

H.J.RES. 63 AND H.R. 2522

LEGISLATIVE HEARING

BEFORE THE

**COMMITTEE ON RESOURCES
U.S. HOUSE OF REPRESENTATIVES**

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

Thursday, July 10, 2003

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H.J. RES. 63 AND H.R. 2522

Thursday, July 10, 2003
U.S. House of Representatives
Committee on Resources
Washington, DC

The Committee met, pursuant to notice, at 9:36 a.m., in room 1324, Longworth House Office Building, Hon. Richard W. Pombo, Chairman of the Committee, presiding.

Present: Representatives Pombo, Gallegly, Calvert, Cubin, Rehberg, Rahall, Faleomavaega, Abercrombie, Pallone, Christensen, Udall of New Mexico, and Bordallo.

STATEMENT OF HON. RICHARD W. POMBO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

The CHAIRMAN. The Committee is meeting today to hear testimony on H.J.Res. 63, a bill to approve the Compact of Free Association, as amended, between the Government of the United States of America and the Government of the Federated States of Micronesia, and the Compact of Free Association, as amended, between the Government of the United States of America and the Government of the Republic of the Marshall Islands, and otherwise to amend P.L. 99-239 and to appropriate for the purposes of the amended P.L. 99-239 for fiscal years ending on or before September 30, 2003; and H.R. 2522, to amend the Organic Act of Guam to authorize the Secretary of Interior to reduce, release, or waive amounts owed by the Government of Guam to the United States to offset unreimbursed compact impact expenses.

Under Rule 4(g) of the Committee rules, any oral opening statements at hearings are limited to the Chairman and the Ranking Minority Member. This will allow us to hear from our witnesses sooner and help members keep their schedules. Therefore, if other members have statements, they can be included in the hearing record under unanimous consent.

On behalf of the full Committee, I would like to welcome everyone in attendance today and especially our witnesses. We are fortunate to have with us today experts who have been directly involved throughout the process of negotiating the Compact of Free Association, including both administration representatives and our friends from the island countries that will be directly affected by any formal legislation. This panel will truly be representative of the nu-

merous parties that have been working for years toward a formal agreement on a compact.

Our full Committee hearing today will focus on the documents that were recently submitted to Congress regarding the Compacts of Free Association with the Federated States of Micronesia and the Republic of the Marshall Islands, which have been introduced as H.J.Res. 63. We will also directly address concerns that our countries are expressing as a result of their experiences with the effects of the Compact.

For over 50 years, the United States has enjoyed a very unique relationship with the citizens of Micronesia and the Marshall Islands. In 1984, President Ronald Reagan proposed a new status for the Trust Territories of the Pacific through negotiated Compacts of Free Association. After having status as a United Nations Trust Territory for many years, in 1986, these islands chose to become sovereign states. In fact, this large territory comprises around 2,000 islands over three million square miles of ocean. During the period after World War II, the United States had a continual interest in working with FSM and the RMI, including everything from nuclear testing to a missile test range that continues to operate in the Marshall Islands.

Starting in 1986, when Congress passed the Compact Act, we made the agreement to strive to continue to maintain both economic and political stability in this region, including working to advance economic self-reliance in these islands. It is encouraging to see the mutually beneficial results that have come from the original Compact. The U.S. has truly moved from merely a trust administrator with these islands to our work with them being one of the United States' closest bilateral relationships.

Unfortunately, the original Compact was also somewhat disappointing in some aspects of the economic progress that resulted. In general, the U.S. provided a large amount of funding to the Freely Associated States without any sort of effective payment structure that was closely monitored. The result was a lack of proper development in multiple arenas and mismanagement of funds that, in part, led to the current shortcomings that exist in health care and education.

There have also been some unintended consequences as a result of P.L. 99-239, of which many are seen in the neighboring countries. The original Compact provided the citizens of FSM and RMI to travel freely and live throughout the Pacific. As a result, these migration rights coupled with continued difficult economic opportunities, thousands of migrants are living in areas like Guam, Hawaii, and the Commonwealth of the Northern Mariana Islands.

Living with the lack of proper health care and educational options mentioned earlier, this is what many migrants sought when moving from the FSM or RMI. Now the island areas are experiencing a migration impact of what they have calculated to be hundreds of millions of dollars since 1986, when the original Compact was enacted.

It is encouraging to see that this new legislation will provide a mandatory funding level of \$15 million for 20 years to address the issue. The amended Compact will also enable us to see a more di-

rect and accurate accounting of this trend, as it requires the President to report and make recommendations annually to Congress.

Some countries have argued that this simply is not enough funding. Guam, for example, which lies relatively close to the RMI and FSM, has seen and felt this migration more than other countries. Through 2001, the U.S. Government has provided approximately \$41 million in impact compensation for Guam. Unfortunately, though, this funding has not been used in the areas of health and education, where it is needed most.

It is intended that the amended Compacts' provisions regarding targeted grants and accountability will begin to encourage many citizens to remain in the FSM and RMI. Our hearing today should enable us to judge the scope of our current problems, as well as see the potential for the help in the amended Compact given U.S. budgetary constraints.

My hope is today that our witnesses can explain how the newly negotiated Compact will work to advance the goals of economic self-reliance that truly help those living in the FSM and RMI while maintaining necessary U.S. security interests. Our friends in the FSM and RMI, with whom we have worked for nearly 60 years now, will also hopefully be able to explain how this new Compact will ensure their economic and political viability for years to come.

Our hearing and future work is also hastened by the need to act quickly to ensure that this negotiated Compact can move forward. If not, on September 30 of this year, important components of this agreement will expire. The work of many people, including that of the U.S., the FSM, and RMI, should be applauded and this Committee appreciates the time spent by these individuals and their willingness to now work with Congress to move forward.

[The prepared statement of Chairman Pombo follows:]

Statement of Hon. Richard Pombo, a Representative in Congress from the State of California

The hearing will come to order. Good morning.

On behalf of the full Committee, I would like to welcome everyone in attendance today and specifically our witnesses. We are fortunate to have with us today experts who have been directly involved throughout the process of negotiating the Compact of Free Association, including both Administration representatives and our friends from the island countries that will be directly affected by any formal legislation. This panel will truly be representative of the numerous parties that have been working for years toward a formal agreement on the Compact.

Our full Committee hearing today will focus on the documents that were recently submitted to Congress regarding the Compacts of Free Association with the Federated States of Micronesia and the Republic of the Marshall Islands, which have been introduced as H. J. Res. 63. We will also directly address concerns that other countries are expressing as a result of their experiences with the effects of the Compact.

For over 50 years, the United States has enjoyed a very unique relationship with citizens of Micronesia and the Marshall Islands. In 1984, President Ronald Reagan proposed a new status for the trust territories of the Pacific through negotiated Compacts of Free Association. After having status as a United Nations Trust Territory for many years, in 1986, these islands chose to become sovereign states. In fact, this large territory comprises around 2,000 islands over 3 million square miles of ocean. During the period after World War II, the United States had a continual interest in working with the FSM and the RMI, including everything from nuclear testing to a missile test range that continues to operate in the Marshall Islands.

Starting in 1986, when Congress passed "The Compact Act," we made the agreement to strive to continue to maintain both economic and political stability in this region, including working to advance economic self-reliance in these islands.

It is encouraging to see the mutually beneficial results that have come from the original Compact. The U.S. has truly moved from merely a trust administrator with these islands to our work with them being one of the United States' closest bilateral relationships.

Unfortunately, the original Compact was also somewhat disappointing in some aspects of the economic progress that resulted. In general, the U.S. provided a large amount of funding to the Freely Associated States without any sort of effective payment structure that was closely monitored. The result was a lack of proper development in multiple arenas, and mismanagement of funds that in part led to the current shortcomings that exist in health care and education.

There have also been some unintended consequences as a result of P.L. 99-239, of which many are seen in neighboring countries. The original Compact provided the citizens of the FSM and RMI to travel freely and live throughout the Pacific. As a result, these migration rights coupled with continued difficult economic opportunities, thousands of migrants are living in areas like Guam, Hawaii, and the Commonwealth of the Northern Mariana Islands.

Living with the lack of proper health care and educational options mentioned earlier, this is what many migrants sought when moving from the FSM or RMI. Now the island areas are experiencing a migration impact of what they have calculated to be in the hundreds of millions of dollars since 1986, when the original Compact was enacted. It is encouraging to see that this new legislation will provide a mandatory funding level of \$15 million for twenty years to address this issue. The amended Compact will also enable us to see a more direct and accurate accounting of this trend, as it requires the President to report and make recommendations annually to Congress.

Some countries have argued this is simply not enough funding, though. Guam, for example, which lies relatively close to the RMI and FSM has seen and felt this migration more than other countries. Through 2001, the U.S. Government has provided approximately \$41 million in impact compensation for Guam. Unfortunately, though, this funding has not been used in the areas of health and education, where it is needed most.

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Our hearing and future work is also hastened by the need to act quickly to ensure this negotiated Compact can move forward. If not, on September 30 of this year, important components of this agreement will expire. The work of many people, including that of the U.S., the FSM and the RMI should be applauded and this Committee appreciates the time spent by these individuals and their willingness to now work with Congress to move forward.

I thank the witnesses for coming and look forward to their testimony.

The CHAIRMAN. I would like to now recognize the Ranking Member of the full Committee, Mr. Rahall.

**STATEMENT OF HON. NICK RAHALL, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF WEST VIRGINIA**

Mr. RAHALL. Thank you, Mr. Chairman. Mr. Chairman, I do express my gratitude to all the witnesses who have traveled so far today to attend this hearing on the reauthorizing of the Compacts of Free Association between our government and those of the Republic of the Marshall Islands and the Federated States of Micronesia. It is also appropriate to thank the negotiating teams from each country for their diligence in pursuing this agreement.

