

**THE UNITED STATES' INTERESTS IN THE FREELY
ASSOCIATED STATES**

HEARING
BEFORE THE
COMMITTEE ON
ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE
ONE HUNDRED SIXTEENTH CONGRESS
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JULY 23, 2019



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CONTENTS

OPENING STATEMENTS

	Page
Murkowski, Hon. Lisa, Chairman and a U.S. Senator from Alaska	1
Manchin III, Hon. Joe, Ranking Member and a U.S. Senator from West Virginia	2

WITNESSES

Domenech, Hon. Douglas, Assistant Secretary, Insular and International Affairs, U.S. Department of the Interior	4
Schriver, Hon. Randall G., Assistant Secretary of Defense for Indo-Pacific Security Affairs, U.S. Department of Defense	13
Oudkirk, Sandra, Deputy Assistant Secretary for Australia, New Zealand, and Pacific Islands, Bureau of East Asian and Pacific Affairs, U.S. Department of State	23
Gootnick, Dr. David, Director, International Affairs and Trade, U.S. Government Accountability Office	30

ALPHABETICAL LISTING AND APPENDIX MATERIAL SUBMITTED

Domenech, Hon. Douglas:	
Opening Statement	4
Written Testimony	6
Gootnick, Dr. David:	
Opening Statement	30
Written Testimony	32
Manchin III, Hon. Joe:	
Opening Statement	2
Map of First and Second Island Chains	74
Article by Cao Desheng in the China Daily entitled “President hails ties with Micronesia in greetings” dated 5/21/2019	76
Murkowski, Hon. Lisa:	
Opening Statement	1
Oudkirk, Sandra:	
Opening Statement	23
Written Testimony	25
Responses to Questions for the Record	95
Schriver, Hon. Randall G.:	
Opening Statement	13
Written Testimony	15
Responses to Questions for the Record	93

THE UNITED STATES' INTERESTS IN THE FREELY ASSOCIATED STATES

TUESDAY, JULY 23, 2019

U.S. SENATE,
COMMITTEE ON ENERGY AND NATURAL RESOURCES,
Washington, DC.

The Committee met, pursuant to notice, at 10:10 a.m. in Room SD-366, Dirksen Senate Office Building, Hon. Lisa Murkowski, Chairman of the Committee, presiding.

OPENING STATEMENT OF HON. LISA MURKOWSKI, U.S. SENATOR FROM ALASKA

The CHAIRMAN. The Committee will come to order as we meet this morning to review the United States' interests in the Freely Associated States, which include the Republic of the Marshall Islands, the Federated States of Micronesia, as well as the Republic of Palau.

The United States has a unique relationship with these nations through our Compacts of Free Association, through which we provide for their national defense, and their citizens have the right to live, to work and go to school in the United States without the need for a visa. And in return, the U.S. has access to their lands and waters for strategic purposes and, just as importantly, the ability to deny other nations that same access.

To understand our Committee's interest and role in the Freely Associated States, we really have to go back to the end of the Second World War when the islands, along with the Northern Marianas, became a Trust Territory of the United Nations, to be administered by the United States.

The administration of the islands was initially led by the U.S. Navy but was turned over to the Department of the Interior back in 1951. That administration ended when the Freely Associated States chose to become sovereign nations, but the Department of the Interior continues to be the pipeline for U.S. financial assistance to the nations through the Compacts of Free Association.

I think it is also worth noting that in 1946, the predecessors to this Committee, the Committee on Public Lands and the Committee on Territories and Insular Possessions, merged to form the Committee on Interior and Insular Affairs. So there is a long-standing history and a connection between this Committee and U.S.-affiliated islands.

I think sometimes people look and say well wait, it is the Energy and Natural Resources Committee, how do insular affairs fit in? So I think it is important to remind us of that history.

Of primary interest today is U.S. financial assistance, which is set to expire in the Marshall Islands and Federated States of Micronesia at the end of Fiscal Year 2023 and then in Palau at the end of Fiscal Year 2024, and how that might impact the United States' interests in the region and whether it would create a leadership void that other nations might seek to fill.

We must also be mindful of the United States' nuclear legacy in the Marshall Islands, after conducting 67 nuclear tests between 1946 and 1958 at Bikini and Enewetak, and their impact on those and the surrounding atolls and their inhabitants.

In today's world of bad actors, we don't spend nearly enough time engaging with our friends and hearing out their concerns. The Freely Associated States nations are truly our friends and they are allies. Their citizens are part of our Armed Forces. They vote with the United States on important votes in the United Nations (U.N.) more often than perhaps any other nation except Israel, and they live and work in each of our 50 states, making a positive contribution to our nation.

I think we have a good panel here this morning, very knowledgeable and impactful, with witnesses from the Department of Defense, the Department of State, the Department of the Interior, as well as a witness from the Government Accountability Office. Hopefully, you can all help tie these interests together with the discussions that we will have.

I look forward to hearing from each of you.

I now turn to my Ranking Member, Senator Manchin.

**STATEMENT OF HON. JOE MANCHIN III,
U.S. SENATOR FROM WEST VIRGINIA**

Senator MANCHIN. Thank you, Madam Chairman. Thank you all for being here.

I want to thank you for having the hearing today and for your foresight last year in asking the Government Accountability Office (GAO) to prepare its report on the issues facing us as the compact assistance grants to the Islands come to an end. The GAO report helps inform our discussions today which we will be talking about.

The United States has a longstanding and special relationship with the people of the Freely Associated States. The relationship began during World War II when their islands were the scene of some of the fiercest fighting in the Pacific theater. America has not forgotten the price paid by the people of the islands during the war or by our armed forces in liberating the Pacific Islands.

With that in mind, the United Nations designated the Pacific Islands as a strategic area and placed them in a special trusteeship with the United States as a trustee shortly after the war. Recognizing the strategic importance of the Pacific Islands, the U.N. trust agreement directed the United States to ensure that the trust territory played its part in the maintenance of international peace and security. The agreement expressly authorizes the United States to establish naval, military and air bases on the islands and to station armed forces on them in order to deter future aggression and help keep world peace.

Today, the U.S. relationship with the Freely Associated States is more important than ever as we see growing Chinese influence in

this region. Geographically, China is closer than the United States is to many of the islands. Palau is only 2,500 miles from Beijing compared to 4,700 miles from Hawaii and 6,600 miles from San Francisco. China is actively trying to project its power influence ever further into the Pacific region.

Earlier this year Admiral Philip Davidson, Commander of the U.S. Indo-Pacific Command, testified in the Armed Services Committee that China represents the greatest, long-term strategic threat to a free and open Indo-Pacific and to the United States. He explained how China is leveraging its economic power to undermine the autonomy of countries throughout the Pacific region by offering easy money and then applying coercive economic policies.

The Freely Associated States are threatened by China's economic pressure. The Marshall Islands are one of China's top export recipients, and China is the second largest source of foreign aid to Micronesia after the United States. We cannot afford to abandon the Freely Associated States which have long been our loyal allies to China's increasing pressure.

Equally important though, the Trust Agreement obligated the United States to foster in self-government and the self-sufficiency of the islands to promote the economic, educational and social development of their people and to protect their health and freedom. Given the opportunity to determine their own destinies half a century ago, the people of the Northern Mariana Islands chose to become a commonwealth under U.S. sovereignty and the remainder of the Pacific Trust territory chose to form three separate and independent nations. The United States entered into compacts of free associations with each of these three new nations ending the U.N. trusteeship. The compacts have allowed us to maintain our defense installations in the islands, including the Ronald Reagan Ballistic Missile Defense Test Site.

In addition, the compacts committed us to continue to assist the Freely Associated States in their efforts to advance their economic self-sufficiency and the welfare of their people. All three Freely Associated States continue to depend on many key services provided under the compact, services that could end in 2023 in the Marshall Islands and Micronesia and in 2024 in Palau. But our interest in maintaining strong and close relationships with the Freely Associated States, our defense interest and our interest in deterring Chinese expansion in the Pacific will remain which is why it is imperative that we take action to extend these payments and services.

Plainly we have a national interest in preserving our special relationship with the Freely Associated States beyond the terms of the compacts, and this Committee has a special responsibility to look ahead to the problems that may arise as the financial assistance afforded by the compacts comes to an end.

So again, I want to thank the Chair in scheduling this hearing and thank all of you for being here.

The CHAIRMAN. Thank you, Senator Manchin.

We will now turn to our panel.

I would ask that you try to limit your comments to about five minutes. Your full statements will be included as part of the record, and we will have an opportunity for questions back and forth.

We are joined this morning by the Honorable Douglas Domenech, who is the Assistant Secretary for Insular and International Affairs at the Department of the Interior. It is good to see you here.

Mr. Randall Schriver is the Assistant Secretary of Defense for Indo-Pacific Security Affairs at the U.S. Department of Defense. It will be very interesting to listen to your comments this morning as well as Senator Manchin's comments about the impact and influence of China in this region. We look forward to that discussion.

Ms. Sandra Oudkirk is the Deputy Assistant Secretary for Australia, New Zealand and the Pacific Islands at the Bureau of East Asian and Pacific Affairs at the U.S. State Department. Very important to have you with us this morning. We welcome you.

And Dr. David Gootnick, who is the Director of International Affairs and Trade for the U.S. Government Accountability Office, GAO. We appreciate all your contributions at the agency there.

Assistant Secretary Domenech, if you would like to lead off, please?

Welcome.

STATEMENT OF HON. DOUGLAS DOMENECH, ASSISTANT SECRETARY, INSULAR AND INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF THE INTERIOR

Mr. DOMENECH. Chairman Murkowski, Ranking Member Manchin, members of the Committee, I am Doug Domenech, Assistant Secretary, Insular and International Affairs at the Department of the Interior. I appreciate this opportunity to provide Interior's views on this important matter.

Having traveled to each of these countries multiple times, I would like to emphasize that the Pacific Islands that we are discussing and the 180,000 people who live there each share a unique and special relationship with the United States under a Compact of Free Association.

My colleagues from the Departments of State and Defense will discuss the diplomatic and military importance of the U.S. relationship with the Freely Associated States. I will focus on the financial assistance provided by Congress through the Interior Department.

Interior has partnered with the people of the former trust territory of the Pacific Islands since 1951 when the Navy transferred civil administration to Interior. Beginning in 1986, the Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI) and the Republic of Palau (Palau) transitioned to compact relationships with the United States. Given Interior's historic role, Congress determined then that compact funding would flow through Interior and that continues today.

This compact framework has successfully ended their trustee status and restored stable, sovereign and democratic self-governance to the peoples of the FSM, RMI and Palau. The Compact allows citizens of the Freely Associated States the right to enter the United States, visa free, as legal, non-immigrants to live, to work and study here for an unlimited period of time.

The financial assistance included in the compacts for the FSM and RMI support education, health, the environment, public sector capacity building, private sector development and infrastructure. The compacts also establish trust funds for the FSM and RMI.

The U.S. compact relationship with Palau is similar. Financial assistance to Palau supports government operations, infrastructure projects and a trust fund.

The U.S. did not intend for any of the compact agreements to underwrite the entire economies or the full operations of each country. Rather, the U.S. saw the compacts as an economic springboard making available the resources to allow FSM, RMI and Palau to improve essential government services and infrastructure while they reform their business climate, fiscal policies and their capacities to govern.

The U.S. has provided the FSM and RMI approximately \$3 billion in financial assistance over Fiscal Year 2004 to 2019, primarily supporting the delivery of health and education services and infrastructure development such as hospitals, health centers, roads, utilities and schools.

From 1994 to 2009, Palau benefited from U.S. assistance totaling \$560 million. Under the 2010 Palau Compact Review Agreement passed by Congress in 2018, an additional \$229 million was made available to Palau.

Compact grant assistance and payments to the trust funds for the FSM and RMI expire in 2023 and for Palau in 2024.

The Office of Insular Affairs provides training, support and advice on accountability and fiscal governance to these island governments, and performance measures in the use of compact funding, including single audits, have improved markedly over the last decade.

In addition, the Joint Economic Management Committees established under the compacts with FSM and RMI provide an additional accountability mechanism. As currently structured, post 2023, '24, the trust funds provide a transition away from direct U.S. grant assistance and toward further economic self-sufficiency.

