85,000 cubic meters of radioactive waste was deposited into an unlined nuclear test crater on Runit Island and topped with a concrete dome. It is not secure. There are cracks in the dome, and radioactive substances have been leaking into the groundwater beneath the dome and migrating into the surrounding waters (both ocean and lagoon.). We are concerned about the risks to the integrity of the Runit Dome that might arise from rising sea level and more frequent bouts of severe weather conditions. The seepage into the ocean not only poses a threat to the health and safety of our people but other neighboring countries in the Pacific (e.g. Hawaii, Federated States of Micronesia) and beyond.

This can also have a devastating impact upon one of our nation's primary sources of revenue, fisheries for outside markets, at any time. As the leakage worsens, people beyond the Marshall Islands will be concerned about the ocean and the quality and safety risks of our marine resources.

The Department of Energy has told us not to be concerned with the leakage, because the amount of plutonium in the lagoon already dwarfs the amount inside Runit Dome. But this, obviously, does little to alleviate our anxiety, and we need to fully understand the ramifications on our people living on the shores of such a contaminated lagoon. These are risks that our people are not equipped to fully comprehend or address without assistance.

In addition, the original plans for the containment facility were not followed: To reduce the cost, the U.S. Government eliminated the concrete floor it had originally planned. Therefore, the radioactive material has been sitting on and sinking into the sand at the base of the crater. With sea level rise, it has mixed into the water table and seeped out along with water. Under the Insular Areas Act of 2011, Section 2, the U.S. Secretary of Energy is required to conduct periodic study of the Runit Dome's concrete exterior and radiochemical analysis of the groundwater surrounding and in the Runit Dome. Both must be conducted at least every four years.

We believe that the monitoring required by the Insular Area Act is important, and we are heartened by the recent announcement that the U.S Department of the Interior has agreed to provide $1,689,000 to support the U.S. Department of Energy's activities in this regard. It is our hope that there will always be sustainable and reliable funding for the full range of activities required by the Act, and that the funding will be sufficient to produce meaningful and scientifically defensible results. It is our concern that the level of funding to date has not been sufficient to meet that standard.

We support the Congressional proposal to require the U.S. Government to produce a detailed plan to remove the radioactive materials in the Runit Dome to a safer and more stable location. A relocation of radioactive contaminants outside the Marshall Islands would be our strong preference. A 2013 report by the Lawrence Livermore National Laboratory stated that if the Runit Dome were located in the U.S., it would be classified as a "low-level radioactive waste disposal site" and be subject to stringent monitoring conditions. As long as the radioactive waste remains in our islands, we believe that it should be subject to monitoring by the U.S. that is no less stringent than that would be required in the U.S.

In addition to our grave concerns about radioactive waste in the Runit Dome, we also have very troubling questions about what other toxic substances may be buried there or otherwise deposited in our islands as a result of U.S. activities. For example, Enewetak Atoll was used by the U.S. Department of Defense in the 1960s as a test site for chemical and biological warfare agents. We need a full accounting of whether toxic waste from those tests was deposited into Runit Dome or otherwise remains on our land or in our waters.

Enewetak Atoll was also the site of rocket tests in 1968 and 1970 which, according to the Department of Energy, resulted in contamination from highly toxic beryllium. The failed first

test, in particular, caused contamination when the engine exhibited uncontrolled burning and eventually detonated, spreading beryllium metal and oxides across a wide area. We need a full accounting of whether toxic waste from those tests was deposited into Runit Dome or otherwise remains on our land or in our waters.

We are also trying to confirm reports that large amounts of radioactive soil were transferred from the U.S. mainland and deposited into Runit Dome. On a perhaps related note, scientists from Columbia University's K=1 Project found Plutonium-238 on Runit Island, which is notable because that isotope would not arise from nuclear fallout. We need an explanation of how that Plutonium 238 got there.

The presence in our islands of toxic substances not directly arising from the nuclear tests highlights a troubling fact: We have never been given a full accounting of the toxic substances that were emitted on our islands and in our waters as a result of U.S. activities. Without such an accounting, we have no way to evaluate the health, safety and environmental risks we have exposed ourselves to over the years and continue to expose ourselves to today.