I also welcome the Governor of Guam and the Speaker of Guam's Legislature. Both are here to testify on our colleague's bill which addresses Compact impact issues affecting Guam.

The majority of this Committee's activity involves the stewardship of this nation's natural resources, our forests, parks, fisheries, water, and minerals. As we consider legislation affecting our resources, it is also our job to translate to the American people how these issues improve or degrade their quality of life and what our actions mean to future generations of Americans.

In addition to protecting our resources, this Committee has had an historical charge of promoting the emergence of U.S. territories to Statehood, Native American tribes to independent governance, and former trust territories to nationhood. The means to achieve these sorts of political freedoms have not always encompassed the best of decisions, nor have they been painless in terms of concessions needed by one party or another. However, we should keep in mind that this is a process of political and economic evolution based on close historical ties.

In this regard, the relationship between the U.S. and the RMI and FSM historically was steeped in defense issues. With the enactment of the original Compacts, we supposedly moved from those considerations to values for a more modern political economy, opportunities for self-sufficiency, accountability, independence, and partnership.

The reality is, however, that the U.S. continues to have strategic defense interests in mind. Our world today is so much more fragmented than it was during the cold war. Then, our adversary was known. We knew where they were. We knew what they were doing, and we needed to be sure there was no expanse on our part. Today, we contend with threats of nuclear proliferation in Asia and the movement of terrorism through the back yards of our Asian allies. It is often difficult to pinpoint where the hostilities will arise. As such, our need to continue our defense relationships with the FMI and FSM remains prominent.

We do, however, need to simultaneously move forward and build upon the first successful 15 years of our Compact relationship, and toward that end, I look forward to hearing the testimony of our witnesses today and I am interested in learning what the successes of our Compact relationship have been to date, how the renegotiated Compact addresses some of Congress's concerns and the solutions that have been agreed upon by all parties.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Rahall follows:]

Statement of Hon. Nick J. Rahall, II, a Representative in Congress from the State of West Virginia

Mr. Chairman, I would like to express my gratitude to all the witnesses who have traveled, some at great distances, to attend this hearing on reauthorizing the Compacts of Free Association between our government and those of the Republic of the Marshall Islands and the Federated States of Micronesia.

It is also appropriate to thank the negotiating teams from each country for their diligence in pursuing this agreement.

Let me also welcome the Governor of Guam, and the Speaker of Guam's Legislature. Both are here to testify on our colleague's bill which addresses Compact impact issues affecting Guam.

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The reality is, however, that the U.S. continues to have strategic defense interests in mind.

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Today, we contend with threats of nuclear proliferation in Asia and the movement of terrorism through the backyards or our Asian allies. It is often difficult to pinpoint where the hostilities will arise, as such, our need to continue our defense relationship with the RMI and FSM remains prominent.

We do, however, need to simultaneously move forward and build upon the first successful fifteen years of our Compact relationship.

Toward that end, I look forward to examining the testimony of our witnesses. I am interested in learning what the successes of our Compact relationship have been to date, how the renegotiated Compact addresses some of Congress's concerns, and the solutions that have been agreed upon by all parties.

Thank you.

The CHAIRMAN. Thank you.

After having the opportunity with Mr. Abercrombie to do a teleconference with a number of folks from his home State, I had requested and have received a report on the impact on Hawaii and I would like at this time to have that included, by unanimous consent, have that report included in the record.

[NOTE: The report submitted for the record by Mr. Abercrombie has been retained in the Committee's official files.]

Mr. RAHALL. Mr. Chairman, I ask unanimous consent also to have submitted for the record the statement by Senator Chris Loeak, who is the Chairman of the KNC, on behalf of the Kwajalein land owners.

The CHAIRMAN. Without objection.

Mr. RAHALL. Thank you.

[The prepared statement of Mr. Loeak follows:]

Statement submitted for the record by Senator Christopher J. Loeak, Chairman, Kwajalein Negotiation Commission, on Behalf of Kwajalein Landowners

My name is Christopher J. Loeak, Chairman of the Kwajalein Negotiation Commission. I appreciate the opportunity to present the views of the KNC today.

Recently I submitted testimony to the House International Relations Committee regarding the views of the KNC on the proposed agreement between the United States and the RMI with respect to a new Military Use and Operating Rights Agreement. I append that statement to the one that I submit to you today.

The position of the KNC on the proposed MUORA can be summarized by the following points:

- The compensation amounts for landowners of Kwajalein are insufficient to provide for the long-term benefit of the people of Kwajalein. The amount of

compensation for the people of Kwajalein must be at least \$19.1 million in 2004 fully indexed for inflation.

- The term of the agreement is insufficient and must be made longer to adequately plan for the use of Kwajalein for our people. Although the U.S. portrays this agreement as an agreement of over 50 years duration, it only guarantees use of Kwajalein for seven years beyond 2016. Thus the agreement is only a 7-year extension with a series of 1-year options to terminate, leaving the landowners in a state of suspended animation for years to come. This term is far worse than the present 15-year term in the present MUORA.
- The Landowners will not sign a new Land Use Agreement until and unless acceptable changes are made to the MUORA to address these deficiencies. The 7-year extension of the MUORA as proposed is legally insufficient and cannot be implemented.

Thank you for this opportunity and you can be sure that we will pursue every opportunity to reach an acceptable agreement through the constitutional processes of our respective governments.

**Statement submitted by Senator Christopher J. Loeak, Chairman,
Kwajalein Negotiation Commission, on Behalf of Kwajalein Landowners**

My name is Christopher J. Loeak, Chairman of the Kwajalein Negotiation Commission. I appreciate the opportunity to present the views of the KNC today.

Besides being Chairman of the KNC, I have been a Senator in the Nitijela representing the Atoll of Ailinglaplap since 1985.

I am also a major landowner on Kwajalein Atoll.

Mr. Chairman, I am honored to present the following statement on behalf of the people of Kwajalein and I would like to express my appreciation and sincere thanks to you and the members of this House International Relations Committee for giving me the opportunity to do so.

ABOUT THE KWAJALEIN NEGOTIATION COMMISSION

I represent the Kwajalein Negotiation Commission (KNC), an organization established in October 2001 by the people of Kwajalein to represent them in the Compact renegotiations. The KNC is an unprecedented alliance of the traditional leaders of Kwajalein whose purpose is to provide an opportunity for the U.S. to enter into a long-term relationship guaranteeing secure and uninterrupted use of Kwajalein. The divisions within the local traditional leadership that marred the entry into the first Compact have been put aside in the interest of this relationship. As you know, compact renegotiation discussions between the U.S. Government and the Government of the Republic of the Marshall Islands (RMI) were finalized in January of this year.

The fast Compact was negotiated when RMI was still a territory. Many provisions were accepted by RMI in the interest of achieving self-government as early as possible and sometimes to the detriment of its regional or individual island atoll interests. The Kwajalein people in this context accepted agreements pertaining to Kwajalein, even though the agreements were not completely satisfactory to the people. Indeed, in the plebiscite on the Compact in 1982, the people of Kwajalein overwhelmingly voted to reject adoption of the Compact (the Compact was nonetheless approved by the RMI by a close margin).

The KNC was formed in large part in order to adequately represent the interests of the people in this regard to ensure that any agreement reached would be equitable and in the interests of the people at large.

Part of the Compact agreement reached in January of this year between the RMI and the U.S. Government included a new agreement on the Military Use and Operating Rights Agreement, otherwise known as the MUORA. The KNC opposes the new agreement as presently structured and we are asking Congress to either change the agreement to include additional compensation for landowners or postpone approval of the MUORA until a satisfactory agreement can be reached between all the parties.

THE MILITARY USE AND OPERATING RIGHTS AGREEMENT

The current Military Use and Operating Rights Agreement (MUORA) governing Kwajalein expires in 2016. Some argue that the U.S. already has rights to Kwajalein until 2016 and therefore no new agreement should be negotiated before expiration of that agreement. The people of Kwajalein honor the right of the U.S. to Kwajalein until 2016. However, as other matters in the Compact are brought up for discussion or modification, it is only fitting that the most important component

of that agreement, namely U.S. defense rights in the Marshall Islands, be revisited. We believe this exercise to be of mutual interest and benefit because it can eliminate those aspects of the first Compact that are unfair to the landowners while at the same time guarantee the long-term access that the U.S. seeks. A mere extension would perpetuate the existing hardships and inequities and would ignore the lessons learned in the first fifteen years of the Compact.

Any extension of the MUORA beyond 2016 requires the approval of the people of Kwajalein as stipulated by our Constitution. Moreover, any change to the MUORA that would extend the use of Kwajalein by the United States beyond 2016 requires that a new Land Use Agreement (“LUA”) be implemented between the RMI and Kwajalein Landowners. Accordingly, the new MUORA agreement cannot be implemented without a new LUA.

The KNC rejects the notion that the execution of a new LUA is exclusively an internal matter between the national government of the RMI and the landowners of Kwajalein. Although we understand that it is the position of the United States that the U.S. negotiates “sovereign to sovereign” and that it must respect the nationally recognized and duly chosen representatives of the people of the RMI, the United States always takes into account the practical considerations that exist in a country when implementing new agreements. For example, in 1982 the U.S. required that the original LUA be implemented before the U.S. Government agreed to the present MUORA in force between our governments.

The point has been made that if the people of Kwajalein have an issue with the MUORA we should take it up with our own government in the RMI and that we do not have standing to petition the Congress for changes to the agreement. This type of thinking is not credible and belies the reality of the process in which we are all now engaged. The RMI in fact is petitioning the Congress for changes to the new Compact in the areas of infrastructure, inflation, FEMA and other areas. In 1982, Congress legislated changes to the negotiated Compact that increased coverage for the RMI on programs related to FEMA, Education, and other items. The issue of increased compensation to Kwajalein is but one in a number of issues to be addressed by the Congress.