At the end of FY18 the balance of the FSM trust fund was \$636 million, RMI's was \$402 million and Palau's was \$286 million.

While the trust funds have performed well, concerns remain about the expected distributions after 2023, '24.

In conclusion, even with their trust funds, if funding under the compacts is not extended after '23, '24, the FSM, RMI and Palau are likely to experience significant economic shock with detrimental disruptions to health, education and government operations.

Thank you, and I'm happy to answer any questions.

[The prepared statement of Mr. Domenech follows:]

**STATEMENT
OF
DOUGLAS DOMENECH
ASSISTANT SECRETARY, INSULAR AND INTERNATIONAL AFFAIRS
DEPARTMENT OF THE INTERIOR
BEFORE THE
SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES
TO
EXAMINE THE UNITED STATES' INTERESTS IN THE FREELY ASSOCIATED
STATES**

July 23, 2019

Chairman Murkowski, Ranking Member Manchin, and members of the Committee, I am Doug Domenech, Assistant Secretary, Insular and International Affairs for the Department of the Interior (Department). Thank you for the opportunity to provide the Department's views on the interests of the United States in 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 Marshall Islands under the 2003 amended Compacts, and to Palau under the 1994 Compact and the 2010 CRA, as amended in 2018, and (2) how this financial assistance provides both short- and long-term benefits to the United States.

I. Original Compacts

In 1947, the United Nations assigned the United States administering authority over the Trust Territory of the Pacific Islands (Trust Territory), which included Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI), and the Republic of Palau (Palau), and the Commonwealth of the Northern Mariana Islands. 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 the U.S. interest in supporting their economic advancement and self-sufficiency. The Compacts originally entered into force in 1986 for FSM and RMI and in 1994 for Palau. Under the Compacts, which reflected the common desire of the United States and each of the three FAS to

establish a government-to-government relationship, the governments agreed that the United States would be responsible for security and defense matters in and relating to the three FAS and would have special and extensive access to operate in these nations' territories, as well as the authority to deny access to these nations by other countries' militaries and their personnel. The governments also agreed on the provision of U.S. economic assistance to all three FAS.

The Department of the Interior built on its expertise in the civil administration of the Trust Territory, and has since developed many years of expertise, specialized staff, resources, and institutional knowledge in administering Compact assistance.

The Compacts:

- Enabled the end of Trust Territory status of the three Freely Associated States;
- guaranteed the United States the ability to deny access to and use of these three nations by third country militaries;
- established three stable, sovereign, and democratic states in the Pacific; these states, acting through their governments established under their respective constitutions, became self-governing; and
- supported close and mutually beneficial relationships that contribute to regional security, stability, and prosperity.

II. Amended Compacts for the FSM and 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 financial assistance in fiscal years 2004 through 2023, still through the Department of the Interior. The amended Compacts require the FSM and the RMI to target funding in six sectors of development: 1) education; 2) health; 3) the environment; 4) public-sector capacity building; 5) private-sector development, and 6) infrastructure, with priority given to education, health, and projects directly affecting health and safety.

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 effect date of the Compact. 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 (CRA), which contained provisions to provide additional economic assistance through 2024, or the scheduled date of the next mandated Compact review. 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 have been and continue to be available primarily for government operations and infrastructure projects.

These Compacts are unique. The U.S. Government did not intend for any of the Compact agreements to underwrite the entire economies of the FAS or the operations of each government. Rather, the U.S. Government saw the Compacts as an economic springboard, making available the resources to allow the Federated States of Micronesia, the Marshall Islands, and Palau to improve:

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

Under the amended Compacts, the United States has provided to the FSM and the RMI approximately \$3 billion of financial assistance in fiscal years 2004 - 2019, primarily supporting the delivery of health and education services and 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 Marshall Islands' 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, again for government operations, infrastructure projects, and to shore up Palau's Trust Fund, established under the Compact with Palau, Public Law 99-658 as a sinking fund managed solely by the Palau Government.

All funding provided to the FSM and the RMI under the amended Compacts is reviewed semi-annually in two, bilateral, joint economic management committees. These committees are chaired by the Department's Director of the Office of Insular Affairs. Funding under the CRA is provided directly to the Palau government.

Other funding for which the FSM, 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 Congress. TAP funding is flexible in its use and application in the FSM, RMI, and Palau and can help fill in gaps that the three governments identify. The U.S. territories 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 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 RMI, respectively, with priorities in education and health.

The amended Compacts set forth the funding to be contributed by FSM and RMI 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 Funds, including the Chairman, who is the Director of the Department of the Interior's Office of Insular Affairs. 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: 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 RMI Trust Funds

Federated States of Micronesia

The total net position of the Federated States of Micronesia Trust Fund for fiscal year 2018 was \$636.09 million. For fiscal year 2018, the last audited financial year, 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 fiscal year 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 contribute \$16 million annually in fiscal years 2004-2006 and is obligated in fiscal years 2007-2023 to contribute \$16 million annually, plus a cumulative amount that increases by \$800,000 annually. The U.S. contribution is \$30.8 million for fiscal year 2019. The U.S. Government contributed a total of \$372.7 million since inception. In fiscal year 2005, the Federated States of Micronesia contributed \$30.3 million, as required under the amended Compact.

The Republic of the Marshall Islands

The total net position of the RMI Trust Fund for fiscal year 2018 was \$402.43million. For fiscal year 2018, the last audited financial year, 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 fiscal year 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 \$7 million each fiscal year plus a cumulative \$500,000 annually and a partial inflation adjustment. The U.S. contribution has been \$17.7 million for fiscal year 2019. The U.S. Government has contributed a total of \$195.5 million since inception. In accord with the amended Compact, the RMI Government contributed \$30 million in fiscal years 2004-2006. They also contributed an additional \$3.2 million for a total of \$33.2 million. Through fiscal year 2023, Taiwan will contribute to the RMI Trust Fund \$2.4 million per year until 2023 and to date has contributed \$30.4 million.

Issues Leading to Fiscal Year 2023 and Beyond

Palau's Trust Fund, established as a sinking fund, has been managed solely by the Palau Government and does not have the same management or funding structure that characterizes both the FSM and RMI Trust Funds.

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, General Accounting 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. While both Trust Funds have grown, based on market performance, that growth has not been significant enough to continue levels of funding similar to fiscal year 2023's annual grant assistance – estimated for the FSM at \$82 million and for the RMI at \$26.9 million.

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 Committees can only establish distribution policies that are consistent with the Trust Fund Agreement, these options are limited unless the Trust Fund Agreements are amended. 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 providing 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

If grant assistance under the amended Compacts and the CRA is allowed to expire by the end of 2023 and 2024 respectively, and is not extended, there is the risk of damaging the respective bilateral relationships of free association between the United States and these Pacific Island nations.

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 U.S. Government and Congress must carefully weigh its strategic interests to determine the continued level of funding, if any, it wants dedicated to the relationship. The U.S.-Palau Compact relationship, though handled differently from the relationship with the Federated States of Micronesia and the Marshall Islands, should be considered in conjunction with 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 amended 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 for an unlimited period of time.

Fulfilling all three Compact of Free Association agreements is critical to sustaining the U.S. Government's commitment to these nations and their respective efforts to advance their own economic self-sufficiency. 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 through all three Compacts will continue to be an important part of the overall U.S. policy of a free and open Indo-Pacific.

An expiration of federal financial assistance in just four years could carry dire consequences for the well-being for the people of three of the United States' closest partners. People from these nations have also offered the United States unequalled numbers in the blood and sweat of their own youth in service to our Armed Forces.

The United States relationships in the Indo-Pacific, particularly with the Federated States of Micronesia, the Marshall Islands, and Palau, are part of the legacy that the United States holds in the Pacific. The relationships are mutually beneficial, and are an important part of our shared heritage. Our identity as a "Pacific power" was, in many ways, forged on the beaches of the Pacific during the Second World War, and the United States and the people of the Pacific have fought side-by-side since. Our relationship is founded upon respect for human rights and fundamental freedoms for all. It is important that we continue to maintain these key relationships.

The CHAIRMAN. Thank you, Assistant Secretary.
Assistant Secretary Schriver, welcome.

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

Mr. SCHRIVER. Thank you.

Good morning, Madam Chair, and thank you for the opportunity to be here to discuss our important relationships with the Freely Associated States.

Our relationships with the Freely Associated States are critical for our policy of trying to advance a free and open Indo-Pacific which are based on what we see as enduring principles—for example, respect for sovereignty and independence of every nation, no matter its size; peaceful dispute resolution without coercion; free, fair and reciprocal trade and investment; and, adherence to international law and international norms.

As a Pacific nation ourselves, the United States views the Pacific Islands as critical to our strategy because of our shared values, interests, commitments, including the U.S. security guarantee to the Freely Associated States.

Our shared interests with the Pacific Islands underscore four important components to this special region. First, our shared history as you both mentioned in your opening statements from the Committee. Our commitments are borne from shared experiences over many years and most notably, during World War II and that compels us to renew our commitments. Second, we believe strongly and respect for a safe, secure, prosperous and free and open Indo-Pacific region that must preserve the sovereignty of even the smallest states. Third, in line with the 2018 Boe Declaration, we aim to help build capacity and resilience to address maritime security challenges. And fourth, we're committed to continued engagement in the region by reaffirming and renewing partnerships.

We face a number of challenges in the Indo-Pacific alongside our partners in the Freely Associated States, continuing maligned behavior from Russia, dangerous and rogue behavior from North Korea, persistent and evolving threats from non-state actors, emerging threats across a range of domains such as cyber and of particular interest, I think, in the Pacific Islands, the non-traditional, transnational threats such as natural disasters, illegal and reported unregulated fishing, piracy, drug trafficking, and the impact of climate change.

But we are, of course, very focused on the challenges presented by China, as again, was mentioned in opening statements. China is increasingly assertive and more willing to accept friction in pursuit of its interests. Given our strong relationships with the Freely Associated States, we're particularly concerned with China's use of coercive tools to attempt to erode their sovereignty and induce them to behave in accordance with Chinese interests. For example, in recent years China has reapplied pressure on Taiwan's diplomatic partners as seen in 2018 when China effectively banned tourists from visiting Palau, draining Palau's tourism industry in an attempt to pressure that country into switching its diplomatic recognition.

Our policy response at the Department of Defense is through the implementation of our national defense strategy and the Freely Associated States feature prominently there. And that strategy includes three lines of effort.

The first is building a more lethal and resilient joint force. An example of how we work in the region is found in the Marshall Islands in the investments we've made as was mentioned in the Ronald Reagan Ballistic Missile Test Site Facility which is key for much of the innovative work we're doing in the Department.

The second line of effort is strengthening alliances and partnerships. These networks are critical to our ability to protect our partners and develop capabilities for partners to defend themselves and contribute to upholding a regional order. In this context, the Freely Associated States are part of our long-term strategy as they grant us access and support international fora. They also contribute to our mutual defense by the servicemembers who do serve in our armed forces and their citizens have made the ultimate sacrifice, including lost lives in Iraq and Afghanistan. The Freely Associated States contribute to our pressure campaign against North Korea and are valuable partners in a range of security issues, as I mentioned.

The third line of effort is reforming our Department for greater performance in affordability. The Freely Associated States play a key part here as well. I would mention the work in Palau to provide radar equipment and technical support. This radar will enhance our ability to compete effectively with China and the aforementioned work in the Marshall Islands at Kwajalein is granting us opportunities to test and improve our most important capabilities including hypersonics.

We are increasing our engagement in the Pacific Islands and have had many high-level visits to Oceania, including from our Indo-Pacific command and our own Department, and we look forward to keeping these relationships strong. We will work with our interagency partners and this Committee and members of Congress to ensure that our relationships are in the best possible position, post compact, whether that's a renewal or some other approach that keeps these very strategic partnerships strong.

Thank you, 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. SENATE COMMITTEE
ON ENERGY AND NATURAL RESOURCES
JULY 23, 2019

Introduction

Chairman Murkowski, Ranking Member Manchin, 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 Acting 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 six 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.