Questions for the Record from Representative Ilhan Omar
Sustaining U.S. Pacific Insular Relationships
September 26, 2019

Question:

"Our compacts with Palau, the Federated States of Micronesia, and the Marshall Islands require us to provide for their defense. I know this has historically been understood to mean defense in a military sense. And when Micronesians have died in Iraq and Afghanistan – at a per capita rate five times higher than Americans – I think you can clearly say they've upheld their part of the bargain. And as you know, these countries are urgently threatened by climate change. So surely part of our obligation in providing for their defense is providing whatever relief we can from the disasters related to climate change. Would you describe the efforts your Departments are undertaking to help protect these islands from the urgent threat of rising sea levels?"

Answer:

Assistant Secretary Shriver did not submit a response in time for printing.

Ms. Oudkirk: The United States partners with the Pacific Islands to tackle global and regional challenges, including promoting regional security and stability, advancing sustainable growth, addressing environmental challenges, responding to natural disasters, and strengthening our people-to-people ties. The United States recognizes that addressing environmental degradation and climate change is a priority to the Pacific due to the threat posed by sea-level rise and the region's vulnerability to natural disasters. To assist in addressing this Pacific priority, the United States has committed $10 million to provide support for disaster resilience, weather forecasting, and to address environmental challenges in the Pacific region.

Question:

"Can you please describe the Department of Defense's efforts to mitigate the health effects of missile testing in the Pacific? Would you also please describe any efforts to clean up any unexploded munitions or World War II-era wreckage that might be poisoning the water around the islands?"

Answer:

Assistant Secretary Shriver did not submit a response in time for printing.

Questions for the Record from Representative Ed Case
Sustaining U.S. Pacific Insular Relationships
September 26, 2019

Question:

"I am concerned with reports that ongoing Chinese investments in infrastructure in the Pacific Islands may have future military applications, including overseas Chinese military bases. What would be the impacts of such potential military bases on our military posture in the Indo-Pacific?"

Answer:

Ambassador Schriver did not submit a response in time for printing.

Question:

"A critical component of the Compacts is the ability of FAS citizens to live and work freely throughout the United States and to participate in most government programs. This provision has resulted in a highly disproportionate negative financial impact on those jurisdictions where the bulk of FAS migrants choose to live. Compact impact aid was intended to reimburse those jurisdictions for that cost, but thus far has been limited as to which jurisdictions and severely underfunded at only $30 million total annually. For the State of Hawai'i as one example, FAS migrant costs for services such as health care and education in FY2015 were estimated at over $145 million. For the Territory of Guam in the same year, they were estimated at $148 million. A very rough ballpark estimate as to current annual costs for Hawai'i alone is in the range of $300 million. This situation is unacceptable and unsustainable and makes it difficult for our jurisdictions to continue supporting the Compacts.

Can the Administration commit to supporting increased Compact impact assistance for affected jurisdictions at the level of their actual costs for this national commitment?

Please provide an explanation for your answer."

Answer:

Mr. Pua did not submit a response in time for printing.

Question:

"With regards to the ongoing GAO study on the impacts of FAS migration on affected jurisdictions, including Hawai'i, what challenges, if any, has the GAO encountered in gathering data for assessing and calculating these impact estimates? Has the GAO identified to date any materially different facts or trends as compared to its last study?"

Answer:

Dr. Gootnick: We have been able to access such information where it is available. We traveled to Hawaii, Guam, the Commonwealth of the Northern Mariana Islands (CNMI), and Arkansas in August and September and plan to travel to Oregon and Washington in October. During these visits, we met, or plan to meet, with local, state, and territorial government agencies to discuss, among other things, the information available about their compact impact estimates.