The United States and the RMI recognized the importance of securing the participation of the KNC in the negotiations when we were invited to participate in several negotiating sessions between the U.S. and the RMI. However, when the meaningful bargaining began between the parties, the KNC was excluded from negotiations. The reasons for this exclusion are unclear to us. We were left with the proposition of “take it or leave it”. Accordingly, we have made it absolutely clear that we will not support execution of a new LUA until such time as the new MUORA reflects a fair and equitable deal for the people of Kwajalein.

THE INADEQUACIES OF THE RECENTLY ANNOUNCED MUORA

The term

The KNC opposes the recently announced MUORA proposal because it does not adequately provide for the long-term needs of the people of Kwajalein. When these negotiations started, the KNC proposed a 50-year long-term lease of Kwajalein. We believe that a 50-year commitment on behalf of both of our governments is in our mutual self-interests. However, the new MUORA falls short of this commitment. While the new MUORA purports to be a 50-year extension from 2017 until 2066, with a possible 20-year extension beyond that, in reality the new MUORA is a 7-year extension, since the U.S. can exercise a termination notice in 2016 that could terminate the MUORA by 2023. After 2023, the agreement is essentially a year-to-year lease, since the termination notice right can be exercised in any year after 2016. Accordingly, the KNC, on behalf of the people of Kwajalein, must consider the social and financial implications of a termination of the MUORA at a date as soon as 2023, notwithstanding that the U.S. has falsely described this lease as long-term.

The people of Kwajalein have consistently expressed their commitment to providing the U.S. full access to Kwajalein and they hereby reaffirm this commitment. However, it is also their position that a piecemeal approach is not a satisfactory arrangement to either side. Our proposal for a 50-year lease would give the U.S. advantage of long-term security enabling substantial investments in its missile defense program while the people of Kwajalein will have the advantage of economic security. Short-term options do not provide either and in fact will leave our people in a state of suspended animation, severely limiting the ability of determining an appropriate development program for Kwajalein.

The compensation amounts

When the KNC joined negotiations with the RMI and the U.S. in the early fall of 2002, the RMI and the KNC proposed a joint package based upon an 8-point comprehensive formula that addressed the totality of programs that affect the use of Kwajalein by the U.S. Included in the proposal were provisions dealing with the MUORA Term, Kwajalein Landowners Compensation, Taxation, a Kwajalein Landowners Trust Fund, Kwajalein Impact funding, Ebeye Special Needs, Early Termination, and the SOFA. These items were linked together and the adequacy of funding for one of the provisions affected the adequacy of funding for the other.

With respect to the Kwajalein Landowner Compensation amount, the Kwajalein Landowners proposed a funding index supported by economic and population indexes that were intended to reflect the inflation indexed value of the compensation amounts in the original MUORA supplemented by population growth. This amount, \$19.1 million in 2004, was economically supported and justified by data.

In the negotiations, one-by-one the United States whittled away at the 8-point proposal and isolated each part of the package so that the negotiations appeared to be progressing towards agreement upon items of the package without respecting the interplay between the provisions themselves. For instance, the proposal to allow the FM to tax expatriate workers at Kwajalein at the prevailing national rate of taxation (an increase from 5% to 12%) was intended to ameliorate a tax subsidy to the U.S., while at the same time, providing a means of providing a growth-oriented revenue source to the RMI for landowner funding. Notwithstanding this basic right of national sovereignty, the U.S. rejected any increase in taxation amounts, even to the national rate, depriving the RMI government of its most effective means of raising revenue to pay for the welfare of its people. We know of no other example where the United States enjoys such a tax subsidy to the disparity and detriment of another country. And this agreement locks in this subsidy for the entirety of the term of the MUORA!

At the same time, the U.S. offered amounts for landowner compensation that were below inflation adjusted amounts and were offered without economic rational or justification other than that they were above what is presently offered in the present MUORA. In the final offer by the U.S., a \$15 million base was offered beginning in 2004 as landowner compensation. On an inflation basis, this amount represents a degradation of 60% of the value that the landowner's compensation amount achieved in 1979. Accordingly, it was no surprise that the KNC rejected the U.S. offer on Landowner funding as inadequate, particularly since the U.S. would not offer an alternative means of achieving landowner compensation through taxation.

The lack of a Landowner's Trust Fund

A basic tenet of the philosophy of the landowners in formulating their proposal for a long-term lease of Kwajalein was that the term and the amount of funding for landowner's compensation be sufficient to provide for the long-term needs of the people of Kwajalein. The U.S. government states that the new MUORA is a billion-plus deal that will last until 2086. But as I have already described, the agreement is actually a short-term extension until 2023 with the possibility that the U.S. may decide to stay longer. In effect it is an agreement until 2023 with a series of rolling annual 1-year options to terminate if and when the U.S. chooses to leave after 2023.

Under these circumstances, the landowners are concerned that the compensation amounts provided in the new MUORA be sufficient that a corpus of funds be retained that would provide annual income to landowners sufficient to replace the compensation payment if and when the U.S. departs. At the \$19.1 million level (in 2004), the landowners offered to voluntarily contribute 10% of the annual compensation amount into a trust fund for this purpose. This amount was to be matched by a contribution from the RMI through tax receipts.

The present MUORA offer does not meet the objectives of the people of Kwajalein in this regard and must be rejected as insufficient to pay for our long-term needs.

As we have stated time and again, the people of Kwajalein are committed to long-term access to Kwajalein on the basis of an equitable arrangement between both parties. If the U.S. and the people of Kwajalein cannot reach an acceptable arrangement at this time, however, we would prefer to postpone our discussion related to extension of the lease beyond 2016 to another time. It is far preferable to us to delay our talks to the alternative of having to debate a deal that we consider is unfair and inequitable and which cannot be implemented. Put another way, the present circumstances will breed division and opposition in our country.

If on the other hand the U.S. prefers to close out the Kwajalein Reagan Test Site in 2016, then it should be prepared to discuss now the terms of that closure including resettlement, restoration, re-adaptation, and rehabilitation. Environmental clean up and the planting of crops will take at least 7 years and therefore planning and

agreements cannot wait until 2016. It is the preference of the landowners that the U.S. remains in Kwajalein, keeping with our mutual defense agreement. However, should the U.S. plans demand otherwise, then we should all face up to that possibility by carefully and adequately planning for it.

SUMMARY

In conclusion, the leadership and people of Kwajalein wish to reaffirm their full support for the U.S. military activities in Kwajalein atoll and hope to continue their friendship and cooperation with the United States. At the same time, we are hopeful that through changes to the new MUORA we will achieve a fair and just arrangement for the continued use of Kwajalein. We have formulated several alternatives as a basis for changing the new MUORA that can lead to implementation of a new LUA. Indeed, there are many inconsistencies, other than the Kwajalein land use issue, contained in the draft compact which may very well justify delaying the approval of this agreement for one year. This would allow time for both sides to resolve differences which if allowed to remain in present form will only foment division within our country and undermine the foundation of our unique relationship. I make these observations not only as a Kwajalein landowner but also as a member of the Nitijela. We thank the Committee for this opportunity and look forward to working with our negotiators to reach an agreement that will gain early approval by both the U.S. and the RMI in accordance with their Constitutional processes.

The CHAIRMAN. At this time, I would like to recognize Mr. Faleomavaega for his testimony on this issue.

**STATEMENT OF HON. ENI F.H. FALEOMAVAEGA, A DELEGATE
TO CONGRESS FROM AMERICAN SAMOA**

Mr. FALEOMAVAEGA. Mr. Chairman, I want to thank you and the distinguished Ranking Member of our Committee for your eloquent statements. I am not going to repeat myself in terms of the historical context we find ourselves in this morning at this hearing. I am very, very happy that we are able to call this hearing and invite witnesses from both the administration and our friends from Micronesia to testify.

Mr. Chairman, these agreements that we are now going to be discussing in the Compact extends financial assistance from the United States, implements changes in the administration of grants, and establishes trust funds for the Republic of the Marshall Islands and the Federated States of Micronesia. However, there are certain issues about which, in my humble opinion, Mr. Chairman, the Republic of the Marshall Islands and the Federated States of Micronesia have expressed serious concerns regarding the Compact proposal.

I support the Marshall Islands and the FSM's determination and dedication of building a self-sufficient government and economy and I recognize their need for assistance. People of the Marshall Islands, as we know, have suffered and continue to suffer long-lasting life-altering effects as a result of our testing program, both from our missile program, and our nuclear weapons testing from 1946 to 1958.

Mr. Chairman, as I speak this morning, I need to remind my colleagues that there are well over 500 Micronesians from the FSM and the Republic of the Marshall Islands who currently serve with pride and dignity in our Armed Services. As I speak, I think of Specialist Olario Bromares, a proud member of the Army's 82nd Airborne, who was seriously injured in Baghdad and now is fighting for his life. He lost his arm and is without any legs, seriously wounded by shrapnel.

I just wanted to make that emphasis, Mr. Chairman, with my colleagues. Sometimes I get the impression that we think that we are giving this as a form of welfare payments or entitlements to these people, and I submit respectfully, Mr. Chairman, that this is not the case. I am very, very concerned with the question of Federal assistance programs that we seem to be now not in the mood in providing for our friends in Micronesia. I am concerned as to why we are not giving the full inflation clause to the negotiation. I am concerned why the FEMA program is not extended to our Micronesian friends. I am concerned about the Kwajalein land lease agreement that is not in place. I am also concerned about the nuclear claims that have been going on now for the last 15 years and our government has given these Micronesian people the run-around and not given them proper assistance and medical attention.

With that, Mr. Chairman, it is my intention to introduce an amendment or a series of amendments to the Compact to take corrective action in some of these areas that I am very seriously concerned about. With that, Mr. Chairman, I thank you for allowing me to say this, and I will ask unanimous consent that the full text of my statement be made part of the record. Thank you, Mr. Chairman.