In Fiji, we work closely with the State Department to improve Fiji's military professionalism, particularly its maritime security and peacekeeping capacity. 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.

U.S. security support to the Pacific Islands also comes in many other forms. Many Pacific Island countries 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. We are increasingly supportive of capacity-building across the Pacific Islands, which includes at least \$7 million in Foreign Military Financing in 2018 to support Papua New Guinea, Fiji, and Tonga.

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. There have also been complemented by visits 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. If confirmed, Secretary Esper will make his first trip overseas as Secretary to Australia and New Zealand to discuss stepping up efforts across Oceania during his tenure. 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.

The CHAIRMAN. Thank you very much, Assistant Secretary.
Let's next hear from our Deputy Assistant Secretary, Ms. Oudkirk. Welcome.

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

Ms. OUDKIRK. Chairman Murkowski, Ranking Member Manchin, 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 Indo-Pacific is the most populous and economically dynamic region of the world. The U.S. interest in a free and open Indo-Pacific dates 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.

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 three countries, and these three countries consult closely with us on their foreign policies.

The Freely Associated States hold strong to their core democratic values. This bedrock underpins our strong relationships and our close cooperation. Palau and the Marshall Islands are two of the only 17 countries that publicly state that they maintain diplomatic relations with Taiwan.

The Marshall Islands, the Federated States of Micronesia and 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.

We work closely with all three countries on the full range of law enforcement issues. We conduct law enforcement training in all three countries, conduct joint maritime law enforcement patrols and cooperate on law enforcement investigations.

Eligible citizens of all three countries, as was noted earlier, can travel without visas to live, work and study in the United States, and 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.

The United States must continue to deepen our engagement with the Freely Associated States, especially at a time that increasing competition from China, Russia and other countries seeking to exert greater influence in the Pacific region.

While our compact relationships, overall, don't have an end date, with the scheduled end of U.S. assistance fast approaching, now is not the time to leave these countries vulnerable to the predations of larger countries.

For example, China has significantly increased its engagement with the Pacific Islands over the last decade. China has provided \$1.8 billion in assistance to the Pacific Islands since 2006, mostly for infrastructure, putting China third behind Australia at \$7.7 billion and the United States at \$1.9 billion.

China's engagement is still growing. Over the past decade, dozens of senior leaders from China have visited the region. In March 2017, President Xi hosted then Federated States of Micronesia President Christian for a state visit. China also provided \$724 million in assistance between 2011 and 2016 to the Federated States of Micronesia. In Palau, Chinese tourists and investment in the tourism sector dominate the market.

We remain a top trading partner in the Freely Associated States, but China's trade relationship is also growing.

Against this backdrop of growing competition, there is uncertainty about the United States' willingness and ability to sustain our robust forward 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 Indo-Pacific.

Thank you for working to fulfill our commitment to Palau under the 2010 U.S.-Palau Compact Review Agreement and for the leadership of this Committee in making that possible. This action clearly delivered a message to the region, and especially to Palau, that the United States follows through on its commitments.

President Trump's historic May meeting with the presidents of the Freely Associated States illustrates the importance that this Administration attaches to these relationships.

The Department of State welcomes the opportunity to work with Congress to secure long-term U.S. strategic interests in this vital region, including by working collaboratively to explore ways in which we might further strengthen the relationship after the economic assistance expires under the current terms of the three Compacts of Free Association.

Chairman Murkowski, Ranking Member Manchin, 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.

[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
July 23, 2019

Chairman Murkowski, Ranking Member Manchin, 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 Assistant Secretary of the Interior Douglas Domenech; 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.

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 Freely Associated States own efforts in the security arena, including all three nations' membership in the Proliferation Security Initiative, their work securing their respective ship registries from illicit use by bad actors, jointly exercising our Shiprider Agreements to combat illegal, unreported, and unregulated (IUU) fishing, and their long tradition and high rate of service by citizens of all three countries in the United States armed forces contribute to our mutual security.

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. Palau and the Marshall Islands are two of the 17 countries that publicly state that they maintain diplomatic relations 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 maintaining the status quo in diplomatic recognition 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 Freely Associated States 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 have been found using 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. In Palau, in 2018, the BILLIONS No. 18, another tanker illicitly trading with North Korean flagged or operated ships, was de-registered. 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 deregistration 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 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. 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, more than 91 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 Initiative, of which this conference is a part, now has more than 150 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 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 to climate variability. 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. 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 - embodied 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.

While our Compact relationships overall do not have an end date, with the scheduled end of U.S. economic assistance 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 -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.

Over the past decade, dozens of senior leaders from China have visited the region, including President Xi Jinping's 2014 Fiji visit to announce a strategic partnership. In 2015, Fiji's PM made a return visit, meeting with Xi as well as Premier Li Keqiang. Papua New Guinea's President O'Neill visited Beijing in 2016 and in June 2018, when he signed on to Beijing's Belt and Road Initiative. In March 2017, President Xi hosted then Federated States of Micronesia President Christian for a state visit.

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 50 percent of Vanuatu's external debt. Papua New Guinea has the biggest total debt to China at almost \$590 million, about a quarter of its total external debt. There is a strong risk that these loans have the potential to be exploited for political leverage to extract additional concessions, as in the case of Sri Lanka's Hambantota Port.

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 has provided \$724 million between 2011 and 2016. In Palau, Chinese tourists and investment in the tourism sector dominates the market making Palau's economy, which is highly dependent on tourism, susceptible to changes in China's policies. In FY2015 Palau's tourism economy boomed, and GDP grew by 9.3 percent. In FY2017 the economy contracted by 4.7 percent reflecting a global drop in visitors from 146,629 to 122,050, a 17 percent reduction.

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 over \$300 million.

In 2018 trade in goods between China and the Federated States of Micronesia was \$40.4 million in contrast to trade with the United States at \$47.6 million. In 2018 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 \$13.9 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. U.S. decisions related to post-2023 with the Federated States of Micronesia and the Marshall Islands, as well as post-2024 with Palau, will signal our enduring commitment to this critical region.

Thank you for working to fulfill our commitment to Palau under the 2010 U.S.-Palau Compact Review Agreement and for the leadership of this Committee in doing so. It clearly delivered the message to the region—and especially to Palau—that the United States follows through on its commitments.

President Trump's historic May meeting with the presidents of the Marshall Islands, Federated States of Micronesia, and Palau illustrates the importance which the Department of State and the Administration attach to these relationships. We welcome the opportunity to work with Congress to secure long-term U.S. strategic interests in this vital region, including working collaboratively to explore ways in which we might further strengthen the relationship after the economic assistance expires under the current terms of the three Compacts of Free Association. Through interagency coordination and cooperation, the Administration is already engaged in evaluating options for our continued relationships with all three countries.

Chairman Murkowski, Ranking Member Manchin, distinguished members of the Committee, thank you for the opportunity to appear before you today and we look forward to again working closely with Congress to ensure that the United States can effectively secure U.S. interests in the Indo-Pacific.

The CHAIRMAN. Thank you, Ms. Oudkirk. We appreciate that. Dr. Gootnick, welcome.

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

Dr. GOOTNICK. Thank you.

Chairman Murkowski, Ranking Member Manchin and members of the Committee, thank you for asking GAO to participate in this hearing.

As has been said, 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 after 2023.

In my remarks today I will focus on two key issues associated with this transition. First, the extent to which the two countries rely on U.S. assistance. And second, the status of the trust funds.

First on the role of U.S. assistance. Sector grants and the SEG continue to support a substantial portion of government resources in both countries. In the FSM for 2016, these grants were roughly one-third of all government expenditures and nearly one-half, if you add in the other grants, programs and services which I'll get to in a minute. In the FSM reliance on these grants varies by state. Chuuk, with the largest population and the lowest per capita GDP, is most reliant on these grants. These sector grants in the SEG in Chuuk 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 in 2016, yet they also represent 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 are set to continue and some are not. For example, based on current U.S. law and the assessment of agency officials, FEMA funding for disaster relief and U.S. Postal Service will end after 2023. According to agency officials, the FDIC will no longer have the authority to ensure deposits in the Bank of Micronesia. Other programs and services such as FAA Civil Aviation, U.S. Aid Disaster Response and others may continue under other authorities. Still other programs and services may continue without change. So, for example, eligibility for PELL grants, special education grants and numerous public health services, public health programs will continue.

An addendum to my written statement provides an analysis of the status of most U.S. programs and services after 2023. I think it's 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. Under their current structure, the trust funds are unlikely to 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 41 percent likelihood of zero disbursements in one or more years in the first decade after 2023 and a 92 percent risk if you run the analysis out 40 years. For RMI the results are somewhat lower. It's 15 percent in the first decade and more than 50 percent, just over 50 percent, over the 40-year period. These results are consistent with those of the Asian Development Bank, the IMF and analyses funded by Interior.

These risks have been known for some time and there are proposals to mitigate the shortfalls. A number of these proposals rely on changing the constraints that currently exist on disbursement, constraints that are built into the trust fund agreements. However, absent the reduction in planned disbursements or an increase in contributions, these changes, in and of themselves, do not resolve the shortfall in trust fund balances.

Additionally, some of the proposals represent changes in the trust fund agreements, and on the U.S. side this would require an act of Congress.

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 Marshall Islands. Compact nation citizens have been recruited by U.S. firms, and migrant communities in the continental United States are growing.

Our ongoing work for this Committee will add to knowledge on the demographics of compact migration and on key issues faced by migrants in the affected jurisdictions.

Madam Chair, this completes my remarks. I'm happy to answer your questions.

[The prepared statement of Dr. Gootnick follows:]



United States Government Accountability Office

Testimony
Before the Committee on Energy and
Natural Resources, U.S. Senate

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COMPACTS OF FREE ASSOCIATION

Trust Funds for Micronesia and the Marshall Islands Are Unlikely to Fully Replace Expiring U.S. Annual Grant Assistance

Statement of David Gootnick, Director,
International Affairs and Trade

GAO Highlights

Highlights of GAO-19-648T, a testimony before the Committee on Energy and Natural Resources, U.S. Senate.

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 discussed actions in response at subsequent trust fund committee meetings, with implementation targeted for 2023.

View GAO-19-648T. For more information, contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov.

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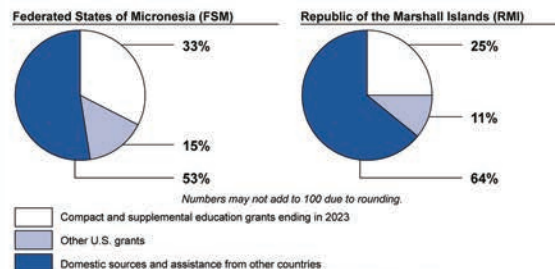
COMPACTS OF FREE ASSOCIATION

Trust Funds for Micronesia and the Marshall Islands Are Unlikely to Fully Replace Expiring U.S. Annual Grant Assistance

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 PL 108-188, the RMI Military Use and Operating Rights Agreement (MUORA); and FSM and RMI single audit reports. | 19-648T

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

Chairwoman Murkowski, Ranking Member Manchin, and Members of the Committee:

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 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) trust fund committee actions needed to address the 2023 transition to trust fund income.

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 2023.¹ 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.

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.² 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

¹Compact 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.

²GAO, *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).

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 substantially changed 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. We also reviewed information provided by Interior to update the status of its response to our previous recommendations to address risks to the compact trust funds.

We conducted this performance audit from June 2019 to July 2019 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

Jurisdiction	2016 Population	Fiscal year 2016 GDP per capita (dollars)
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-19-648T

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,

³During 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

⁴The military use and operating rights agreements (MJORAs) 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 RM, 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).

⁵Citizens 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).

