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The Compacts of Free Association

Overview

The Compacts of Free Association govern the relationships between the United States and the Republic of the Marshall Islands (RMI), Federated States of Micronesia (FSM), and Republic of Palau. The Marshall Islands, Micronesia, Palau, and the Northern Mariana Islands were districts of the former U.S.-administered United Nations Trust Territory of the Pacific Islands, established after World War II. In 1978, the Marshall Islands, Micronesia, and Palau rejected the option of U.S. territorial or commonwealth status and instead chose the status of *free association* with the United States. The Northern Marianas chose commonwealth status, and nearby Guam, occupied by the United States after the Spanish American War ended in 1898, became a U.S. territory in 1950.

Citizens of the RMI, FSM, and Palau (Freely Associated States or FAS) have the right to reside and work in the United States and its territories as lawful non-immigrants or “habitual residents.” More than 94,000 FAS citizens live in the United States, including children under age 18 who were born in the United States and hold dual citizenship. The FAS do not have their own militaries, and FAS citizens are eligible to join the U.S. military; over 1,000 FAS citizens serve in the U.S. Armed Forces.

The FAS cover a maritime area larger than the continental United States, govern over 1,000 islands and atolls, and have a combined population of approximately 200,000. The FAS economies face structural challenges similar to many other Pacific Island countries (PICs), including lack of economies of scale, small land areas, limited natural and human resources, remote locations, poor infrastructure, and vulnerability to climate change.

Located roughly 2,500 miles southwest of Hawaii, the FAS play a role in supporting the U.S. security presence in the Pacific Islands region at a time of increasing strategic competition between the United States and its allies, on the one hand, and the People’s Republic of China (PRC or China), on the other. The Biden Administration’s 2022 Indo-Pacific Strategy refers to the Compacts of Free Association as “the bedrock of the U.S. role in the Pacific.” The RMI and Palau are among three PICs that have diplomatic relations with Taiwan and not the PRC. Micronesia, along with some other PICs, rejected a 2022 PRC proposal for a sweeping diplomatic, economic, and security pact between China and the region.

2024 Compact Renewal

Economic assistance pursuant to Title II of the Compacts of Free Association expired at the end of FY2023 for the Marshall Islands and Micronesia and is set to expire at the end of FY2024 for Palau. Compact provisions related to

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

Figure 1. The Freely Associated States



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

In 2023, after over two years of negotiations, the United States signed agreements with the FAS on extending economic assistance for 20 years. Although Compact economic assistance for Palau does not expire until the end of FY2024, the United States and Palau agreed to start the next (third) term of assistance at the beginning of FY2024, along with the RMI and FSM. Pursuant to the 2023 agreements, Compact assistance is to include greater support for the environment, climate change adaptation, health care, education, and infrastructure.

The agreements include grant assistance and trust fund contributions for the RMI, FSM, and Palau that total approximately \$2.3 billion, \$3.3 billion, and \$0.9 billion, respectively, for FY2024-FY2043. In addition, the agreements include \$634 million to continue the U.S. Postal Service in the FAS.

The Consolidated Appropriations Act, 2024 (P.L. 118-42, Division G, Title II, Section 201, the “Compact of Free Association Amendments Act of 2024”) approved Compact economic packages for the FAS. President Joe Biden signed the bill into law on March 9, 2024. Between October 1, 2023, and March 9, 2024, three successive continuing resolutions provided some continued U.S. funding to the FSM and RMI (P.L. 118-15, P.L. 118-22, and P.L. 118-35). The Compact amendments establish an Interagency Group on the Freely Associated States (P.L. 118-42, Sec. 208(d)(1)), authorize expanded access to Department of Veterans Affairs (VA) health care services to FAS veterans

who served in the U.S. Armed Forces (Sec. 209(a)), and make FAS migrants in the United States eligible for U.S. federal programs (Sec. 209(f)).

Compensation for past U.S. nuclear testing was a sticking point in the bilateral negotiations to extend Compact assistance for the RMI. From 1946 to 1958, the U.S. military conducted 67 atmospheric atomic and thermonuclear weapons tests over the Marshall Islands atolls of Bikini and Enewetak. Since the nuclear testing program ended, the U.S. government has provided, by some estimates, roughly \$600 million for damages, environmental cleanup and restoration, resettlement, and health and medical programs. The RMI claims roughly \$3 billion in uncompensated damages. The 2023 U.S.-RMI Compact agreement includes a \$700 million trust fund that the RMI government states will be used to address the needs of those affected by the nuclear testing program.