[The prepared statement of Mr. Faleomavaega follows:]

**Statement of The Honorable Eni F. H. Faleomavaega, a Delegate to
Congress from American Samoa**

Mr. Chairman, the Compact of Free Association was entered into in 1986 by the Marshall Islands and the Federated States of Micronesia with the United States. By entering into this agreement, the RMI and FMS became Freely Associated States, which allied them with the United States while allowing them to remain sovereign states. Objectives of the Compact include democratic self-government, economic development, self-sufficiency through assistance from the United States. Portions of the Compact expired in October 2001 and we are here today to honor our pledge to the people of RMI and FSM to assist them in maintaining a democratic government and principles and enable them to sustain economic development and self-sufficiency.

On April 30, 2003 and May 15, 2003 the Republic of the Marshall Islands and the Federated States of Micronesia signed agreements with the United States to amend certain provisions of the Compact. These agreements were a result of diligent work by all parties. The amended Compact extends financial assistance from the United States, implements changes in the administration of grants, and establishes trust funds for the RMI and FSM.

However, there remain a few issues with which the RMI and FSM have expressed concerns regarding the Compact. These include the rate of inflation, the continued need for access to U.S. federal education programs, continued development of infrastructure, continued eligibility for FEMA disaster relief and hazard mitigation programs, immigration, and economic tax incentives.

I support the RMI and FSM's determination and dedication to building a self-sufficient government and economy and recognize their need for our assistance. The RMI and FSM have a long history with the U.S. which includes testing of nuclear weapons testing from 1946-1958. Testing which continues to impact the people of the RMI and FSM.

The people of the RMI and FSM have suffered and continue to suffer long lasting and life altering effects as a result of our testing and it is my hope that as members of this Committee we will consider the needs of these people as we listen to their remaining issues regarding the amended Compact.

I would like to thank the Chairman and Ranking Member for their support in this matter I urge my colleagues to continue to support the efforts of the RMI and FSM to be a self-governing and self-sufficient people.

The CHAIRMAN. Mr. Abercrombie?

**STATEMENT OF HON. NEIL ABERCROMBIE, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF HAWAII**

Mr. ABERCROMBIE. Thank you very much, Mr. Chairman. I most especially thank you for your opening statement and the inclusion of the report into the record.

In the interest of time, could I have your permission and the consent of the Committee to submit a statement which will go over some of the issues raised by my good friend from American Samoa as well as those raised by you and Mr. Rahall?

The CHAIRMAN. Without objection. Thank you.

[The prepared statement of Mr. Abercrombie follows:]

**Statement of The Honorable Neil Abercrombie, a Representative in
Congress from the State of Hawaii**

For the past 17 years, the United States has had a successful relationship with the Freely Associated States (FAS). The Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI) have been able to transition from a United Nations trusteeship to sovereign governments. At the same time, the United States has had its security and defense interests in the Pacific fulfilled. I believe that the renewal of the Compacts of Free Association, a formality in the continuation of our relationship, is in the best interest of all.

I have no doubt that the relationship between our governments will continue to be productive and mutually beneficial. My concern lies with the relationship between the United States and the individual states and territories affected by the Compacts.

The Compacts allow FSM and RMI citizens to freely enter the U.S. and its territories to live, seek an education, obtain healthcare and find employment. For FSM or RMI citizens who need complex medical treatment or seek higher educational opportunities unavailable in their country, the ability to enter the U.S. is critical. Due to the proximity of the State of Hawaii to these Pacific Island nations and our familiar island lifestyle, our State welcomes many FSM and RMI citizens. While many Compact migrants become productive residents of the state and add to the unique diversity of Hawaii, there are quantifiable costs, totaling \$140 million over the last six years, borne by the State.

The Personal Responsibility and Work Opportunities Reconciliation Act of 1996 determined that Compact migrants were no longer eligible for federal means tested public benefits: Medicare, Medicaid, the State Children's Health Insurance Program (SCHIP), and Temporary Assistance for Needy Families. As a result, the affected states and territories have shouldered the responsibility of providing public benefits to Compact migrants with little assistance from the federal government. Hawaii, Guam and the Commonwealth of the Northern Mariana Islands, have all incurred significant costs as a result of the Compacts in the areas of health, education and social services.

For 2002, Hawaii expended more than \$32 million in assistance to Compact migrants. The biggest impact has been on our education system. Last year, the number of Compact migrants increased by 32 percent in the primary and secondary school systems. This influx of students increased our public school system costs by at least \$18 million for the 2002-2003 academic year. The \$18 million figure is based on the cost of educating the average student, so it does not include additional costs for the special education and the English as a Second Language needs of two-thirds of the Compact migrant students. Nor does it account for lost revenue to the University of Hawaii for allowing Compact migrants to pay in-state tuition and fees.

Compact migrants also enter the U.S. with complex medical problems and communicable diseases. These costs have strained our medical system, especially after the 1996 welfare reform laws which made compact migrants ineligible for Medicaid, Medicare and SCHIP. The State of Hawaii and its hospitals have incurred more than \$13 million in unreimbursed costs by treating compact migrants in the last five years. This burden increases with every passing year as more and more migrants enter the state.

I could continue to detail the monetary costs borne by the State of Hawaii but a lengthy report has been submitted for the record with specific details on what departments and agencies are impacted. These expenditures cannot continue to go uncompensated. I realize that the Administration has proposed \$15 million in annual funding to be distributed for compact impact aid. I appreciate the recognition of this

serious problem and the willingness to provide some recompense. Unfortunately, this amount is proposed to be shared proportionately by Hawaii, Guam, CNMI, and American Samoa. This \$15 million proposal is less than Hawaii's annual education costs alone and it is wholly inadequate to support the needs of Compact migrants in the impacted areas.

Congress must fund the Compacts sufficiently so that impacted states and territories can be fully reimbursed for all expenses incurred as a result of the Compacts. As a signatory to the Compacts of Free Association, the United States, not the State of Hawaii, must bear its costs.

In closing, I would like to reiterate my support for the reauthorization of the Compacts and a continued relationship between the United States and the FAS. However, I must stress the magnitude of the effects felt by the State of Hawaii and the affected territories. I sincerely hope that this Committee will work with the Administration to address these problems and find a solution agreeable to everyone.

The CHAIRMAN. Ms. Bordallo?

**STATEMENT OF HON. MADELEINE Z. BORDALLO, A DELEGATE
TO CONGRESS FROM GUAM, ON H.J.RES. 63**

Ms. BORDALLO. Thank you, Mr. Chairman. I will have my statement submitted for the record.

The CHAIRMAN. Without objection.

[The prepared statement of Ms. Bordallo on H.J.Res. 63 follows:]

**Statement of Hon. Madeleine Z. Bordallo, a Delegate to Congress from
Guam, on H.J.Res. 63**

Chairman Pombo, Ranking Member Rahall, and Members of the Committee:

I strongly support the renewal of the Compact agreements and the continued economic assistance to the Compact States. Guam is the closest American neighbor to the Federated States of Micronesia and the Republic of the Marshall Islands, and we have seen the progress that the Freely Associated States (FAS) have made under their respective Compact agreements. As we review the record of accomplishments under the fifteen year agreement, we should also weigh the issues and concerns that have been raised regarding economic and social development.

One of the major concerns for Guam remains the reimbursement of costs incurred by Guam due to the Compact. With the proposed renewal of the unrestricted migration provisions, the time to appropriately address this issue is now. The Government of Guam has incurred significant costs over the past seventeen years due to this migration, and we have been inadequately reimbursed by the Federal Government. The immigration policy should go hand in hand with an adequate reimbursement policy for Compact-impact costs. I ask my colleagues for their support in providing for an improved process for redressing the adverse financial consequences of the immigration provisions. These improvements are needed if we are to adequately address these issues as a part of the Compact law reauthorization.

I have other concerns regarding the changes that the Administration has proposed and I would seek clarification on how these changes would improve the economic viability of the Freely Associated States. I am concerned about proposed changes to participation in disaster assistance programs under the Stafford Act, and changes to participation in other Federal grant programs. Will these changes contribute to the future well being of the Compact States, or are these changes driven by budget constraints? Is there an overall policy which defines which Federal programs are appropriate for the Compact States, or is this an issue that is defined on a program by program basis? As the Congressional review process goes forward, I hope these questions will be answered and that these concerns will be addressed.

Finally, I am interested in how Compact assistance will be administered and whether new measures intended to increase accountability will work. Guam's experience with the Compact-impact issue is a warning that we have to be on guard against the law of unintended consequences because it may be very difficult to foresee how policies made in Washington work in the islands. If experience is the guide, then Guam's experience has been that Compact issues are nearly impossible to revisit if we do not get this right the first time.

The CHAIRMAN. Now, I would like to introduce our first panel. I would like to welcome my colleague, the gentleman from Hawaii, Congressman Ed Case, to our hearing today about how the original Compact Act has affected his State.

**STATEMENT OF HON. ED CASE, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF HAWAII**

Mr. CASE. Chair Pombo, Ranking Member Rahall, members of the Resources Committee, especially my Pacific Caucus over here, it is a pleasure to see my senior colleague from Hawaii as well as my friends from Samoa and Guam. Aloha. Thank you very much for the opportunity to provide full support for the Compacts of Free Association with the Freely Associated States. I also have my written testimony and I would like to ask unanimous consent to have it inserted into the record, Chair, and simply summarize for you this morning for the sake of time.

The CHAIRMAN. Without objection.

Mr. CASE. Thank you very much. As I said, our feelings in Hawaii are in full support of the Compacts, but my purpose this morning is to express some concerns to this Committee and to request this Committee's assistance in taking actions that deal with the consequences of the Compacts upon Hawaii and other affected jurisdictions, primarily Guam and Saipan.