We are currently working with federal entities such as the U.S. Census Bureau (Census) to update estimates of compact migrants from our previous report, and we plan to report our findings in the spring of 2020. However, on April 26, 2019, Census reported that an estimated 38,089 compact migrants lived in Hawaii, Guam, and CNMI in 2018.[1] In our previous study, we reported that combined data from Census's 2005-2009 American Community Survey in Hawaii and the 2008 enumerations in Guam and CNMI estimated that 32,465 compact migrants lived in Hawaii, Guam, and CNMI.[2]

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[1] See U.S. Census Bureau, Final Report: 2018 Estimates of Compact of Free Association (COFA) Migrants (April 26, 2019), accessed Oct. 7, 2019, https://www.doi.gov/sites/doi.gov/files/uploads/2018-cofa-report.pdf

[2] See GAO, Compacts of Free Association: Improvements Needed to Assess and Address Growing Migration, GAO-12-64 (Washington, D.C.: Nov. 14, 2011).

Questions for the Record from Representative Gregorio Sablan
Sustaining U.S. Pacific Insular Relationships
September 26, 2019

Question:

"You note in your testimony that the U.S. Air Force is planning on building a divert airfield in Yap, Federated States of Micronesia to be used should Andersen Air Force Base in Guan become unavailable. Is this the same type of divert airfield currently being developed on Tinian in the Northern Mariana Islands? Will more divert airfields be needed for the region? DoD is also planning on developing live-fire training ranges on Tinian and the island of Pagan in my district to be used for joint-level exercises, amphibious movements, and bombings. These plans for live-fire training ranges are quite unpopular with many of my constituents. Does DoD also plan on building training ranges in my district. Please share DoD's plans for developing training ranges in the region."

Answer:

Ambassador Schriver did not submit a response in time for printing.

Question:

"Considering the importance of Kwajalein to the United States, what is the Defense Department doing to address the threat of rising ocean levels and other effects of climate change, and how will that impact Kwajelein?"

Answer:

Ambassador Schriver did not submit a response in time for printing.

Question:

"Ambassador Susaia, during the hearing we heard of the importance of sustaining the relationship between the United States and the Freely Associated States. As we look ahead to 2023 and beyond, how can our Committees and Congress be more helpful and are there any recommendations you would like us to consider?"

Answer:

Ambassador Susaia did not submit a response in time for printing.

Question:

"What would you say are the most promising economic sectors in the FSM and what challenges do they face? How should the next Compact term address economic development issues in the FSM?"

Answer:

Ambassador Susaia did not submit a response in time for printing.

Question:

"Both State and Interior are represented on the FSM and RMI trust fund committees. Considering repeated reports that, under the current trust fund structure, after 2023 the funds may have years where they cannot disburse funds – even while holding millions in their accounts – what are the trust fund committees doing now to address the trust funds' structure? What fixes to the trust fund agreements do the trust fund committees propose?"

Answer:

Mr. Pula did not submit a response in time for printing.

Question:

"The Special Education grant for the Freely Associated States replaced many federal education programs. However, it was not made a permanent appropriation and has never been fully funded. Thousands of students are only able to attend school for half the day because of insufficient education funding in the FSM. Schools are unable to feed students lunch. What is your plan for making sure education gets reliable funding when compact renegotiations occur?"

Answer:

Mr. Pula did not submit a response in time for printing.

Question:

"What have been the strengths and weaknesses of the U.S. relationship with the FAS? What, if any, issues in the relationship should be addressed?"

Answer:

Mr. Pula did not submit a response in time for printing.

Question:

"Should economic assistance for the RMI and FSM be extended after 2023, would it resemble current support in terms of sector grants, U.S. program assistance, and oversight through the joint economic management committee? Should self-sufficiency still be a goal of Compact assistance?"

Answer:

Mr. Pula did not submit a response in time for printing.

Question:

"How is oversight currently conducted? Should oversight mechanisms be reformed?"

Answer:

Mr. Pula did not submit a response in time for printing.

Question:

"In 2010, The United States and Palau reached an accord to extend economic assistance for another 15 years, although it was not fully funded by Congress until FY2018. If economic assistance for the Marshall Islands and Micronesia is renewed in 2023, what might be the impact of a similar delay in congressional approval and funding?"

Answer:

Ms. Oudkirk: We have spent approximately $3.5 billion over the past 25 years to show the support of the American people for the Freely Associated States. Our budget processes in extending this support are identical to any other expenditure of funds. Our partners and allies are aware of our constitutional processes and separation of powers.