Compact History

The governments of the Marshall Islands and Micronesia signed Compacts of Free Association with the United States in 1982. The Compacts were approved by plebiscites in the Marshall Islands and Micronesia and by the U.S. Congress in 1985 (P.L. 99-239), becoming effective in 1986 (with economic assistance beginning in FY1987). The U.S.-Palau Compact of Free Association was approved by Congress in 1986 and 1989 (P.L. 99-658 and P.L. 101-219) and ratified in Palau in 1993 (entering into force in 1994, with economic assistance beginning in FY1995).

Each Compact provided for economic assistance for an initial period of 15 years. The first term of economic assistance under the RMI and FSM Compacts formally expired in FY2001. In 2003, the United States and the RMI and FSM signed agreements to renew Compact assistance, and Congress passed legislation (P.L. 108-188) amending the Compacts and extending economic assistance for 20 years (FY2004-FY2023). New features of the assistance included trust funds, joint oversight committees, and sector grants targeting education, health, the environment, public sector capacity building, private sector development, and infrastructure. In 2010, the United States and Palau concluded the U.S.-Palau Compact Review Agreement (CRA), to extend economic assistance and trust fund contributions through FY2024. Although the U.S. government continued to make annual assistance available to Palau after 2009, Congress did not authorize full funding pursuant to the CRA until FY2018 (P.L. 115-91 and P.L. 115-141).

Compact Assistance Numbers

Compact assistance to the FAS (\$232 million in FY2023) has amounted to roughly 80% of all U.S. assistance to the Pacific Islands region, according to some estimates. As reported by DOI, pursuant to the Compacts, the United States provided grant assistance worth \$690 million to the RMI and \$1.54 billion to the FSM between FY1987 and FY2003. During the second Compact term (FY2004-FY2023), U.S. grant assistance and trust fund contributions to the RMI totaled \$722 million and \$276 million, respectively. The FSM received \$1.6 billion in grant assistance and \$517 million in trust fund contributions

during the same period. In addition, U.S. payments to the RMI for the military use of Kwajalein Atoll amounted to \$412 million between 1987 and 2023. Between FY1995 and FY2009, Compact assistance to Palau, including grant assistance, road construction, and a trust fund, totaled \$574 million. Economic assistance pursuant to the 2010 CRA amounted to \$229 million.

U.S. Security Presence

The United States maintains a dominant security presence in the Micronesian subregion of the Southwest Pacific, where the FAS as well as Guam and the Commonwealth of the Northern Mariana Islands (CNMI) are located. In addition to air and naval bases on Guam, the U.S. military operates the Ronald Reagan Ballistic Missile Defense Test Site at U.S. Army Garrison-Kwajalein Atoll in the Marshall Islands. The amended Compact of 2003 extended U.S. base rights on Kwajalein Atoll through 2066, with the U.S. option to continue the arrangement for an additional 20 years. The U.S. military is building a high-frequency radar system in Palau, and reportedly plans to upgrade an airport, deploy air defense assets, and conduct military exercises on Yap Island in the FSM.

Selected Congressional Actions

The National Defense Authorization Act (NDAA), FY2024 (P.L. 118-31, Sec. 1301) states, “It is the sense of Congress that the Secretary of Defense should continue efforts that strengthen United States defense alliances and partnerships in the Indo-Pacific region ... including by ... engaging with the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau....” Section 5412, the CONVENT Act of 2023, requires the U.S. government to assist in the establishment of national security councils in the FAS. The explanatory statement to the Further Consolidated Appropriations Act, 2024 (P.L. 118-47, Division F, Section 7043) authorizes an unspecified amount of funding for the FAS out of the Countering PRC Influence Fund.

The FY2023 NDAA (P.L. 117-263) includes provisions (Sec. 5591) emphasizing the importance of the Compacts for U.S. national security and of renewing economic assistance to the FAS for regional security. The FY2022 NDAA (P.L. 117-81) states that the Secretary of Defense should engage with the FAS “with the goal of strengthening regional security and addressing issues of mutual concern, including protecting fisheries from illegal, unreported, and unregulated fishing” (Sec. 1252) and mandates a study on the Runit Dome nuclear waste site in the RMI (Sec. 3140).

The Guam Host Community Compensation Act (H.R. 6273, introduced November 7, 2023) would, among other measures, extend annual Compact Impact grant funding provided under the Compact of Free Association Amendments Act of 2003 (P.L. 108-188, Sec. 104(e)) through 2043 for American Samoa, the CNMI, and Guam.

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

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