We in Hawaii have really a unique position in this story. We, of course, have a unique status in the Pacific. We are our country's central presence in the Pacific and we are proud of that presence and welcome the responsibility that comes with it to advance our country's interest in the Pacific.

At the same time, we enjoy a unique cultural-historical relationship with our brothers and sisters in the Pacific, the island nations of the Pacific, and we are also proud to be able to advance their interests as part of the commonwealth of the entire Pacific, if I can put it that way. And in this case, the Compacts serve us in both instances.

Our support for the Compacts comes from two basic reasons. First of all, the Compacts are integral to our country's interests in the Pacific, and those interests are to promote economic self-sufficiency, to promote political stability, and to assure the common security of the Pacific on behalf of all. From the perspective of the Pacific nations, the Compacts are integral to the continued development of their countries, and in that spirit, we in Hawaii, and I believe I speak for all of the peoples that I represent in Hawaii, we support these Compacts and we want to advance them.

However, as has already been noted, there are consequences to the Compacts that fall disproportionately upon some U.S. jurisdictions, Hawaii, Guam, and Saipan being the primary three.

The basic principle of the Compacts is that in return for certain interests granted to the Freely Associated States, they are entitled to immigrate into our country virtually without any restrictions, and as a result, they do, in fact, immigrate greatly and increasingly to Hawaii and other jurisdictions. Now, Hawaii and those jurisdictions where that immigration occurs bear certain increased burdens as a result of that immigration. They fall across the spectrum, but particularly in education, health, and human services.

When a community of Marshallese, for example, sets up on the Big Island of Hawaii, which I represent, and those members of the community, their children, go to school at Honokaa High School, which is a rural high school on the Big Island, and they incur certain obligations in that high school in servicing that community that are related, for example, to English as a Second Language, that is an impact upon the State of Hawaii as a result of immigration. When those communities have unique health problems, communicable diseases, for example, those diseases are addressed through the Hawaii State health service, and that is an impact on the State of Hawaii, and that is repeated in other areas, as well.

That is why the issue of Compact impact aid is so important to Hawaii and the other jurisdictions. Our estimates are that Hawaii has borne about, has seen about \$100 million worth of impact from immigration from the FAS since 1986 and it has seen only about \$10 million in Federal impact aid.

The testimony I believe you referred to earlier is testimony from the Government of Hawaii, which estimates that in 2002 alone, the impact upon Hawaii was somewhere in the range of \$32 million, not including unreimbursed costs to private health care providers. Some of the figures really demonstrate what is happening. We have seen a 32 percent increase in education impact, a 20 percent increase in health-related impact, a 20 percent increase in human services-related impact.

So when we see that this Compact, these Compacts as negotiated by the administration, as presented to this Committee, incorporate only \$15 million in impact aid for all of the jurisdictions that are affected, we ask the question, first of all, what exactly is the basis for that calculation of \$15 million, and there is, in fact, I don't believe, any realistic calculable basis for it, No. 1. No. 2, it is woefully inadequate to address the needs of all of the jurisdictions, much less the needs simply of Hawaii.

So the first and foremost point that I would make to this Committee is that \$15 million is not going to do it in terms of addressing the impacts of the Compacts upon the jurisdictions that are most affected, Hawaii, Guam, and Saipan, and we very much appreciate the Committee's assistance in communicating that, asking the questions that relate to that, and increasing that amount.

Now, if we are not going to do it from that perspective, then there clearly are alternatives to address Compact impacts upon these jurisdictions. We can, for example, expand Federal eligibility requirements for those programs that are not currently under Federal law applicable to immigrants from the Freely Associated States. Later today, I will be introducing, along with some of my colleagues here on the Committee, a bill which seeks to provide just that, to provide that in these jurisdictions, and for that matter, throughout our country, Freely Associated States citizens living in our country are eligible for aspects that they are not currently, whether they be Medicaid, food stamps, or treatment in DOD medical facilities.

On the bigger picture, though, I think what is lacking, really, despite the best wishes, the best intentions of many people, is an overall coordinated effort in our Federal Government over how

exactly we are going to mesh all of these various interests, whether they be military, whether they be political, whether they be social.

I will give you just one example that I have seen from my Committee on Education and the Workforce, a Committee that I am very proud and happy to sit on. In the last few weeks, as we have reauthorized or proposed reauthorization of key programs such as special education, IDEA, and Head Start, we have seen a move in that Committee to strip away eligibility for the FAS citizens from those programs, whereas they were previously eligible for those programs. Now, in seeking to fight that restriction, I asked the question, why, and there is no reason why. In fact, the State Department has said that the Compacts were not intended to replace the benefits granted to these citizens on behalf of those Federal programs.

So clearly, what we have is really a lack of coordination and a lack of a big picture approach to addressing not only the issues that my colleague from Samoa talked about, but also the issues of the impacts upon our country, including my jurisdiction, of the Freely Associated States immigration, or the impacts within those States themselves.

So in conclusion, I want to say once again what I have said three times, I think, already. My State of Hawaii is proud to stand in support, full support, of the continuation of these Compacts. It is the right thing to do. It is what we want to do. It is what we should do. But we also ask the Committee's help in understanding that there are significant impacts upon the State of Hawaii and others from the Compacts, and to ask this Committee's assistance in rectifying those impacts and addressing them in a fair manner.

Thank you very much.

The CHAIRMAN. Thank you. I thank the gentleman for his testimony.

[The prepared statement of Mr. Case follows:]

Statement of Hon. Ed Case, a Representative in Congress from the State of Hawaii

Chairman Pombo, Ranking Member Rahall, and members of the House Resources Committee, good morning and aloha!

I appreciate the opportunity to testify today in support of H.J.Res. 63, legislation reauthorizing expiring provisions of the Compact of Free Association with the Federated States of Micronesia and the Republic of the Marshall Islands, with concerns on implementation.

I commend Chairman Pombo and Representative Rahall for their leadership on this issue. Within the short time-frame given Congress to consider these recently-submitted agreements, I am glad that the Committee has expeditiously scheduled today's hearing, following on the heels of the House International Relations Committee hearing.

At the outset, let me say that I fully support our country's continued recognition of the strategic importance of the Freely Associated States to our national security interests in the Western Pacific Region, and the special relationships our countries have shared based on the U.N. trusteeship system as well as mutual respect and friendship.

It should come as no surprise that my State of Hawaii continues to have great interest in U.S. policy toward these areas given our geographic proximity and close ties in the Pacific, and thus continues its historic support of the Compacts of Free Association. Having said that, however, we continue also our historic concerns with the U.S. government's administration and coordination of Federal assistance and policy toward Micronesia, and especially the issue of Compact Impact Aid to Hawaii and other affected U.S. jurisdictions.

Accountability.

There have been countless reports, including from GAO, which have recognized the need for greater accountability over Federal assistance in Micronesia. There is a specific need for the Federal Government to hold accountable the Department of Interior and other Federal agencies on how they oversee Compact funds. I am, therefore, pleased that the current amendments to the Compact seek to strengthen reporting and monitoring measures to improve accountability.

Coordination of Federal Policy.

I share the concerns of many over the coordination of U.S. policy toward the FSM and RMI. Our national policy is to advance economic self-reliance, maintain economic and political stability, and maintain continued access to Kwajalein Missile Test Range. There is an apparent disconnect between Federal agencies on the coordination of this Federal policy toward the FSM and RMI. While there has been a lot of effort on the part of the State and Interior Departments on the Compact renegotiations, notably, no concerted effort and affirmative position has been taken by the Administration on the eligibility of citizens of the Freely Associated States in important Federal educational and other social programs during the reauthorization of many of these Federal programs.

As a member of the House Education and Workforce Committee, for example, I have witnessed firsthand the arbitrary exclusion of FAS citizens from the reauthorization of the Individuals with Disabilities Education Act (IDEA) and Head Start, even after pleas by myself and others on the Committee who recognize the importance of these programs to those communities. These actions are contrary to the State Department's recent position which made clear that the intent of the renegotiated Compacts is not to replace existing programs authorized by Congress as part of the U.S. assistance program. Essentially, I believe that much more needs to be done by the Administration to support Congressional allies who advance U.S. policy in this crucial region. Otherwise, all of the goodwill and efforts of the renegotiated Compacts will be offset by the consequences of decreases in educational and social funds that FAS citizens currently receive from the Federal Government under separate statutes.

This issue is important to Hawaii and our country for two reasons. First, I believe it is the right thing to do for the FAS and our national policy. Second, any disruption in our efforts to promote economic self-sufficiency and improved educational and health systems in Micronesia will potentially lead to even more migration of FAS citizens to the United States, particularly Hawaii, Guam and the Commonwealth of the Northern Mariana Islands, due to the strain on the education and health services of these countries to provide these basic governmental services.

Compact Impact Aid.

Continued migration from these countries to the United States brings me to the issue of Compact Impact Aid. The Administration has proposed, as part of H.J.Res. 36, \$15 million in Compact Impact Aid to be collectively shared by affected U.S. jurisdictions, which are primarily Hawaii, Guam, and the CNMI. This level of assistance is completely inadequate, given the actual costs that all of our jurisdictions have incurred since 1986. Moreover, the Administration has provided no clear justification on where it even came up with the \$15 million figure. In fact, in recent years, the Department of Interior has reported that supportable "best estimates" in 1997 for fiscal impact costs in our jurisdictions are over \$30 million annually.

While Hawaii has spent more than \$100 million on state benefits to FAS citizens since 1986, it has received less than \$10 million in Compact Impact Aid from the Federal Government. In 2002 alone, Governor Linda Lingle of Hawaii estimates, Hawaii has spent over \$32 million in assistance for FAS citizens, most on educational costs. \$18 million was spent for primary and secondary education for the academic year 2002–2003, a 32% increase from the year before. The second highest impact is in health care costs. The State Department of Human Services has spent \$4.5 million in financial assistance and \$6.7 million in medical assistance—a 20% increase in services from the previous year. These amounts do not take into account the \$15 million that is annually spent by private hospitals in Hawaii with no debt relief.