Question:

"A basic element of the 2003 Compacts was setting up self-sustaining trust funds to replace annual grants. GAO reports that the trust funds are unlikely to meet that goal. Is it going to be one of your goals in negotiating Compact renewals to adequately capitalize those trust funds, so they can replace the annual grants?"

Answer:

Ms. Oudkirk: Studies done by the Government Accountability Office, the Asian Development Bank, and Graduate School USA through the Pacific and Virgin Islands Training Initiatives demonstrate that additional contributions to the Trust Funds would bolster the funds and support the long-term economic stability of the Marshall Islands and the Federated States of Micronesia. We are coordinating closely across the interagency on issues related to these negotiations. These agreements are complex and require a thoughtful approach with extensive consultations to make sure that we get them right. We welcome the opportunity to work with Congress as we seek to secure long-term U.S. strategic interests in this vital region.

Question:

"The Presidents from the three FAS states met with President Trump in a first of its kind meeting last May. This historic meeting came on the heels of statements from various U.S. officials about concerns related to FAS economic viability and U.S. security in the region if the economic provisions of the Compacts are not renewed in 2023. Can you update us on the process you are engaging in for extending the Compacts? Will there be a Special U.S. Negotiator appointed by President Trump as was done for previous Compact negotiations? Is there a timeline for completion of discussions?"

Answer:

Ms. Oudkirk: The Department of State will lead these negotiations. We are coordinating closely across the interagency. An interagency group will travel to each of the Freely Associated States in October to understand in detail the specific needs of each of the three countries. We welcome the opportunity to work with Congress as we seek to secure long-term U.S. strategic interests in this vital region.

Question:

"To what extent have China or other countries sought to gain influence in the FAS? Are China's efforts in the U.S.-FAS relations open opportunities for China to gain influence in the region?"

Answer:

Ms. Oudkirk: While the Freely Associated States do not have the same debts to China as some of their Pacific neighbors, China's engagement is growing. In the Federated States of Micronesia, China committed to provide $75 million in foreign assistance (ODA) between 2011 and 2016; only $24 million of this commitment has been reportedly spent. In Palau, Chinese tourists and Chinese investment in the tourism sector dominate the market, making Palau's tourism-dependent economy vulnerable to changes in China's policies. Pacific Island countries' collective debt to China rose from almost zero to more than $1.3 billion within the last decade. Chinese loans reportedly account for 60 percent of Tonga's total external public debt and 37 percent of Vanuatu's external public debt. Papua New Guinea has the biggest total debt to China at almost $540 million, about a quarter of its total external public debt. These loans have the potential to be exploited for political leverage to extract additional concessions.

Question:

"GAO's 2018 report noted that the FSM and RMI compact trust funds face risks and will likely not provide disbursements in some future years. Has GAO estimated how much additional contributions are needed to reduce the risk of no disbursements?"

Answer:

Dr. Gootnick: In our May 2018 report on the compact trust funds, we analyzed the impact on compact trust fund performance if annual contributions equal to 5 percent of each country's fiscal year 2016 gross domestic product were added to the fund annually in fiscal years 2018 through 2023.[1] We found that, for each country, the additional contributions would increase the likely amount of future disbursements and reduce the risk of years of zero disbursement. However, we have not estimated the specific amount of additional contributions that would be needed to eliminate these risks.

The U.S. Department of the Interior, which serves as chair of the trust fund committees, may be able to provide studies of future trust fund scenarios that address this question. According to interviews with, and documents provided by, the trust funds' Administrator, the committees reviewed presentations in 2016, 2017, and early 2018 from the authors of previous studies and fund managers regarding the likely status of the trust funds after 2023. In addition, according to

[1] GAO, Compacts of Free Association: Actions Needed to Prepare for the Transition of Micronesia and the Marshall Islands to Trust Fund Income, GAO-18-415 (Washington, D.C.: May 17, 2018).

these interviews and documents, the committees have reviewed options for addressing risks to the trust funds' disbursements and sustainability, including changes to disbursement provisions in the compact trust fund agreements.