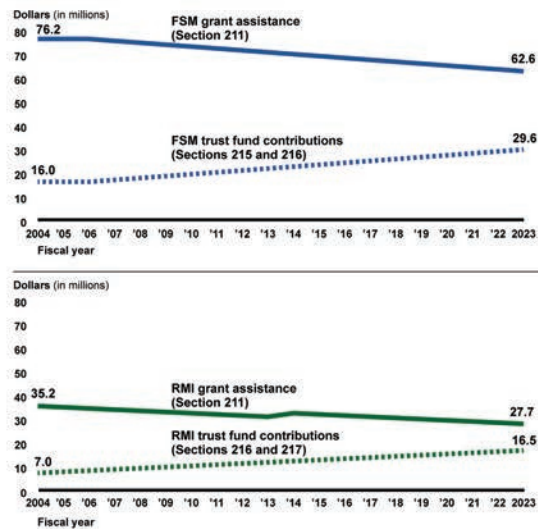
⁶The base amount is partially inflation-adjusted by the percentage that equals two-thirds of the percentage change in the U.S. gross domestic product implicit price deflator, or 5 percent, whichever is less in any 1 year, using the beginning of 2004 as a base.

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

⁷The 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).

⁸The 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. 105-188; GAO-19-548T

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

Compact Trust Fund
Management and
Implementation

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

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 United States is required by the terms of the trust fund agreements to hold the majority of votes on each committee. 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.

⁹In 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 2056, 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.

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

¹²Each 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.

	<p>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.</p>
Compact Trust Fund Structure	<p>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.</p> <p>Each country's compact trust fund consists of three interrelated accounts: the "A" account, the "B" account, and the "C" account.</p> <ul style="list-style-type: none"> • 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

¹³Full 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.

¹⁴Special 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.

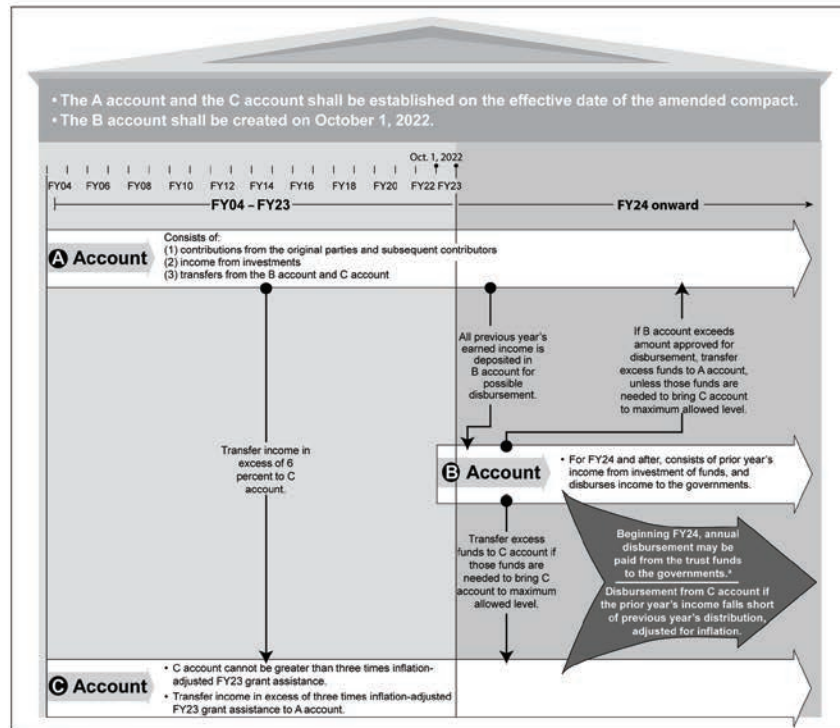
income, no funds will be deposited in the B account for possible disbursement the following year.

- 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



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.

	<p>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.</p>
Programs and Services Provided in Compact-Related Agreements	<p>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.</p>
Programs Authorized by U.S. Legislation	<p>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 authorized 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.</p>

¹⁵The 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 the FSM national government does. In the RMI, compact sector grants and the SEG supported about one-quarter of all government expenditures. The end 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

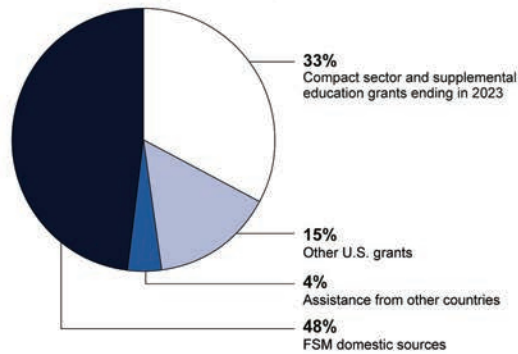
U.S. Compact Grants and Other Grants Provide Substantial Support to the FSM and RMI Budgets

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).

¹⁶Throughout 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-19-648T

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-19-648T](#), 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

Dollars in millions

	Total government expenditures (dollars)	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	
		Amount (dollars)	Percentage of total government expenditures	Amount (dollars)	Percentage of total government expenditures	Amount (dollars)	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	76
Kosrae	14.0	6.9	49	1.7	12	8.6	61
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	48

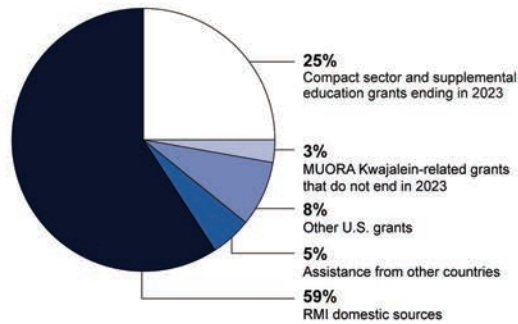
Source: GAO analysis of FSM national government and state fiscal year 2016 single audit reports. | GAO-19-648T

^aThe 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. 106-188, the Republic of the Marshall Islands (RMI) Military Use and Operating Rights Agreement (MUORA); and RMI single audit reports. | GAO-19-648T

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-19-648T](#), 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 years¹⁷ 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 performance presented in this testimony and do not alter our broader conclusions about future risks to the compact trust funds.

¹⁷The 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.

¹⁸The FSM compact trust fund balance was \$565 million as of the end of fiscal year 2017 and \$636 million as of the end of fiscal year 2018. As of the end of the second quarter of fiscal year 2019 the FSM compact trust fund had a preliminary and unaudited balance of \$663 million. The RMI compact trust fund balance was \$357 million as of the end of fiscal year 2017 and \$402 million as of the end of fiscal year 2018. As of the end of the second quarter of fiscal year 2019 the RMI compact trust fund had a preliminary and unaudited balance of \$416 million.

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.)

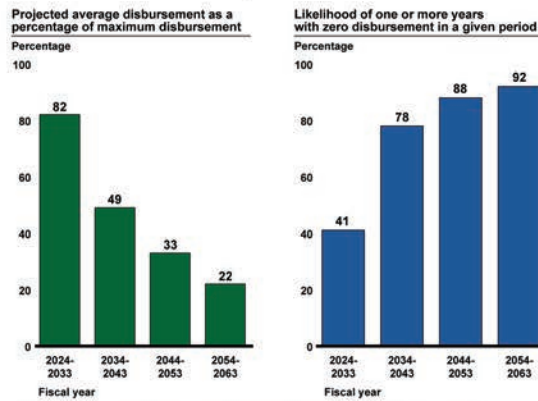
- **Projected disbursements.** We projected that the FSM compact trust fund will, on average, be able to provide disbursements equal to 82 percent of the maximum allowable disbursement—the inflation-adjusted amount of 2023 annual grant assistance—in its first decade of disbursements. The likely average 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

¹⁹We 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-19-648T

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.

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

²⁰The 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.

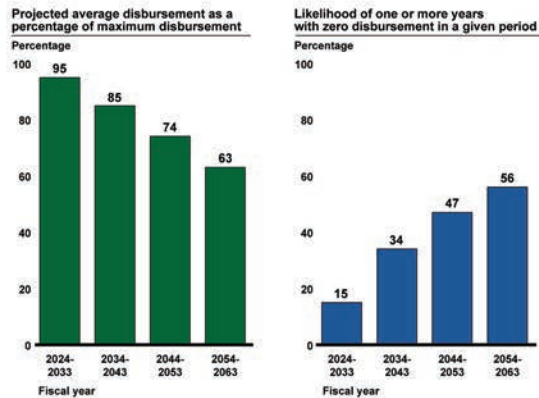
maximum allowable disbursements and an increasing chance of zero disbursements.

- **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

²¹The 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-19-648T

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 may 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 trust fund committees have not taken the actions we recommended in 2018 to prepare for the 2023 transition to trust fund income. The compact trust fund 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.

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

²²A 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.

²³GAO-18-415.

²⁴A 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.

	<p>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.</p>
<p>Trust Fund Committees Have Not Established Fiscal Procedures Required by Compact Trust Fund Agreements</p>	<p>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.</p>
<p>Trust Fund Committees Have Not Addressed Issues Related to Disbursement Timing</p>	<p>The timing for the 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</p>

²⁵The 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.

²⁶According to a representative of Graduate School USA, which has studied the compact trust fund in prior years, predictions of the fund 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.

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 Have Discussed Potential Actions to Address our Recommendations

The trust fund committees, chaired by Interior, have discussed 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 agreements²⁹, and
- address the timing of the calculation of compact trust fund disbursements.

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 subsequent trust fund committee meetings—including the most recent, in May 2019. According to the trust fund administrator, trust fund representatives met with FSM and RMI representatives in January 2019 to discuss the status of the trust fund and future scenarios for its management. Interior officials further stated that discussions about trust fund policies and controls were frequent and ongoing among committee members and staffers as well as the trust fund manager and investment advisers.

²⁷According 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.

²⁸GAO-18-415.

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

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, and the lack of alignment between the trust fund committees' annual disbursement calculations and the countries' budget cycles hamper 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. However, as of June 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.

Chairwoman Murkowski, Ranking Member Manchin, and Members of the Committee, 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, Christopher Keblitis, 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—

¹The 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.

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

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-19-648T

^aStatus shown is based on current law as of May 2018.

^bThe 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.

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

^aEbeye 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.

^bInterior 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.

^cIn 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^a 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^a Implementing Legislation, Pub. L. No. 108-188

Program description	Eligibility under current law as of end of fiscal year 2023 ^b
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. ^c	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

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

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. 105-188, and other public laws. | GAO-19-648T

^aEligibility 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.

^bIn 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.

^cThe 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.

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- 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.

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 after the programs and services agreements end of

²An 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.

³In 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.

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

programs and services currently provided to the FSM and the RMI under the agreements.

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.
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	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

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

Country receiving assistance	U.S. agency	Program or service	Description	Status under current law after programs and services agreements end ^a
			the countries' mail to and from the countries.	Postal Union. If they do not, the Postal Service will need to negotiate beneficial bilateral arrangements with the countries.
FSM and RM	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 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 RM	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.
FSM and RM	DOT FAA	Civil aviation economic services and related programs	Permits FSM and RM airlines to operate between U.S. destinations. Provides technical assistance to the FSM with regulation of air service.	FSM and RM 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-19-648T

^aStatus 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.

^bAt present, according to the U.S. Postal Service, the United States has received no request for assistance in acquiring membership in international postal unions from either country. The Department of the Interior has 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 has not covered its costs in each year that it has 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.

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

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 ¹
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.

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

Country receiving assistance	U.S. agency	Program or grant	Description	Status under current law as of end of fiscal year 2023 ^a
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.
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. 106-186, the U.S. Code, and discussions with agency officials. | GAO-19-648T

^aStatus 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.

^bAccording to the U.S. Department of Labor, there are currently no Job Corps activities in either the FSM or the RMI.

^cThe 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

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

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.

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

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 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.
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. 106-186 and the U.S. Code; and discussions with agency officials. | GAO-19-648T

^aStatus 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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The CHAIRMAN. Thank you, Dr. Gootnick, and thank all of you for your testimony this morning.

A lot to talk about here this morning, but I want to start off with just a focus on where we are with the financial assistance. I appreciate your reminder to the Committee, Ms. Oudkirk, in terms of how these commitments that the United States has made with these compacts, how that is viewed in these insular areas.

I had an opportunity to be in Palau right after we passed the agreement to extend the financial assistance to Palau. We recognize that we reached the agreement in 2010, but then it took an additional eight years to pass it because we were arguing over where we were going to get the offset from. And at that point in time, the PAYGO rules were not—well, no, PAYGO was in place and that was our problem. And so this is where this fight ended.