While Administration officials repeatedly say that the \$15 million proposed should be considered the annual "minimum" amount the Federal Government will be provided, its record in assuring adequate Compact Impact to Hawaii since 1986 is wanting. Moreover, given the fact that the Office of Insular Affairs office budget is one of the smaller budgets at the Interior Department, I am not optimistic that Hawaii and other affected jurisdictions will be successful in securing additional

amounts annually in the appropriations process without the full support of the entire Executive Branch.

I have repeatedly said that since our costs are primarily in the field of education and health care, then other Federal agencies, particularly the Departments of Education and Health and Human Services, should be part of an overall Federal and Compact Impact assistance strategy and program. The easiest route, of course, would be to simply increase the Compact proposal of \$15 million to at least \$35 million in mandatory spending. In that way, areas affected will not have to fight annually in the appropriations process.

Other ways to ameliorate Compact Impact costs include making FAS citizens eligible for key Federal social programs that will offset the costs borne by our jurisdictions and providing our jurisdictions with the clear authority to receive other Federal assistance and make referrals to DOD medical facilities. I am asking that this Committee give priority consideration to legislation I am introducing today with my colleagues which gives the Administration other alternative ways to provide assistance to our areas.

Our legislative proposal does the following:

- Increases Compact Assistance from \$15 to \$35 million
- Includes FAS citizens in the Medicaid program
- Includes FAS citizens in the Food Stamp Program
- Allows Hawaii and other jurisdictions to refer FAS citizens to DOD medical facilities
- Includes Hawaii and other U.S. jurisdictions in the communicable diseases program; and
- Continues medical debt relief authority for the FSM and RMI

In closing, Mr. Chairman, I want to reiterate my support and, I believe, the support of my state for the Compacts, but also the great importance of Compact Impact Aid to Hawaii. The Hawaii Congressional delegation, our local political leaders, and service providers in Hawaii view the renegotiated Compact agreements as the best window of opportunity to address Compact Impact Aid. Apart from the support of Governor Lingle, the Hawaii State Legislature has passed House and Senate resolutions seeking Federal assistance as well to help our state. Our private hospitals and educational school system also share our concern.

I look forward to working with the Members of this Committee on all of these issues as H.J.Res. 63 moves forward. Mahalo!

The CHAIRMAN. Are there any questions of Mr. Case? Thank you very much.

Mr. RAHALL. I don't have any questions, but I do want to commend the gentleman from Hawaii in his first term for being such an effective leader on this issue and representing not only Hawaii but those members of the Compact Association as effectively as he does.

Mr. CASE. Thank you very much.

The CHAIRMAN. Mr. Faleomavaega?

Mr. FALEOMAVAEGA. Mr. Chairman, I, too, would like to join my colleague from West Virginia in commending the gentleman from Hawaii for his eloquent statement.

I would also like to share with our colleagues in the Committee and with my good friend, Mr. Case, kind of like an institutional memory that in my understanding 30 years ago, there were provisions in the Compact that were agreed upon because of the bipartisanship support that members of this Committee had given not only to the previous administration, especially the various social assistance programs that were absolutely necessary, because these governments, the RMI, Republic of the Marshall Islands, and the Federated States of Micronesia, had nothing to begin with. They had no infrastructure. They had no educational system to begin with. They had nothing.

But to now expect these programs to be cut unilaterally without even any real set of documentation as to whether or not these

programs are still essentially needed, I believe, Mr. Chairman, and I want to share this concern with my good friend from Hawaii, that this cannot be acceptable.

Thank you, Mr. Chairman.

Mr. CASE. Thank you.

The CHAIRMAN. Thank you.

Ms. Bordallo?

Ms. BORDALLO. Thank you very much, Chairman. I would also like to go on record to thank my colleague, Mr. Case, for his comments in support of our Micronesian neighbors. Thank you.

Mr. CASE. Thank you.

The CHAIRMAN. Thank you.

I would like to call up our second panel, Mr. David Cohen, Mr. Albert Short, and Susan Westin, if you can approach the witness table. Before you sit down, if I could have you stand and raise your right hand.

Do you solemnly swear or affirm under the penalty of perjury that the statements made and the responses given will be the whole truth and nothing but the truth, so help you, God?

Mr. COHEN. I do.

Mr. SHORT. I do.

Ms. WESTIN. I do.

The CHAIRMAN. Let the record show they answered in the affirmative.

Thank you very much for being here. I know that a number of you are on time constraints this morning, but I do appreciate you joining us for our hearing this morning.

Mr. Cohen, we are going to begin with you on your testimony. If you are ready, you can begin.

STATEMENT OF DAVID COHEN, DEPUTY ASSISTANT SECRETARY FOR INSULAR AFFAIRS, U.S. DEPARTMENT OF THE INTERIOR

Mr. COHEN. Thank you, Mr. Chairman, and thank you for arranging the schedule to accommodate my time constraints.

Mr. Chairman and members of the Committee, I am pleased to appear before you today to discuss the administration's proposed legislation to amend the Compacts of Free Association with the Republic of the Marshall Islands and the Federated States of Micronesia. Over the 17-year life of the Compact, the U.S. will have paid a total of \$1.04 billion in direct financial assistance to the RMI and \$1.54 billion to the FSM. There have been few restrictions on this aid.

The GAO has issued a number of reports that have raised concerns about the effectiveness of Compact assistance. We at Interior have had similar concerns for quite some time. Our desire for better accountability has been frustrated by the fact that the current Compact provides for large, loosely defined grants with no express enforcement mechanisms.

I am pleased that the U.S., the RMI, and the FSM have designed a completely new system to ensure that Compact funds are used productively. The system, which features targeted funding, performance measurement, increased oversight, and remedies as a last resort, is explained in greater detail in my written statement. In

order to implement this new program, we are assembling a Compact oversight team based on the Pacific.

I would also like to address the impact that migration from the RMI, FSM, and Palau has had on Hawaii, Guam, the Northern Mariana Islands, and American Samoa, as Congressman Case has just addressed. We are requesting \$15 million in annual mandatory funding to these jurisdictions to mitigate the impact of migration. We believe, however, that the first line of defense against this impact is the financial assistance that we will provide to the Freely Associated States under the amended Compact. The amended Compact is designed to address the problems that, according to a GAO report, drive people to migrate—inadequate health care, inadequate education, inadequate economic opportunity.

We don't pretend that the amended Compact will bring migration to a halt, but we sincerely hope that the people of the Freely Associated States, including those who choose to migrate, will, as a result of our new targeted assistance program, be healthier and better educated and, hence, more likely to be net contributors to whatever community in which they choose to live.

I offer a few observations. First, when we talk about accountability, we are not talking about making sovereign states accountable to the U.S. Accountability refers to the collective accountability that all three governments have to both the people of the islands and the American taxpayer. All three governments have a collective responsibility to ensure that the American taxpayers' money will not be wasted and, just as importantly, a collective responsibility to deliver on our promise to help the people of the islands to improve their quality of life.

Some might interpret our new accountability program as an admission that the original Compact has been a failure. Nothing could be further from the truth. The Compact has been a tremendous success. America's former trust territory wards have emerged as free, vibrant, sovereign democracies. These nations have become America's most loyal allies in the world. Cynics say that this loyalty has been purchased with Compact aid, but no amount of money could buy the type of loyalty that leads so many of these islands' finest sons and daughters to serve proudly and honorably in the U.S. military.

I am very happy that the Congressman from American Samoa made a special mention of 82nd Airborne Army Specialist Olario Bromares, who I would also like to acknowledge. He is from Pohnpei, and as we sit here, Mr. Chairman, he is lying in Walter Reed Army Hospital. He was gravely wounded in the attack in Baghdad, as the Congressman has already mentioned. He has lost both legs and an arm. We all pray for Olario's recovery and we thank him so much for the tremendous courage that he has shown in the service of our country.

As illustrated by the inspiring valor of Olario Bromares and other men and women from the Freely Associated States, there is clearly a heartfelt bond between Americans and the people of these islands. The Compact has only made it stronger. We Americans value this bond.

As for criticism of the original Compact, it is important to remember that that document invented a comprehensive new kind

of international relationship that was completely untested at the time. It should surprise no one and shame no one that with the wisdom of 17 years of experience, the parties can find opportunities to improve the Compact. The U.S. and the Freely Associated States are committed to embracing those opportunities, working together as partners to ensure that the promise of these Compacts is fully realized for all the people of the islands. Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Cohen follows:]

**Statement of David B. Cohen, Deputy Assistant Secretary for
Insular Affairs, U.S. Department of the Interior**

Mr. Chairman and members of the House Committee on Resources, I am David B. Cohen, Deputy Assistant Secretary of the Interior for Insular Affairs. I am pleased to appear before you today to discuss H. J. Res. 63, the Administration's proposal for legislation that would approve amendments to the Compact of Free Association with the Republic of the Marshall Islands (RMI) and the Federated States of Micronesia (FSM), which I will collectively refer to as the freely associated states or FAS. These amendments will, among other things, split the current Compact, which is a single, tri-lateral agreement among the United States, the RMI and the FSM, into two bi-lateral Compacts between the United States and the RMI and between the United States and the FSM, respectively.

I will focus my comments on the fiscal and economic provisions of the Compacts and the Fiscal Procedures Agreements, which are subsidiary agreements to the respective Compacts. In particular, I will discuss how proposed amendments to these provisions are designed to address the very legitimate concerns that the General Accounting Office (GAO), the Department of the Interior and others have raised with respect to the lack of accountability for Federal funds provided under the current Compact.