Question:

"The issue of the Compact migration and the cost borne by certain jurisdictions where Compact citizens migrate is one that will need to be addressed as we move forward with the question of extending the Compacts. For example, there has already been a call from Governor Leon Guerrero for Guam to be heard during renegotiations of the compacts.

Has GAO has done any analysis and made recommendations on how the cost associated with compact migration could be addressed?

Would GAO be able to formulate a proper tool to accurately define and measure the number of COFA migrants and the actual costs of hosting migrants for each state or territory?"

Answer:

Dr. Gootnick: In our November 2011 report on compact migration, we recommended that the Department of the Interior disseminate guidelines to the affected jurisdictions that adequately address concepts essential to producing reliable impact estimates, and call for the affected jurisdictions to apply these guidelines when developing compact impact reports.[2] Interior did not implement this recommendation. We further noted that Interior had previously developed such guidance in 1994 but that Interior and officials in some affected jurisdictions were not aware of the guidance at the time of our 2011 review. GAO has identified best practices for cost estimation that could assist Interior in developing any future impact estimation guidance.[3]

The amended compacts' implementing legislation provides a definition of compact migrants. The legislation requires, at least every 5 years beginning in fiscal year 2003, an enumeration of the population of compact migrants in affected jurisdictions. This enumeration is for the purpose of determining how to divide the $30 million in annual grants through 2023 to aid affected jurisdictions in defraying costs incurred due to the residence of compact migrants in those jurisdictions. The legislation defines the population to be enumerated as persons, or those persons' children under the age of 18, who pursuant to the compacts are admitted to, or resident in, an affected jurisdiction as of the date of the most recently published enumeration. Interior interprets the legislation's definition of compact migrants as including children of those migrants under the age of 18 who are born in the United States. Census has conducted the enumerations to report this information.

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[2] GAO, Compacts of Free Association: Improvements Needed to Assess and Address Growing Migration, GAO-12-64 (Washington, D.C.: Nov. 14, 2011).

[3] GAO, GAO Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs, GAO-09-3SP (Washington, D.C.: March 2009)

Question:

"The Freely Associated States are among the countries most directly threatened by climate change. Please describe your views on climate change and sea level rise. How does the Trump Administration's view differ, if at all, from this perspective? And how does the Administration's view on climate change affect the RMI's relationship with the U.S.?"

Answer:

Ambassador Zackios: The Republic of the Marshall Islands has declared a National Climate Crisis and holds a strong view that, as a low-lying coral atoll island nation, climate change poses grave risks to development, human rights and security. Indeed, its impact is already being felt and projected to get worse.

The Marshall Islands has long worked closely with other small island developing states and vulnerable nations around the world, and in particular other Pacific Small Island Developing States, on international cooperative action to address climate impacts. Environmental resilience and climate impacts are of the highest priorities of Pacific Island leaders.

In this regard, we welcome the recent statement by the U.S. Department of State during the recent 2019 Pacific Islands Forum that "the United States recognizes that addressing environmental degradation and climate change is a priority in the Pacific due to the threat posed by sea level rise and the region's vulnerability to natural disasters." This statement is significant. Our hope is that it can spur a vital and much-needed dialogue on climate change with the United States and our Pacific Islands region.

Question:

"The RMI is in serious danger of disappearing in the years ahead due to climate change and rising sea levels. I have to think that reality must be in the minds of many Marshall Islands and may influence what you want to achieve in the Compact renegotiations. Please tell us what your government is thinking about for your future, given the threats of climate change. What would you want the U.S. to do?"

Answer:

Ambassador Zackios: Indeed, both the long-term risks of sea-level rise and more immediate impacts weigh closely on the minds of many Marshallese; there is overwhelming evidence, including from sea level gauges, that the scale of impacts is increasing. Once resilient coral reefs are under severe and repeated threat. The government is currently undertaking significant projects with bilateral donors and international agencies to increase resilience to impacts and is also dedicating its own national funding to seawalls. Nonetheless, this

is a highly complex policy and planning issue for a nation with serious capacity constraints and limited resources.