Anyway, long story. I go over to Palau just literally days after this has been signed into law, and I am thinking there is going to be a ticker tape parade—and it was met with a “well, it’s about darn time.”

It was very important for me to be there at that time and to hear very specifically from leaders and individuals out in the region who had said, you know, we were not entirely sure that the United States was going to ever make good on its promise, on its commitment. And if you don’t make good on your commitment here, what does it mean to the others who are also waiting for fulfillment of that commitment?

Then where we are right now with RMI and FSM. The PAYGO rules were not in place when financial assistance was extended for the RMI and the FSM in 2003. During that time, we had the same three departments before this Committee. We asked how the financial assistance was going to be paid for and everybody was pointing down to you, pointing to the Department of the Interior.

I guess the question to everyone this morning is, if we are to extend financial assistance to RMI and FSM, we know that this is going to be a pretty significant amount, significantly higher than the \$216 million for Palau over 15 years. We might reach that amount in one year here. What plans are being made right now to find a way to pay for any potential expansion? And the question to State, to Interior and to Defense is, will you all be a part of that funding source? If you can, give me an update as to what we are looking for with regards to financial assistance for RMI and FSM from each of you.

See, look at this everyone. You go first.

[Laughter.]

Let’s start with State.

Ms. OUDKIRK. Okay, so, thank you very much, Chairman Murkowski.

What I can say here in this venue is that we have already started consulting on this question, but we don’t yet have an answer.

And so—

The CHAIRMAN. What would you need for the answer? Do you need the funding source?

I mean, when you say you are consulting, in whose budget does it come from? Give me a little—

Ms. OUDKIRK. Whose budget will it come from will be a key part of the question, but I think also, the points that Dr. Gootnick brought up, figuring out the magnitude, figuring out what the funds need to be used for? That's a key question here.

And how we go forward when the direct economic assistance ends is still a question that we're, sort of, deliberating on internally within the interagency.

The CHAIRMAN. Okay.

Mr. Schriver or Mr. Domenech, do you want to add further to that?

Mr. DOMENECH. I don't have that much more to add except that, you know, per the letter that you wrote to the three Secretaries encouraging us to put together an interagency group to begin addressing the post compact timing and, in your letter, encouraged us to have a viable pathway for funding it. We have been meeting. So the interagency that the Assistant Secretary mentioned is active, and we've been talking about it and working through the dynamics of what that might look like. It's an active discussion with us and with OMB and we just have not come to a resolution quite yet.

The CHAIRMAN. Okay.

I know around here looking at a date of 2023–2024, to folks on the outside that might seem like a long ways away, but we know how quickly it creeps up on us and then we are on it. And so, I would just, again, urge that this level of consult within the three departments not only be ongoing but really be stepping it up.

Let me ask one more quick question.

Unlike the compacts with the RMI and FSM, which are going to continue indefinitely, the compact with Palau has a 50-year expiration so that takes us to 2044. That is a longer way out, 25 years. But are there any plans that you are aware of, Ms. Oudkirk, with the prospect of pursuing an extension? Has Palau expressed any interest in extending that? Do you know where we are on that?

Ms. OUDKIRK. Thank you very much, Senator Murkowski.

To the best of my knowledge, we have not discussed extension beyond 2044.

The CHAIRMAN. Okay, that is consistent with what everybody else knows.

Let me turn to my colleague, Senator Manchin.

Senator MANCHIN. I really don't know where to start. There is so much I want to ask about what is going on.

I am going to put this map up for everybody to see.

[Map is displayed.]



Senator MANCHIN. This is how we understand what is going on in this part of the world. Everything inside of this first row of red dots shows, pretty much, China's domination and everything in this circle here shows their intentions. Is that accurate? Okay.

And I am understanding that Palau, Micronesia, and the Marshall Islands, I guess I would want to know and I know there are people in the audience representing those areas, but from you all. What is the atmosphere there? Are they just waiting for this 2023 and 2024 to move on? Do they have any intentions of signing on? Is there a generation that does not understand all the sacrifices that were made by their ancestors before them through wars and what we had done and the sacrifices we made as a country to liberate them? Is there any intentions or is it, basically, is it just dollars and cents? If China comes in with more money, they are going to eventually have control over these areas.

Those would be my questions in some form. I don't know if it is a funeral, if it is a losing cause, but I would say this is so geopolitically important for us. And I know they are trying to expand fueling stations and everything else they want to do in agreements.

I guess I would like to hear because, I mean, I have a deep concern of what is going on and the approach that China has systematically taken to be very much involved and control and be dominant in that part of the world.

Ms. OUDKIRK. So, if it's possible, sir, I'll take the foreign policy side of this and defer on defense to my colleague.

It is clear that China has, is moving aggressively to expand its influence within both Southeast Asia and the Pacific.

I will say though, to your question of is this a dollar and cents issue to the Pacific Island States, that we share far, far more with the Pacific Island States than merely a transactional, economic relationship. We share bedrock values of democracy. We share values related to military service.

The question that you had about whether the sacrifices of the World War II era generation have been forgotten by the new generation, I will say that is absolutely not the case. As I noted in my testimony, citizens of these three countries serve in the U.S. Armed Forces at a rate far in excess of most U.S. states. And they're very, very small populations so that service is reflected out in every town, every family.

Senator MANCHIN. I hate to interrupt you. I just want to because our time is—well, there are three of us now.

Dr. Gootnick explained to us substantial portions of the budgets of the Associated States come from our financial assistance.

In May there was an article published in the Chinese government-owned newspaper, China Daily, that said China's president considers relations in Micronesia as highly important and it went on to say that China stands ready to bring the relationship of Micronesia to a new level.

Chairman, I want to submit this. I think you all probably have seen this.

[China Daily newspaper article follows.]

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President hails ties with Micronesia in greetings

By CAO DESHENG | China Daily | Updated: 2019-05-21 04:39

President Xi Jinping has congratulated David Panuelo on his election as president of the Federated States of Micronesia on behalf of the Chinese government, the Chinese people and himself.

In a written message to Panuelo last week, Xi said that since the two countries established diplomatic ties 30 years ago they have respected and supported each other and gained fruitful outcomes in various fields.

He mentioned that last November the two nations agreed to lift their ties to the level of a comprehensive strategic partnership, featuring mutual respect and common development.

Xi said he considers relations with Micronesia as highly important.

He stands ready to work with Panuelo to take the comprehensive strategic partnership between China and Micronesia to a new stage, and herald a new chapter of bilateral ties to deliver more benefits to the two countries and the two peoples, Xi said.

English

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Senator MANCHIN. I would assume that means in their financial assistance.

China has a way of moving in areas that seems like they are benevolent movements and then, all of a sudden, they have strings attached to where they come in and take over. We have seen this in different parts of the world.

Has there been any experiences in those three countries that we have seen that, that activity, the way they would have pause of understanding what China's real claims are?

Ms. OUDKIRK. I think that we saw Chinese economic coercion most clearly in the example of tourism in Palau. So tourism is a mainstay of the economy there and when China—

Senator MANCHIN. Did the Palau officials push back on that?

Ms. OUDKIRK. Well, I think it was, the Chinese economic coercion, whether it is against Palau or against Korea or Japan or the Philippines, tends to be a very blunt, very visible tool. It's not subtle. It's very direct, and it's meant to be seen, which is why it is so important that the United States remain involved, keep our economic relationship with these countries strong, diverse, non-coercive, free, reciprocal and sovereign.

I think it is so important that the United States is part of our Indo-Pacific strategy, stresses the importance of sovereignty for big countries like the United States and for small countries like the Freely Associated States. That bedrock principle of sovereignty for us is really important when we speak to our foreign partners many of which are much, much smaller than us, because that's not necessarily how other economic actors treat those countries.

Senator MANCHIN. Mr. Schriver, do you have anything to add to that?

Mr. SCHRIVER. Well, we're quite aware of Chinese ambitions and that's why our national defense strategy is relearning our entire enterprise toward strategic competition with near peer competitors like China.

It is a particular challenge in this region because, as my colleague said, these are small and somewhat vulnerable states. We find a lot of enthusiasm for the defense relationship in the Freely Associated States. It's already been mentioned the rate at which they join the military.

We also help patrol their EEZs through our naval cooperation and our Coast Guard. We do training and exercising related to humanitarian affairs, disaster relief. As part of that training, we're building facilities and giving our servicemembers the opportunity to have real world experience in engineering and that benefits the local population.

But it's a persistent challenge, and we can't give space for the Chinese to crowd us out or change the nature, the quality, of our relationship with the Freely Associated States. So we've got to be persistent and nimble ourselves and bring in other like-minded partners. We have a lot of interest from Australia and New Zealand and Japan to also be active in these states.

And so, I think it's something we're quite aware of and work on daily.

The CHAIRMAN. Thank you. It really does require a level of persistence and presence.

I am pretty certain that Secretary Bernhardt is going to be out in the region in the next month or so which, I think, again, is important to not only have the military presence there, as you mentioned, the Coast Guard, but those who are part of our Cabinet, those who are significant in terms of the U.S. leadership presence going out and having a presence on the ground because I know for a period of time, it was kind of lonely out there in terms of the number of folks who would come by for a visit since it is not exactly on the way home for most people.

Mr. Domenech, and then we will turn to Senator Hirono.

Mr. DOMENECH. Yes, I just wanted to also say that Secretary Wilkie from the VA—

The CHAIRMAN. That is right. He is going out.

Mr. DOMENECH. —is planning to go out for the inauguration of the new President of FSM here in a couple of weeks, I believe.

So from the Administration's standpoint, there has been a concerted effort to try to have high level presence in the region, to support the region. To Senator Manchin's, to answer his first question when he started. I would say, not speaking for them, that there's great interest amongst these three countries to renew the compact. So there's no pushback from any of them. They're anxious to see—like your story, Chairman, about Palau—whether the United States is going to step up and continue this relationship after 2023. So they definitely want to be partners.

The CHAIRMAN. Good.

I think Secretary Wilkie's visit there is very, very key given the significant number of those who volunteer to serve, and we recognize that they have some very significant issues with regard to access to VA services. So his presence there is going to be very welcome.

Senator Hirono.

Senator HIRONO. Thank you, Madam Chair.

I want to make sure that it is crystal clear how important our relationship is in the compacts that we have with the Freely Associated States.

Mr. Schriver, you noted in your testimony that the Compacts of Free Association with the Freely Associated States are critical to U.S. national security and to maintaining a free and open Indo-Pacific. I want to make sure that that is crystal clear.

And then for Secretary Domenech, in your testimony you state that eligible citizens of the Freely Associated States have the right to enter the United States visa free. That is a very important fact to note that they can come visa free and to live, work and study here for an unlimited amount of time. If FAS citizens are in our country legally, they are legally present in our country. Do either one of you, probably Assistant Secretary Domenech, do you have numbers on how many FAS citizens have come to the United States visa free? Either one of you?

Mr. DOMENECH. I'm sorry, thank you for the question.

I would answer it in two ways. One is, we do, at Interior, pay the Census Bureau to do an enumeration every five years as you're likely aware. We just completed that enumeration and, basically, the numbers are about 38,000 folks from the Freely Associated States who live in the territories and Hawaii. We don't count or we

don't enumerate those that are living in Arkansas, other places in the United States. So it's about 38,000.

Senator HIRONO. So the 38,000 live mainly in Guam and Hawaii? Is that what you are saying?

Mr. DOMENECH. That is correct. It's mainly Guam and Hawaii.

Senator HIRONO. And there are some numbers in Arkansas, for example? Do you have any idea what that number is and why don't you have that figure?

Mr. DOMENECH. That's a good question, I guess. We're only allowed to spend money in that enumeration for the territories and Hawaii. But I'm sure there's probably a number elsewhere that we could try to find. Happy to get that to you afterward.

Senator HIRONO. Yes.

And when you say 38,000 because the populations of these countries are not that high, it is probably, it is a little over 130,000, maybe. I mean, you have 38,000 plus there are more of them living outside of their country. So we are talking about a pretty significant number.