BACKGROUND

Over the 17-year life of Compact financial assistance, it is expected that the United States will ultimately have paid a total of \$1.04 billion in direct grants to the RMI and \$1.54 billion to the FSM. There have been few restrictions on these grants.

Over the last several years, the GAO has issued a number of reports that have raised concerns about the effectiveness of Federal assistance that has been provided under the Compact. We at the department of the Interior have had similar concerns for quite some time; particularly officials in the Office of Insular Affairs, who have been greatly frustrated with the lack of tools properly to administer or track Federal assistance in a manner that could reasonably ensure that such assistance is having its intended effect. Most importantly, we have been hampered by the fact that the current Compact provides for large, loosely defined grants with no express enforcement mechanisms to ensure the efficient and effective expenditure of funds.

I am pleased that, in negotiating the provisions of the amended Compacts, the United States and its negotiating partners, the RMI and FSM, have sought to address the concerns raised by the GAO, the Department of the Interior and others.

ACCOUNTABILITY PROVISIONS

We have designed a completely new system to ensure that Compact funds are used productively. First, we will target our funding. Compact funds will be available for the following six high-priority sectors only:

- Health
- Education
- Public Infrastructure
- Environmental Protection
- Private Sector Development
- Public Sector Capacity Building

Special emphasis will be given to health and education. The respective Compacts and the related Fiscal Procedures Agreements describe the types of activities that are eligible for funding under each of these sectors. This will enable us to ensure that Compact funds are used exclusively for what the U.S. and our FAS partners have jointly identified as high-priority activities.

Second, the U.S. and its FAS partners will work together to control Compact budgets, including the allocation of funds among the six sectors, to ensure that the

objectives of the Compact are being properly pursued. The process will work as follows: Each year, the RMI and FSM will propose their respective Compact budgets. Those proposals must be approved by bilateral joint committees—a U.S.–RMI joint committee for the RMI Compact and a U.S.–FSM joint committee for the FSM Compact. Each joint committee will include three members from the U.S. and two from the applicable freely associated state. The joint committees will ensure that the Compact budgets conform to the letter and spirit of the respective Compacts.

Third, we will require planning to ensure that Compact budgets further medium- and long-term goals and objectives. Each FAS will be required to prepare and periodically update various plans, which will be subject to the approval of the applicable joint committee. The Compact budgets will be expected to be consistent with these plans.

Fourth, we will give oversight personnel at the Department of the Interior the tools to protect against waste, fraud and abuse. The sector grants will be subject to terms and conditions similar to those applicable to Federal grants provided to state and local governments in the United States. The provisions designed to protect Compact funds include:

- The right of the U.S. to unilaterally impose certain special conditions, including additional reports, monitoring and prior approvals, in the event that a grantee has a history of unsatisfactory performance or is not financially stable.
- The right of the U.S. to withhold payments or suspend or terminate grants under certain conditions.
- The requirement that the FAS be subject to annual audits, and the right of the U.S. to conduct specific audits as it deems necessary.
- The right of the U.S. to have full access to all relevant FAS records.
- The requirement that the FAS follow procurement provisions designed to ensure competition, transparency and the avoidance of conflicts.
- The obligation of the FAS to fully cooperate with any U.S. investigation into the misuse of Compact funds.

We do not intend to make these tools the focus of our accountability program. We understand that the key to a successful accountability program is a continued strong relationship with our FAS partners, so that we can work together to ensure that the Compact funds benefit the people that they are intended to benefit. We also understand, however, that it is difficult to predict what will happen over a 20-year period, and it would be imprudent for us to not have the tools necessary to protect the American taxpayers' investment to improve life in the FAS.

The provisions described above will help us to ensure that the Compact funds reach their intended destination. But it will be of little good if the Compact funds reach their intended destination but do not have the intended effect. That is why, as the fifth prong of our new accountability program, we will apply performance standards and measures to each Compact grant. The joint committees will be responsible for applying appropriate performance standards and measures and evaluating performance on the basis thereof.

Sixth, we will provide for strong minimum standards for each FAS's financial management systems, and we will help them to meet these standards with technical assistance provided by my office and with the public sector capacity development grant.

Seventh, we will provide for detailed reporting, so that the U.S. and its FAS partners can track progress and identify any areas of concern.

Finally, the Department of the Interior is in the process of assembling a Compact oversight team based in the Pacific. We are hiring eight additional full-time employees who will focus exclusively on monitoring and oversight of Compact financial assistance and coordination with other Federal agencies providing program assistance to the FAS.

Additionally, Mr. Chairman, I would like to address the very important question of the impact that migration from the RMI, FSM and Palau, as authorized by the current Compacts, has had on Hawaii, Guam, the Northern Mariana Islands and American Samoa. Migrants have made important contributions to Hawaii and the territories, but have placed additional burdens on the local governments because of their utilization of services. The GAO reported significant outlays by these United States jurisdictions in aid of migrants and their families. With this history in mind, the legislation before you today includes \$15 million in annual mandatory funding as a contribution to these United States jurisdictions to mitigate the impact of migration.

While this \$15 million will be applied directly to address the impact of migration on United States jurisdictions, the financial assistance that we will provide to the FAS under the amended Compact is really the first line of defense against this impact. The GAO found that migration from the FAS is motivated mainly by the lack

of proper education, health care and economic opportunity. The amended Compact is designed to address the problems that drive people to migrate: The targeted funding gives priority to health and education and also supports activities that are designed to promote economic development. We do not pretend that the amended Compact will bring migration to a halt, but we sincerely hope that the people of the FAS, including those who choose to migrate, will, as a result of our new targeted assistance program, be healthier and better educated and hence more likely to be net contributors to whatever community in which they choose to live. Thus, the legislation seeks to improve the conditions that lead to migration from the FAS and ameliorate the effects of migration to the United States when it occurs.

OBSERVATIONS

Now that I have described our new program, Mr. Chairman, I would appreciate the opportunity to offer a few observations.

My first point is that when we talk about accountability, we are not talking about making the sovereign freely associated states accountable to the U.S. "Accountability" refers to the collective accountability that all three governments share both to the people of the islands and to the American taxpayer. All three governments have a collective responsibility to ensure that the American taxpayer's money will not be wasted, and, just as importantly, a collective responsibility to ensure that we deliver on our promise to help the people of the islands to improve their quality of life.

Although there will always be some who are initially resistant to change, there is widespread support in all three governments for the new accountability provisions. In fact, some of the most enthusiastic supporters are government "line managers" in the RMI and the FSM—those with the day-to-day responsibility for delivering public services to the people. These managers have endured years of frustration, struggling to keep essential programs going while knowing that a more productive allocation of Compact funds could have made their jobs easier.

A few have expressed concern that the new accountability provisions are harsh, and that the FAS are not equipped to comply with them. We disagree. The new provisions include standard remedies for waste, fraud and abuse. These remedies are the same ones to which state and local governments in the United States are subject when they receive grants from the Federal Government. The RMI and FSM have had considerable experience with numerous United States Federal programs and these same remedies. I stress again, however, that the key to our accountability program is not the remedies that could conceivably be exercised in the worst case scenario, but the strong, cooperative relationship that we have with our partners in the islands.

In order to strengthen their ability to comply with the new requirements, the FAS may use Compact funds for appropriate training, software, equipment and guidance. For example, Compact funds could be used to purchase financial management systems, to provide training and hands-on guidance for local personnel or to supplement local personnel with outside experts.

The bottom line, Mr. Chairman, is that all three governments want to ensure that the people of the RMI and FSM receive the full benefit of the Compact assistance program. We can only achieve this with a strong accountability program. The U.S. cannot do it alone: We could not place sufficient personnel on the ground to properly do this job all by ourselves without seriously interfering with the sovereign governmental operations of our FAS partners, conjuring unfortunate images of a return to the old Trust Territory days. The FAS cannot do it alone: They are still in the process of developing the capacity to fully protect against the possibility of waste, fraud and abuse, and to properly measure the effectiveness of Compact-funded activities. All parties recognize that we need to work together to achieve the objectives that we all share.

BUILDING ON SUCCESS

Some might interpret our new accountability program as an admission that the original Compact has been a failure. Nothing could be further from the truth. The Compact has been a tremendous success. America's former Trust Territory wards have emerged as free, vibrant, sovereign democracies. The United States has achieved its strategic objective of denying other powers control over vast areas of the Pacific. The freely associated states have benefited from the United States defense umbrella, and their people enjoy the right to live, work and study in the United States. Significantly, these nations have become America's most loyal allies in the world.

Cynics say that this loyalty has been purchased with Compact aid. No amount of money, however, could purchase the type of loyalty that leads so many of these

islands' finest sons and daughters to serve proudly and honorably in the United States military, risking their lives to protect the freedom of all Americans. Mr. Chairman, at this moment, 82nd Airborne Army Specialist Hilario Bermanis from Pohnpei lies in Walter Reed Army Hospital after being gravely wounded in a grenade attack in South Baghdad. He has lost both legs and an arm. We all pray for Hilario's recovery, and we thank him so much for the tremendous courage that he has shown in the service of our country. As illustrated by the inspiring valor of Hilario Bermanis and other men and women from the freely associated states, there is clearly a heartfelt bond between Americans and the people of these islands. The Compact has only made it stronger. We Americans value this bond.

As for criticism of the original Compact, it is important to remember that that document invented a comprehensive new kind of international relationship that was completely untested at the time. It should surprise no one, and shame no one, that with the wisdom of 17 years of experience, the parties can think of ways to improve the Compact. The financial assistance and accountability provisions of the original Compact provide some opportunities for improvement. The United States and the freely associated states are committed to embracing those opportunities—working together, as partners, to ensure that the promise of these Compacts is fully realized for all of the people of the islands.

The CHAIRMAN. I would like to now recognize Mr. Albert Short, who was the chief negotiator of the Compact.