The Compact of Free Association is a vital funding opportunity to address the Marshall Islands' long-term resilience, security, and development, both through sectoral funding and technical assistance. The Republic of the Marshall Islands looks forward to engaging with the United States to explore and address opportunities and innovative approaches.

Question:

"As you mention in your testimony, there is great concern over the possible leakage of the RUNIT DOME on Enewetak Atoll. The site which sits at sea level is used to store over one-hundred-thousand cubic yards of nuclear waste. But the dome was never meant to be permanent. It was not properly lined before nuclear waste was stored there. There are now reports that seawater has seeped in and climate change and rising sea levels are predicted to affect the dome. The House-passed 2020 NDAA requires the Secretary of Energy, the EPA, and Defense to report on the status of the Runit Dome, which will hopefully give us a clear picture of the danger its poses. Can you please share your concerns about the current situation on Enewetak Atoll. Are there issues associated with nuclear testing that should be kept in mind in a Compact extension?"

Answer:

Ambassador Zackios: The residents of Enewetak Atoll, which resettled starting in 1980, live on islands that were contaminated by 43 nuclear tests. The residents of the atoll currently live in a small portion of the atoll that the U.S. government declared safe for habitation after a three-year cleanup. Most of the atoll, including the northern area that is the ancestral home of many of the residents, was never cleaned up. We are concerned about the health, safety and environmental risks the current residents face by living in the supposedly clean portion of an otherwise contaminated atoll - and by living in the shadow of a radioactive waste dump that was placed in the middle of the atoll.

The dump was created when more than 85,000 cubic meters of radioactive waste was deposited into an unlined test crater on Runit Island and topped with a concrete dome. It is not secure. There are cracks in the dome, and radioactive substances have been leaking into the groundwater beneath the dome and migrating into the surrounding waters (both ocean and lagoon). We are concerned about the risks to the integrity of the Runit Dome that might come from the rising sea level and more frequent bouts of severe weather conditions. The seepage into the ocean not only poses a threat to the health and safety of our people but other neighboring countries in the Pacific (e.g. Hawaii, Federated States of Micronesia) and beyond.

Runit Dome leakage can also have a devastating impact upon one of our nation's primary sources of revenue, fisheries for outside markets, at any time. As the leakage worsens, people

beyond the Marshall Islands will be concerned about the ocean and the quality and safety risks of our marine resources.

The Department of Energy has told us not to be concerned with the leakage, because the amount of plutonium in the lagoon already dwarfs the amount inside Runit Dome. But this, obviously, does little to alleviate our anxiety, and we need to fully understand the ramifications on our people living on the shores of such contaminated lagoon.

The Insular Areas Act of 2011, Section 2, requires the U.S Secretary of Energy to conduct periodic studies of the Runit Dome's concrete exterior and groundwater at least every four years.

We believe that the monitoring required by the Insular Areas Act of 2011 is important, and we are heartened by the recent announcement that the U.S. Department of the Interior has agreed to provide $1,689,000 to support the U.S. Department of Energy's activities in this regard. It is our hope that there will always be sustainable and reliable funding for the full range of activities required by the Act, and that the funding will be sufficient to produce meaningful and scientifically defensible results. it is our concern that the level of funding to date has not been sufficient to meet that standard.

We support the congressional proposal contained in the House National Defense Authorization Act (NDAA) to require the U.S. Government to produce a detailed plan to remove the radioactive materials in the Runit Dome to a safer and more stable location. A relocation of radioactive contaminants outside the Marshall Islands would be our strong preference. A 2013 report by the Lawrence Livermore National Laboratory stated that, if the Runit Dome were located in the U.S., it would be classified as a "low-level radioactive waste disposal site" and be subject to stringent monitoring conditions. As long as the radioactive waste remains in our islands, we believe that it should be subject to monitoring by the U.S. that is no less stringent than that would be required in the U.S.

In addition to our grave concerns about radioactive waste in the Runit Dome, we also have very troubling questions about what other toxic substances may be buried there or otherwise deposited in our islands as a result of U.S. activities. For example, Enewetak Atoll was used by the U.S. Department of Defense in the 1960s as a test site for chemical and biological warfare agents. We need a full accounting of whether toxic waste from those tests was deposited into the Runit Dome site or otherwise remains on our land or in our waters.