Now at the same time, yes, many of them do live in Hawaii, 17,000 or so, and there are large numbers in Guam. And because of the responsibility and the mutual relationship that we have with them, don't you think it is important that as we deal with a compact and whatever provisions of the compact that will be subject to any kind of negotiation, that when they do come to our country that they are able to live, work and, you know, access health care like anyone else who is legally present in our country? Wouldn't that be an important thing for us to pay attention to?

Both of you.

[Mr. Domenech and Mr. Schriver both nod yes.]

Senator HIRONO. Okay, I want the record to reflect that they are both nodding yes.

And the main reason is that way back in 1995, 1996 or so when the welfare reform law was enacted and there was a definition that, I know it was inadvertent, exclusion of citizens from FAS states that prohibited them from being eligible for Medicaid coverage. I know that it was inadvertent because that section that I am referring to in the Welfare Reform bill had to do with services that are available to all those who are legally present in our country. And the citizens of FAS were not included, even though it is very clear that they are legally present in our country.

I am hopeful that as you proceed with negotiations that there is some way that we can pay attention to that they should not be discriminated against in services that others who are legally present in our country can access.

I just wanted to put that out there.

Since I am running out of time, for Under Secretary Schriver, your testimony notes the strategic importance of this region, and one threat that I am concerned about is biosecurity in the region.

The Department of Navy published their Regional Biosecurity Plan for Micronesia and Hawaii in 2015 that included numerous recommendations to help mitigate the threat of invasive species in the region.

Will you provide me with an update on where the DoD is currently with implementing those recommendations that have to do with protecting biosecurity?

Mr. SCHRIVER. If you'll permit me, I'd like to take that question and respond to you a more fulsome answer with consulting my colleagues in the Navy.

Senator HIRONO. You also note that there is a concern in the region about climate change and that climate change is "a source of concern to our partners in the Pacific Islands."

Is climate change a source of concern for the DoD and, if so, what steps will the DoD take to mitigate the impacts of climate change in the Indo-Pacific region? There is no question that island states are seeing the impact of global warming and climate change already.

Thank you.

Thank you, Madam Chair.

The CHAIRMAN. Thank you, Senator.

I will just follow up on your point relating to climate change.

When I was out there last year, you can't help but be just overwhelmed with the fact that you are on these atolls that are flatter than this floor. And significant infrastructure that we have invested on Kwajalein, particularly at Roi-Namur.

So as we look at rising sea level, the threat of the king tides, the large waves that can overwash the islands, I don't know what you, you can't build that atoll up high enough. But again, recognizing, as Senator Hirono points out, the strategic location, geographic location that we have there, the assets that we have placed there, the men and women. What is the Department of Defense doing with any effort to adapt or to mitigate to what we are seeing there, this threat of rising sea level?

Mr. SCHRIVER. Thank you.

Well, at this point all I can say is we've identified this as a major challenge. The 2018 DoD report identified the general challenge of impact of climate change but also identified particular facilities that could be potentially threatened—Kwajalein being included in that report. The Department of Defense is still formulating a response on how to make our facilities more resilient, the adaptation piece, as you mentioned, and I don't have anything further to share at this time. But it's something we can stay in touch with you on.

I think as a more general matter, the Department of Defense looks at these issues with great concern because it could impact our resources in terms of more humanitarian disaster relief. It could impact access, training. So it's something that we are very concerned about.

The CHAIRMAN. Let me ask on the civilian side to both Mr. Domenech and Ms. Oudkirk, is there anything that is underway to assist the other Marshallese atolls in adaptation efforts? I know, again, you fly over, you are on the ground there and there is no high ground. And there are tens of thousands of individuals who are seemingly very vulnerable. Can you speak to what efforts, if any, are underway?

Mr. DOMENECH. Yes, I would just say that it's a significant issue for us at Interior. So we have deployed a group of folks from the U.S. Geological Survey to help us get the science straight. So

they've identified things like tide gauges, the need for additional tide gauges and other, kind of, helpful measurement items.

We also have worked with the Bureau of Reclamation which might seem a little odd, but they're the experts in desalination and fresh water supplies. And this summer we're deploying a team of technical experts to all the islands, so all three countries, to begin the process of giving them assistance in identifying islands. They're not all quite the same, but identifying islands that have fresh water problems. So we are starting to work on those measures together with NOAA who is weighing in as well.

The CHAIRMAN. Okay.

Ms. Oudkirk.

Ms. OUDKIRK. State has nothing to add, thank you.

The CHAIRMAN. Senator Manchin.

Senator MANCHIN. Thank you, Madam Chairman.

Dr. Gootnick, if I could, in your report you concluded the trust funds that we established for the Freely Associated States are likely not to have the funding needed to be able to make their annual payments to these countries. You also concluded that the committees that were set to manage these funds need to take a number of actions to avoid finding themselves in a situation where they are not able to disperse fundings from the trust in the future. Can you explain to us what specific actions the GAO is recommending that these committees do after your findings?

Dr. GOOTNICK. Thank you.

Well, I think the first thing to say is that these funds are designed to protect the corpus of the fund and there are rules on disbursement that have been established that do that. There's a three-fund structure A, B and C fund.

Senator MANCHIN. Sure.

Dr. GOOTNICK. The corpus of the fund, a distribution account and a reservoir fund. And at this point funds are being placed into the reservoir account. After 2023 the funds may disburse up to a maximum of inflation-adjusted sector grants going out. The rules that constrain disbursements really are the issue that—

Senator MANCHIN. You are saying they might not have funding for annual payments as they are now.

Dr. GOOTNICK. Right.

Because what will happen, what is likely to happen, is that the reservoir fund will be needed to tap and provide annual disbursements at the level of sector grants. Once that reservoir fund is depleted, depending on how the fund does in a given year, there may or may not be any money available for distribution. And so, the distribution framework is really one of the key issues. It's also the case that the funds simply are not large enough at this point under any sort of analysis to consistently provide disbursements at the level of sector grants on a long-term basis.

Senator MANCHIN. Mr. Domenech, on that, you might want to walk us through what would be required to update and renegotiate in these compacts, but also making financial stability, if you will, and how they are able to be funded and how they are able to be disbursed or if that will change in the new compact or is that recommended to be changed in the new compact?

Mr. DOMENECH. Well, Dr. Gootnick is correct in his analysis of the current status of the trust funds.

The one piece that, just to be clear, the compacts never actually said that the trust funds would be able to provide the funds at the same level as the grants that we do now. So every year Congress gives us money and that's divided up between contributions to the trust fund and contributions to the sector grants, is what they call it. And so, the idea that the trust funds would provide the same amount was actually never in the compact. It was only said that we, that they would become a source of funds for the three countries.

I would say that our trust fund committees have been working on the problems identified by GAO since 2015. It is not resolved yet because part of that is a negotiation with the three countries and they have an opinion about how it ought to work going forward. So that is something that they have been working on and the current plan is by next year to have all of those disbursement formulas set in place with the agreement of the three countries.

Senator MANCHIN. One final question to Ms. Oudkirk.

How much military activity are you all seeing in an area that had not had that much from China before moving out toward the outer rim, I would say, in the Philippine Sea?

Ms. OUDKIRK. Thank you, Senator. I'd like to defer that to my DoD colleague.

Senator MANCHIN. Okay.

I'm sorry.

Mr. SCHRIVER. We're seeing an increased level of activity throughout the Indo-Pacific, primarily the South China Sea, East China Sea, but it does certainly extend to the second island chain, Senator.

Senator MANCHIN. So you are seeing that visibly?

Mr. SCHRIVER. Yes.

Senator MANCHIN. Concerned?

Mr. SCHRIVER. Absolutely. As I said, we're aware of their ambitions. We know this is toward an aim. So this raises the importance of working with our partners.

The CHAIRMAN. Senator Hoeven.

Senator HOEVEN. Thank you, Madam Chairman.

For Secretary Schriver, would we be able to defend the second island chain and sustain our requirements across the Pacific region if we did not have the cooperation from the Freely Associated States?

Mr. SCHRIVER. I think it would be dramatically more difficult for Indo-Pacific command to do that.

Senator HOEVEN. Talk about that.

Because of our ability to—

Mr. SCHRIVER. Well, tyranny of time and distance and paucity of access, these are critical locations, depending on the contingency, but it would be a lot more difficult without their cooperation.

Senator HOEVEN. So then, from a DoD perspective, how important is the renewal of the Compact of Free Association and so forth, I mean?

Mr. SCHRIVER. The relationships are of strategic importance and if the interagency, working with the Congress, decides on that track, we'll certainly support it.

Senator HOEVEN. What are you seeing from China in terms of how they are approaching our involvement with the Freely Associated States and what are we doing to counter it?

Mr. SCHRIVER. Well, we have a unique relationship with the Freely Associated States where defense interests are concerned. So we do have a lot of say over China's overt access and ability to do things in these three countries.

The broader Oceania region, the Chinese and the PLA do have greater opportunity and latitude because we don't have the same sort of control.

But within the Freely Associated States, I think the leverages are primarily economic and, as was mentioned earlier, different points of leverage such as tourism are being used and these can all combine to subtly erode their sovereignty over time.

Senator HOEVEN. Ms. Oudkirk or Secretary Oudkirk, am I saying that right?

Ms. OUDKIRK. Yes, sir.

Senator HOEVEN. Talk a little bit about both the energy opportunities in the region and what infrastructure needs to be developed there for us to do more in the energy sphere.

Ms. OUDKIRK. Thank you very much, Senator.

I'll have to take that question back. Primarily when we focus on energy in the Indo-Pacific, we're looking at Chinese resource nationalism in the South China Sea and in areas outside the Freely Associated States such as Papua New Guinea and East Timor.

So we can get back to you on that one.

Senator HOEVEN. What are the opportunities then, besides tourism in the region?

Ms. OUDKIRK. So in terms of economic drivers, fisheries is an enormous economic driver there. Tourism, obviously, is another very large one. And we can get back to you with a more detailed response on other economic drivers.

Senator HOEVEN. Okay.

Secretary Domenech, can you discuss how you are working with the trust fund committees to ensure the viability of funding streams as we make the transition and so forth?

Mr. DOMENECH. Thank you, Senator.

Yes, we have a joint management committee structure for each country. They meet twice a year to discuss how the trust, how the grants, and funding will work.

In addition, the trust funds also meet at that same time. They're working through different scenarios about how the disbursements will be done post-2023 when the compacts end. There's a lot of discussion with the countries there about that.

So it's an ongoing discussion at this point in order to make those trust funds last as long as possible.

Senator HOEVEN. Can you comment as to relationships that we are building with the Freely Associated States beyond the defense logistical relationship and tourism? I asked about energy. Are there others?

Mr. DOMENECH. Fish is the other big natural resource they really have. We do lots of work——

Senator HOEVEN. So you are talking about recreational or commercial fishery?

Mr. DOMENECH. It could be both, but we think there's great potential for a fishing industry to grow there because of access to large supplies of tuna and other fish that can be commercially harvested. And so, that's one area that we're looking at.

But in terms of relationships, we do a lot of relationship building with all three countries. We fund training for government auditing and other kinds of transparency capacity building. We do youth programs, bring youth here to participate in learning about good government practices, that kind of thing. So we have a long-term, sustained effort to try to build that sort of, on the civilian side, relationship with these countries.

Senator HOEVEN. What about Japan as far as fishing over there? Isn't there a lot of fishing pressure from some of the countries in the region? Is there still a lot of opportunity? You know, you hear about a lot of existing fishing pressure.

Mr. DOMENECH. There is a lot of fishing in the region and one of the things that Assistant Secretary Schriver said, there is pressure from China in the Freely—in the EEZs of these three countries. They've come to us, and mostly to them and the Coast Guard, saying we sense that other actors are stealing our fish and we need help, technical help, to be able to try to deal with this issue. So they've brought to bear with the Coast Guard and others, assistance in that way.

Senator HOEVEN. Okay. Thank you.

Ms. OUDKIRK. Senator, if I could add on the issue of relationship building?

In terms of foreign policy at the United Nations and in other multilateral institutions, the Freely Associated States, we're very strongly aligned in terms of policy priorities, issues related to Israel, issues related to retaining a strong sanctions regime on North Korea. We're very close partners and this is a very important partnership for us.

The CHAIRMAN. Thank you, Senator Hoeven.

Dr. Gootnick, I wanted to ask about Palau's trust fund because you have given us a little bit of a preview of what to expect with the trust funds for the RMI and the FSM and the concern that you have about greatly reduced, if not zero, funding in future years. Do you think the Palau trust fund is in a similar situation? They are already drawing down from their trust fund now in order to just supplement their annual budget. Can you give me some kind of a prognosis on that one?

Dr. GOOTNICK. Right.

I think the 2018 funding of the 2010 agreement has put the Palau trust fund in a much better situation than the other two compact nations.

You're right that they have been reducing, that they have been pulling funds out, but they've been doing that at a somewhat reduced rate in the recent years and are now up to their \$15 million intended annual distribution.

The Palau trust fund is only intended to last until 2044 whereas these other funds, while there's no either specific annual disbursement that's stipulated under the implementing legislation in the compacts, they are looking to be a source of funds indefinitely.

The 2010 agreement put additional funds into the trust fund, our U.S. trust fund contributions, and we have not analyzed that recently but going back to some of our prior work, this puts them on a very sustainable path.

The CHAIRMAN. So if they manage this well and don't take too much from that fund early on, it sounds like you feel that they are going to be on a pretty sound footing?

Dr. GOOTNICK. Right.

Under the agreement they are to withdraw \$15 million annually—

The CHAIRMAN. Right, right.

Dr. GOOTNICK. —which is what was originally designed into their compact.

The CHAIRMAN. So that will work going forward to last them with the balance.

Dr. GOOTNICK. With the reduced withdrawals and the increase that's coming with the 2018 funding of the 2020 agreement—2010 agreement, yes, their fund is in a much more sustainable spot.

The CHAIRMAN. Okay.

So you are, again, your prognosis or your view of the trust funds in the RMI and the FSM trust there, look pretty concerning if you will. If you are anticipating that you are going to see these resources coming and there is either nothing in that fund or it is so greatly reduced, it amounts to very little.

We have talked about the economic pressures that are brought to bear for other initiatives. What other countries or international assistance might come from, I guess, international institutions that the Freely Associated States could turn to if the United States does not extend the financial assistance beyond 2023–2024? Where would they go?

Dr. GOOTNICK. Right.

Well, in the Marshall Islands there's a close recognition of Taiwan and a close relationship with the Taiwanese.

The CHAIRMAN. Right.

Dr. GOOTNICK. They have contributed to the Marshallese trust fund and—

The CHAIRMAN. In a significant manner?

Dr. GOOTNICK. They contributed, I believe it's \$30 million. I'll have to check that.

And I think, I know, my understanding is there's been discussion about additional contributions.

The FSM has its own trust fund that's independent of the compact trust funds and they have put funds into that. It's over \$200 million at this point, and they are using the revenue that was discussed with fishing fees to balance their budget and allow them to put money into their trust fund. I don't know that the rules on distribution from that trust fund are established, certainly not anything that I'm familiar with.

The RMI also has a small fund called their D fund that is outside of the compact trust funds. This is much smaller.

The CHAIRMAN. And where do they get those funds? Where do they get their funds for that?

Dr. GOOTNICK. I believe some of that has come from the Chinese and some of that, to the best of my knowledge, has come from their own revenues.

I'll have to check on that.

The CHAIRMAN. I am assuming it is fair to say that if the United States is not there with the financial assistance that they would hope for, they are going to potentially be looking to whether it is Taiwan, fair enough, China, gets us a little more on edge here, but they will look to others for a level of international assistance and support.

Dr. GOOTNICK. Right.

I think if you go to Micronesia you see much more presence of the People's Republic of China, and if you go to the Marshall Islands, you see much greater presence of the Republic of China or the Taiwanese.

The CHAIRMAN. Yes.

Dr. GOOTNICK. So they undoubtedly, I mean, first and foremost, if there is discussion around economic assistance beyond 2023, I suspect that the trust fund would be an important topic to deal with.

And secondly, you're very correct that the compact nations would be looking for other sources of funding.

The CHAIRMAN. Let me ask either Assistant Secretary Shriver or Ms. Oudkirk then with regards to diplomatic recognition of Taiwan.

How much pressure are the Marshall Islands and Palau under to switch recognition from Taiwan to China? I mean, you mentioned the tourism threat there. Really, how much pressure is brought to bear?

Mr. SCHRIVER. It's significant and the Chinese are very opportunistic. I mean, we look throughout the region out of Taiwan, 17 diplomatic relations. I think broader, Southeast Asia, Indo-Pacific, I think it's six or seven are in this region.

And there's an upcoming decision in the Solomon Islands, for example, and we've weighed in at very senior levels to try to encourage them to stay on sides with Taiwan. But in the Freely Associated States, again, it's primarily economic and it's significant.

The CHAIRMAN. Ms. Oudkirk?

Ms. OUDKIRK. I would agree.

It's safe to say that the pressure on all of the 17 countries that recognize Taiwan is intense. It's ongoing, it's consistent, and it's across all fora.

The CHAIRMAN. Again, as we are looking forward to the significance of these compacts and 2023 and 2024 and where the U.S. is, what level of presence we have, whether it is financial assistance, economic assistance, just being out in the region, seeing and being seen, these can impact and implicate relationships such as this.

I mentioned, or actually it was you, Assistant Secretary Domenech, you mentioned that Secretary Wilkie is going to be out in the region which is greatly appreciated. I throw this out to any of you. What more can we be doing to recognize and provide health care for those FAS citizens who have served in our armed forces? They go back to their home to live. It is a long flight to get to

Guam, certainly a longer flight to get to Hawaii and very expensive. But right now, these are the only alternatives, or the only options, that are available to these veterans.

We have talked about some programs similar to what we have in Alaska where you have Alaska natives who have served in our armed forces. They are living in remote villages where you don't have access to VA facilities. But it is nothing like having to travel hundreds and thousands of miles, practically, for that level of care. Does anybody have any suggestions that you can put out on the table for the Secretary to consider before he goes over there?

Ms. Oudkirk.

Ms. OUDKIRK. Thank you very much.

I'm going to say this is not a suggestion, but I was able to sit in on the meeting that Secretary Wilkie had with both the President of the Republic of the Marshall Islands and the President of the Republic of Palau. It was a great discussion.

It focused a lot on this very topic of access to VA services. And I will say that the State Department has, like DoD, personnel in all of the Freely Associated States and those personnel for the State Department are there with their families with medical issues, like any other U.S. citizen. And it's an issue that we do grapple with, you know, how you access care whether care can be accessed via telemedicine or through some other remote method is something that is a focus for us for our employees as well as it is, I know, for the VA for the retired servicemen.

The CHAIRMAN. I was just struck when I was out there and talking with some of the servicemembers. Their reality of being out in a region where your flight options, again, are very, very limited and very expensive. If there is space available you might be able to get out, but the reality that you have one air carrier that is moving in and out of the islands, does not give you much competition and much flexibility at all.

These are things that—as somebody that comes from a state that is not part of the contiguous United States and does deal with some restrictions on access, we can certainly understand and appreciate the situation that they are in.

Dr. Gootnick, you mentioned the U.S. Postal Service and how the compact financial assistance has helped to defray U.S. Postal Service expenses in providing service to the islands, and you mentioned that we may be in a situation where we see U.S. Postal Service end. You also mentioned FEMA.

Okay, if I am living out there and you are telling me now that I don't have, I have limited ways to get off of the island, the support that we have received to ensure just basic mail delivery and if we are really going to try to provide health benefits to our veterans, more often than not, they are receiving their medications through mail order, mail delivery. But now, there's a possibility that we are going to suspend or end U.S. Postal Service. To me, that doesn't demonstrate much of a commitment from the United States if we are really talking about an end to Postal Service delivery, an end to FEMA support. Can you speak just a little bit more to that? And I don't want to hyperinflate something that isn't or couldn't happen, but you were the one that mentioned it.

Dr. GOOTNICK. Right, sure.

With respect to the Postal Service, the compact nations have their own Postal Services that operate within their countries. It is the mail that is to and from the United States that has been supported entirely by the U.S. Postal Service.

If you talk to the Postal Service, what they'll tell you is that they expect the two countries to negotiate their way into the International Postal Union which is a forum through which countries determine the rates and the reimbursements for mail transfer around the world.

The Postal Service will tell you that their cost has been about \$9 million a year and if they, the compact nations, are not able to negotiate a rate within the participation in the International Postal Union, the Postal Service would expect compensation for any agreement that they have.

With respect to FEMA. FEMA funding, the direct FEMA funding, if a disaster is declared will go away. USAID may still provide a response under the general authorities of the Foreign Assistance Act in USAID's operations. There's no guaranteed funding or activities there.

The CHAIRMAN. You also mentioned PELL grants. Did you say that they were also in jeopardy or not? I wasn't sure how far that extended.

Dr. GOOTNICK. At this point PELL grants will continue and—

The CHAIRMAN. That is what I thought you said.

Dr. GOOTNICK. —they are a key issue for the two, the College of Micronesia and the College of the Marshall Islands. Essentially all students qualify for PELL grants.

The CHAIRMAN. Right.

Dr. GOOTNICK. And so, it supports a huge percentage of the budgets of the two colleges. Those grants will continue.

The CHAIRMAN. Those are not threatened then?

Dr. GOOTNICK. Under current law those will continue.

The CHAIRMAN. Okay.

Assistant Secretary Schriver, I asked you about infrastructure on Kwajalein and the threat there from rising sea level.

When I was in Palau last year, there was a great deal of interest in the radar there on Palau and the installation. Can you give me any updates on where we are with that?

Mr. SCHRIVER. Sure. We're looking at a system of radars that would have both maritime awareness capability as well as air awareness capability. This would be beneficial to Palau so that they could see throughout their EEZ and monitor things like illegal, unregulated fishing. We would benefit as well from the data with respect to our ongoing competition with China.

The maritime radar system, I believe, we've installed two of the planned five radars. The air awareness systems, we are making progress on identifying sights and compensating the local residents for the land and I think we're close to wrapping that up so that we can fully move forward with the project. But it does involve some compensation of landowners there.

The CHAIRMAN. Is it a matter of determining how much compensation is owed then that has not been worked out?

Mr. SCHRIVER. I think it's a matter of each individual landowner and, as I understand it, we may be down to a single landowner, but we're making progress.

The CHAIRMAN. Okay, alright, well, good to know.

I am going to ask one last question of each of you.

This area reminds me a little bit of the Arctic. You all know that I am very focused on the Arctic and very concerned that an area that we view as this area of cooperation and collaboration, this zone of peace that more often than not is just quiet enough that everybody leaves us alone.

But things are happening up there and we are seeing an increased interest from the military perspective, from a national security perspective, from an energy security perspective, as you are seeing more ocean that is opening up access to resources but also maritime activity.

This is also an area where, from the United States' perspective, it is kind of, out of sight, out of mind.

I mentioned in my opening that you have some folks who just don't even understand why this Committee has any jurisdiction over this in the first place. How did we get to be involved there? And yet, it is a very key, a very critical part of the globe for U.S. interests and our participation. Our shared history is something that is worthy of relationship building.

But oftentimes, if things are quiet, if all is calm, we just don't work on building up those relationships. We figure that they will be there for us. We are friends. They serve in our military. Yes, we have these compacts. We will be good for it.

But there is talk that goes on out there about where we are and how good a friend we are, and when there is a void there will be others that will attempt to step into that void. I am very, very interested in this part of the world as part of this Committee's level of oversight.

And while I recognize that today is a busy day, we have a budget deal that has been announced. We have a Senate Armed Services Executive Committee that is going on. It is something that is hard to get a lot of us really focused on this.

Like the Arctic, it seems now that China and Russia are paying much closer attention to what is going on in the U.S. Arctic and the Arctic writ large, now everybody is interested. Everyone is paying attention.

It seems like we are getting to that same place with regards to those out in these insular properties.

The question that I would pose to each of you is given where we are right now with our relationships with Palau, with the Marshall Islands, with the Federated States, what do you believe is the biggest threat to our relationship right now? Is it on the financial side and our ability to meet commitments? Is it economic interests? Is it the military security, national security interests? What is the biggest threat to the relationship that this Committee should be paying attention to?