We are also trying to confirm reports that large amounts of radioactive soil were transferred from the U.S. mainland and deposited into the Runit Dome site. Scientists from Columbia University's K=1 Project found Plutonium-238 on Runit Island, which is notable because that isotope would not come from nuclear fallout. We need an explanation of how that Plutonium-238 got to the RMI.

The presence in our islands of toxic substances not directly arising from the nuclear tests highlights a troubling fact: We have never been given a full accounting of the toxic substances that were emitted on our islands and in our waters as a result of U.S. activities. Without such an accounting, we have no way to evaluate the health, safety and environmental risks to which we have been exposed over the years and to which we continue to be exposed.
With the new compact, the nuclear legacy issue should be dealt with for the final time. There needs to be a settlement on all claims resulting from the Nuclear Tribunal authorized under the original compact. This resolution is critical to allow our two countries to move forward together.

Relatedly, some areas of our nation remain unlivable because of radiation contamination. Further, indigenous food sources remain unsafe, posing a further threat to health.

In 2000, the RMI Government submitted its Changed Circumstances Petition to U.S. Congress to seek additional funding as provided under Article IX, Section 177 of the Compact. To date, there has been no movement on the petition from the U.S. Government despite the 2004 Nuclear Cancer Institute Report anticipating more potential cancer cases. An April 2010 report by the U.S Department of Health and Human Services entitled "Reducing Environmental Cancer Risk, What We Can Do Now" stated that the U.S. Government had not met its obligations in addressing the healthcare needs of the Marshallese people resulting from its nuclear testing program. Those obligations remain unmet.

The troubling developments described above justify significant payments, under the "Changed Circumstances" provision (Article IX of Section 177) of the Compact. Additionally, there is a need to continue our discussion with respect to the fulfillment and payment of awards made by the Nuclear Claims Tribunal (NCT), as provided for in Section 177 of the original Compact of Free Association to adjudicate personal and property damage claims resulting from the nuclear testing program. It was later determined that the settlement was far from adequate: While the NCT was able to fulfill a little more than 90% of personal awards for medical conditions, it was only able to payout $3.9 million of the $2.2 billion in approved personal injury and property damage awards.

Question:

"Ambassador Zackios, how is China developing influence in the RMI and what more can the U.S. do to demonstrate its commitment to the region?"

Answer:

Ambassador Zackios: The RMI's largest challenge comes from financial involvement and influence from the People's Republic of China, as was recently shown by actions taken by other Pacific islands nations to end their relationship with Taiwan. The U.S. Indo-Pacific Commander validated this predicament when he testified to the House Armed Services Committee in March that the Freely Associated States "are threatened by" the "use of Beijing's economic leverage."

Chinese economic activity with the Marshall Islands last year totaled $2.2 billion. That activity is indisputably important to our economy and budget. By contrast, U.S. trade was over only $311 million. Earlier this year, there was a Chinese proposal to build a port and

1,000 homes on Rongelap Atoll, in return for the atoll's autonomy from our national government. Even today, the PRC continues to aggressively court our leaders through visits to China.

To counter China's influence in the region, the U.S. should focus on the renegotiation of the Compact of Free Association to demonstrate its commitment to the RMI's economic, social, and environmental security needs as well as our development goals. The U.S. can also show its commitment by determining the source of funding for the next Compact and addressing this in the US budget baseline as soon as possible.

Questions for the Record from Representative Michael San Nicolas
Sustaining U.S. Pacific Insular Relationships
September 26, 2019

Question:

"Could you provide the Committee with minutes of all the JEMCO and JEMFAC meetings?"

Answer:

Mr. Pula did not submit a response in time for printing.

Question:

"How many grant applications have been submitted by the FSM and RMI for review to JEMCO and JEMFAC, respectively? How many of these grant applications have been approved and how many denied? What are the respective rationales for approving and denying grant applications?"

Answer:

Mr. Pula did not submit a response in time for printing.

Question:

"What are the current funding levels of JEMCO and JEMFAC grants?"

Answer:

Mr. Pula did not submit a response in time for printing.

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