We will start with you, Assistant Secretary Domenech.

Mr. DOMENECH. Thank you.

And I just want to say, for those of us who deal in the territories and the Freely Associated States, we know as someone who comes

from a former territory that you have great sensitivity to this issue and we appreciate having a home somewhere and we're very happy that it's here.

I do think the greatest threat, to answer your question, is the renewal of the compacts. I think if they were not renewed there would be a very significant impact to the economies of these three regions and would open themselves up. Of course, what's ending in '23 is the money portion of the compact. The compact does continue, but it would open the door for additional unfriendly competitors in the region to step in. So that would be my answer.

The CHAIRMAN. Assistant Secretary Schriver.

Mr. SCHRIVER. Secretary Mattis used to say, you can lose your sovereignty when a soldier holding a bayonet takes your ground and holds it. You can lose it through bad economic decisions and political decisions.

And so, I think what we're seeing from China is a very aggressive, assertive play to try to gain their own influence and ultimately lead to the erosion of their sovereignty. So our goal is to stay very engaged. I didn't have a chance to mention all our engagement because of the press of time, but I think I'm on safe ground saying we've never had such high-level attention from the Department of Defense. Admiral Davidson has been out. I've been out with an interagency group, Pacific Air Forces, Under Secretary of the Navy, and on and on and on.

But we have to have the content right. It's not just visiting and showing the flag, it's showing that we care about the issues that they're concerned about, like the fisheries and protection of their EEZs. And so, we will be focused on this and maintain our persistent attention.

The CHAIRMAN. Great, thank you.

Assistant Secretary Oudkirk.

Ms. OUDKIRK. So I would agree with both of my fellow panelists that the challenges we're facing now have to do with maintaining the excellent relationship that we already have with the Freely Associated States, maintaining the level of access, the alignment of our values and our policies, not just, sort of, at home, domestically, but in international fora, like the United Nations with regards to recognition of Taiwan and other areas.

But I'll also say that rather than looking at the threat to the relationship, I think we have an opportunity here with our relationships with the Freely Associated States really to be, like I said in my testimony, a bellwether for the rest of the Pacific. How we handle this relationship is absolutely crucial to how we are perceived across the Pacific. And the threat from China, the tantalizing option of, sort of, sweetheart deals, concessionary lending, is not just present in the Freely Associated States, but it is even more present in other Pacific Island countries. And so getting the relationship, getting our relationship, civilian, military, with the Freely Associated States right is absolutely crucial to getting our relationships right across the Pacific.

And so, if I could underscore anything at all is just how important these three countries are as a model and as a signal for a whole host of other relationships.

The CHAIRMAN. Well said.

Dr. Gootnick.

Dr. GOOTNICK. I can't speak to the geostrategic issues, but I think it's very important to recognize the magnitude of the shock to the health and educational systems of these countries if U.S. economic assistance is withdrawn, it ends.

You had asked what the VA Secretary should do when he was out there. I would suggest that any official, the VA Secretary, any official who goes out there, should go to Chuuk or go to Ebeye and walk through, go to Chuuk and walk through the hospital, walk through the whole thing and recognize that this is the level of development, the level of the healthcare system with U.S. assistance. Same with Ebeye, walk through the town, walk through the entire thing and get a good feel for what the situation there is with U.S. assistance.

So that would be my thought.

The CHAIRMAN. No, well said.

In fact, I was on Ebeye and I understand it is the most densely populated place on Earth in terms of human population per square inch on that tiny, little atoll.

We have some pretty tough communities in my state, but I will tell you, I have not ever seen anything quite like Ebeye where you have, again, a very flat island, very small island and the mass of humanity scrunched on this small, little island and in an area, Kwajalein atoll is extraordinarily beautiful, of course, but the trash, the filth that had accumulated there because it is so difficult to remove when you have such population densities.

And you think about how you provide for a level of health care, how you provide for a level of education.

Again, I think sometimes when people think of these areas and you hear Kwajalein, you think, obviously, this is a military installation and that is all it is, and yet, on that same atoll, we have that largest concentration of people on one small island.

So it is families that are out there that we worry about too. It is their health, their safety, their education, their well-being. At the same time that we talk about the United States' interests and presence in a place that often too many believe is just simply out of sight and out of mind. We have a responsibility, we need to maintain a persistent presence, we need to be engaged and involved and I appreciate all that you have done to highlight that to the Committee here this morning.

I think part of my challenge is to get colleagues out there to the region. It is extraordinarily beautiful but, again, as you point out, it is a very real place for so, so many people and how we can come to better understand them and the role that they play as part of this country is a pretty important part of our job.

We appreciate the discussion here this morning, and we look forward to working with you. I will again encourage those at Interior, Defense and State to be continuing this level of consultation and focus so that we don't get behind our timeline when it comes to these compacts that we have facing us.

I appreciate all your endeavors and the good work of you all.

With that, the Committee stands adjourned.

[Whereupon, at 11:46 a.m. the hearing was adjourned.]

APPENDIX MATERIAL SUBMITTED

U.S. Senate Committee on Energy and Natural Resources
 July 23, 2019 Hearing: *The United States' Interests in the Freely Associated States*
 Questions for the Record Submitted to the Honorable Randall Schriver

Questions from Senator Maria Cantwell

Question 1: Can you discuss what the United States Government is doing to help the Marshall Islands, Palau, and the Federated States of Micronesia improve their cyber security? What is the U.S. military's role and what more could we be doing? How is the United States cooperating with allies like Australia on this problem?

The Department of Defense frequently works with allies' and partners' military forces to improve their cybersecurity. As the Freely Associated States do not have military forces and rely on the U.S. military for their defense, DoD does not currently conduct cybersecurity cooperation activities with the Marshall Islands, Palau, and the Federated States of Micronesia. However, there are broader interagency efforts on cyber capacity building for the Freely Associated States.

Question 2: What are the national security implications of climate change on our military installations in the Freely Associated States? What is being done to mitigate the impact of climate change on our military installations?

Do you consider climate refugees as a national security challenge? What is the U.S. government doing to work with its allies to address the rise of climate refugees?

The Department of Defense can play an appropriate role within a whole of government response to the impacts of a changing climate.

Our focus is on ensuring we remain ready and able to adapt to a wide variety of threats—regardless of the source—to include weather, climate, natural events, disruptions to energy or water supplies, and direct physical or cyber attacks. We work to ensure installations and infrastructure are resilient to a wide range of challenges, including climate and other environmental considerations.

The Department considers resilience in the installation planning and basing processes to include impacts on built and natural infrastructure. As part of that effort, we prudently plan and design facilities to address local weather and environmental conditions.

To assist nations, DoD focuses its humanitarian assistance program on building the capacity of partners related to health and other activities that promote sustainable public health capacity building, disaster preparedness, risk reduction, and relief response. Examples include: emergency management training; construction/renovation of emergency operations centers and disaster relief warehouses; assistance with planning for disaster response and recovery; and country baseline assessments for vulnerabilities to disasters, including vulnerabilities from weather and climate impacts. Global health engagement activities such as disease mitigation and prevention initiatives address the basic survival needs of the population, promote stability and capacity, and thus also climate resiliency.

U.S. Senate Committee on Energy and Natural Resources
 July 23, 2019 Hearing: *The United States' Interests in the Freely Associated States*
 Questions for the Record Submitted to the Honorable Randall Schriver

Question from Senator Mazie Hirono

Question: Your testimony notes the strategic importance of the Indo-Pacific region for both U.S. security and economic prosperity and highlights the myriad threats in the region where the U.S. must work with the Freely Associated States to overcome. One threat that I am concerned about is biosecurity in the region. The Department of the Navy published the Regional Biosecurity Plan for Micronesia and Hawaii in 2015 that included numerous recommendations to help mitigate the threat of invasive species in the region.

Will you provide me an update on where the Department of Defense is currently with implementing those recommendations?

DoD funded the development of the Regional Biosecurity Plan (RBP) and played a key role in its development but is not responsible for overall implementation. RBP implementation involves all relevant Federal, Territorial, and State agencies. This includes collaboration with the Department of the Interior, Department of Agriculture, amongst others. DoD continues to proactively implement a number of DoD-specific recommendations from the RBP and has programmed for funding to continue biosecurity efforts in the region for the foreseeable future. Key recent achievements include DoD projects for brown treesnake suppression and interdiction on Guam; Coconut Rhinoceros Beetle suppression efforts on Oahu; public outreach, training, hiring a biosecurity program manager on Guam; and preparing Hazard Analysis and Control Point plans for all military construction projects on Guam.

**Question for the Record Submitted to
Deputy Assistant Secretary Sandra Oudkirk by
Senator Mazie Hirono
U.S. Senate Committee on Energy and Natural Resources
July 23, 2019**

Question: The Republic of the Marshall Islands is highly vulnerable to climate change, with an average elevation only two meters above sea level and 99 percent of the population living on the coast. Like Hawaii, RMI is motivated to move away from a 90 percent dependence on imported petroleum to develop local renewable energy resources, as outlined in its 2015 Renewables Readiness Assessment. Yet when the President and Secretary Pompeo talk about energy partnerships in the Pacific, they are focused on creating new markets for natural gas and coal from the U.S. coal and natural gas. What is the State Department doing to support the efforts of the RMI and the other Freely Associated States to transition to a sustainable low carbon energy future?

Answer: The United States recognizes the vulnerabilities and risks that the Pacific Island countries face because of their unique circumstances. The United States continues to work with other countries to help them access and efficiently deploy cleaner energy from all sources, given the importance of energy access and security to their national development plans. The Department of State, through the National Renewable Energy Lab, has provided technical assistance to the Marshall Islands as they developed a national energy roadmap.

In addition, the Government of Palau recently issued a competitive tender for a solar installation and the State Department's Bureau of Energy Resources is assisting Palau with a technical review of the proposals. Embassy Koror in Palau is also working with the government of Palau to identify financing options for this project.

**Questions for the Record Submitted to
Deputy Assistant Secretary of State Sandra Oudkirk by
Senator John Hoeven (No. 1 to No. 2)
U.S. Senate Committee on Energy and Natural Resources
July 23, 2019**

Question 1: What are some viable infrastructure opportunities the U.S. ought to explore in the Freely Associated States, particularly in the energy space?

Answer 1: The United States is looking to support transparent and high-quality infrastructure, and foster sustainable development throughout the Indo-Pacific region, including in the Freely Associated States. In 2019, the United States joined the Pacific Region Infrastructure Facility with a \$2 million initial commitment to support infrastructure investment plans for Pacific Islands and other technical assistance. In the Freely Associated States, we work to improve education and healthcare and invest in infrastructure that is key to economic development, from water and sanitation to schools and healthcare facilities. Under our Compacts we have \$34 million per year that we invest in key infrastructure.

One of the biggest opportunities for private sector investment in infrastructure in the Freely Associated States is the adoption and implementation of renewable energy projects. The Republic of Palau is currently tendering bids on a solar project in Palau and the Department is providing technical assistance to review the proposals through the Bureau of Energy Resources. Embassy Koror is also assisting in the coordination of financing for this project with the Government of Palau. The U.S. is also exploring ways to support the development of energy regulatory expertise, critical to driving adoption of clean energy projects, through Pacific regional organizations.

Question 2: Aside from tourism and fisheries, what are the Freely Associated States' and Marshall Islands' most profitable industries? How could the U.S. benefit from helping the FAS in developing these industries?

Answer 2: Across the Indo-Pacific, the United States supports an open investment and trade environment that will facilitate growth. The United States already extends trade preferences to exports of virtually all the Pacific Island countries including the Freely Associated States, and we continue to work with our Pacific Island partners to help them maximize the benefits of those preference arrangements. Outside of tourism and fisheries, the Freely Associated States are limited in their options for economic development due to the remoteness of the countries from commercial trade routes, limited natural resources, and other constraints. A growing industry in the Freely Associated States is the management of shipping registries. The Marshall Islands currently has the third largest shipping registry in the world. Palau also operates an open shipping registry.