**STATEMENT OF ALBERT V. SHORT, NEGOTIATOR FOR THE
COMPACT OF FREE ASSOCIATION, U.S. DEPARTMENT OF
STATE**

Mr. SHORT. Mr. Chairman, members of the Committee, thank you for this opportunity to testify on a Compact of Free Association with the Federated States of Micronesia and the Republic of the Marshall Islands.

First of all, the original Compact. The Compact of Free Association with the FSM and RMI established a political relationship that is ongoing. The original 15-year Compact funding authorization for both nations, however, ended in Fiscal Year 2001 with an extension through September 30 of this year. The original Compact successfully met its main goal of providing for a stable transition from United Nations trusteeship to sovereign self-government for these two nations. At the same time, the Compact protected U.S. security, maritime, and commercial interests in the Pacific by our assumption of defense responsibilities for this vast sea and airspace—this also included Palau—and ensured access to important Department of Defense sites at Kwajalein Atoll in the Marshall Islands.

The original Compact was successful in transforming the relationship between these islands and the United States to one of our closest bilateral relationships, which, as you mentioned this morning, Mr. Chairman.

The current Compact assistance. The U.S. currently provides assistance in three ways: Financial assistance under the Compact, Federal programs and services under the Compact, and Federal programs apart from the Compact. The U.S. currently provides about \$160 million annually in financial assistance to these two nations, 80 percent from the Compact and 20 percent from other Federal agencies, such as the Departments of Education, Health and Human Services, Labor, and Agriculture.

Reasons to continue Compact assistance. The United States has strong interests in these countries that justify continued economic

assistance. These interests include advancing the economic self-reliance; improving health, education, and social conditions; sustaining the political stability and close ties which have developed; and assuring our strategic interests continue to be secured, including access to the important defense sites at Kwajalein Atoll.

The economic assistance. The administration recognizes that too sharp a reduction in U.S. assistance at this stage of economic development could result in economic instability and other disruptions and could encourage an increase in the level of migration under the Compact to the United States. The Compact, as amended, will continue economic assistance from Fiscal Year 2004 through Fiscal Year 2023. Furthermore, the economic package includes annual contributions to trust funds that will provide an ongoing source of revenue when the grant assistance ends in 2023. Federal service and program assistance also continues, unless otherwise provided by the Congress.

Compact funding. Compact funding will ensure economic and social stability and a smooth transition in 2024 when the trust funds become a source of revenue. These amounts are partially adjusted for inflation at the same rate as the original Compact.

The President's 2004 budget includes the funding, \$165.4 million for Fiscal Year 2004, for the first year of the amended Compact, but we also need the authorization for these funds, which is the Compact Act that we are now addressing. The administration is putting in place an effective accountability mechanism, which has been discussed by Mr. Cohen.

The Kwajalein Military Use and Operating Rights Agreement. As part of the amended Compact, the United States and the Republic of the Marshall Islands agreed to a long-term extension of the MUORA, or Military Use and Operating Rights Agreement, for our ballistic missile defense test site at Kwajalein. This extension could run to 2066 and beyond, and Mr. Lawless in the Department of Defense has submitted written testimony on our use of Kwajalein and the security and defense aspects of the Compact.

Immigration. Based on our experience to date, as well as in the wake of the September 11 attack, we reexamined the immigration provisions of the existing Compact. These provisions provide that the RMI and FSM citizens "may enter into, lawfully engage in occupations, and establish residence as non-immigrants in the United States."

The amended Compact will, first of all, require FAS citizens to use machine-readable passports. Second, institute child adoption visa procedures. Further, implement visa entry procedures for naturalized FAS citizens. It will preclude passport sales and similar programs and will make explicit the inherent U.S. authority to regulate the terms and conditions of an FSM or RMI citizen's admission and stay in the United States and its territories. It also removes the annual requirement for an EAD, or Employment Authorization Document, which has been a troublesome administrative requirement on FSM and Marshall's migrants, and substitute a multi-year authorization.

Mr. Chairman, in conclusion, thank you for this opportunity to present the administration's views on the Compact we have signed with the FSM and the RMI. Let me assure you, we welcome any

and every opportunity to keep the Committee informed of your deliberations as you proceed on this legislation. Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Short follows:]

Statement of Albert V. Short, Negotiator for the Compact of Free Association, United States Department of State

Thank you for this opportunity to testify on the recently submitted Compact Act of Free Association with the Federated States of Micronesia (FSM) and with the Republic of the Marshall Islands (RMI).

The Original Compact

The original 15 years of Compact funding authorization for the FSM and RMI ended in Fiscal Year 2001. The Compact provisions provided an extension for up to two years through September 30, 2003, as long as Compact negotiations progressed. The original Compact successfully met its main goal of providing for a stable transition from United Nations Trusteeship to sovereign self-government for the FSM and RMI. At the same time, the Compact protected U.S. security, maritime, and commercial interests in the Pacific by assuming defense responsibilities for the vast sea and air space of the Freely Associated States (FAS) including Palau—and by ensuring access to important defense sites operated by the Department of Defense on Kwajalein Atoll in the Marshall Islands.

The original Compact was also successful in transforming the relationship between these islands and the United States into one of our closest bilateral relationships. We now number the FSM and RMI among our staunchest friends in the United Nations. These achievements are solid and lasting, and the American and FAS peoples can be justly proud of them.

Current Compact Assistance

The U.S. currently provides assistance to the FSM and RMI in three ways: through financial assistance under the Compact; through programs and services that are included in the Compact, such as the services and related programs of the U.S. Weather Service, the Postal Service, and the Federal Aviation Administration; and through programs apart from the Compact that are funded, as Congress sees fit, by other Federal agencies. The U.S. currently provides about \$160 million annually in financial assistance to the FSM and RMI, 80 percent from the Compact and 20 percent from other Federal agencies outside of the Compact, such as the Departments of Education, Health and Human Services, Labor, and Agriculture.

The past seventeen years have witnessed recurring problems stemming from the lack of accountability and the sometimes ineffective use of Compact Funds. Therefore, a principal task of the recently signed agreements to amend the Compact is to improve the effectiveness and accountability of these funds. Moreover, we have agreed to put an increasing percentage of the annual U.S. Compact assistance into a trust fund that will provide an ongoing source of revenue to the two countries when annual payments by the United States end in 2023.

Reasons to Continue Compact Assistance

The United States has strong interests in these countries that justify continued economic assistance under the Compact through Fiscal Year 2023 and the contributions to the trust fund, provided this assistance is structured and managed as proposed. These interests include:

- Advancing economic self-reliance. (In this regard, the United States will continue its commitment to the economic strategies that the RMI and FSM have developed with the support of the United States, the Asian Development Bank (ADB), the International Monetary Fund, and our partners in the ADB Consultative Group, including Japan and Australia);
- Improving the health, education, and social conditions of the people of the RMI and FSM;
- Sustaining the political stability and close ties which we have developed with these two emerging democracies;
- Ensuring that our strategic interests continue to be secured, including access to our important defense sites on the Kwajalein Atoll;
- Putting in place and contributing to a trust fund that will provide an ongoing source of revenue when annual payments by the United States end in 2023;
- Strengthening immigration provisions in the wake of the September 11th attacks and addressing various problems that have arisen since the Compact was first approved by the U.S. Congress; and

- Mitigating the impact of immigration under the Compact on Hawaii, Guam, the Commonwealth of the Northern Mariana Islands, and American Samoa.

Economic Assistance

The Administration recognizes that too sharp a reduction in U.S. assistance at this stage of economic development of the RMI and the FSM could result in economic instability and other disruptions, and could encourage an increase in the level of immigration under the Compact to the United States by citizens of those countries. We continue to believe that providing substantial financial and other assistance under the Compact will help to ensure economic stability while the RMI and FSM continue to implement economic development and reform strategies.

The Compact, as amended, provides for continued economic assistance from Fiscal Year 2004 through Fiscal Year 2023. Furthermore, the economic package provides for annual contributions to a trust fund that will provide an ongoing source of revenue, to be used for the same purposes as the previous grant assistance when the annual grant assistance ends in Fiscal Year 2023. Federal services and program assistance also continues, if provided by Congress.

Compact Funding

Compact funding will ensure economic and social stability and a smooth transition to Fiscal Year 2024 when annual payments from the U.S. will have terminated and the trust fund becomes a source of revenue.

- Beginning in Fiscal Year 2007, the FSM sector grants decrease by \$800,000 per year through Fiscal Year 2023, with this decrease added to the trust fund.
- The RMI will receive \$30.5 million in sectoral grants, \$5.2 million for Kwajalein impact, and \$7 million for its trust fund annually beginning in Fiscal Year 2004.
- Beginning in Fiscal Year 2005, the RMI sectoral grants decrease by \$500,000 per year through Fiscal Year 2023, with this decrement added to the trust fund.
- These amounts are partially adjusted for inflation: two-thirds of the implicit price deflator will be applied as in the original Compact period.
- Under the Compact, as amended, the U.S. contributions to the trust funds are conditioned on the FSM contributing at least \$30 million to the FSM trust fund prior to September 30, 2004 and the RMI contributing at least \$25 million to the RMI trust fund on the effective date of the Trust Fund Agreement or October 1, 2003, whichever is later, and \$2.5 million prior to October 1, 2004 and another \$2.5 million prior to October 1, 2005.
- Under the Compact, grant assistance will be used for six sectors, with priorities in the education and health sectors and tied to specific outcomes and purposes and monitored by the Department of the Interior.
- Misuse of Compact funds can lead to withholding of funds until the problem is resolved. The FSM and the RMI have agreed to cooperate with the United States on criminal investigations regarding misuse of funds, if necessary.

The Administration is putting in place an effective accountability mechanism with respect to future U.S. economic assistance to the FSM and the RMI under the Compact. Economic assistance will no longer be made available through transfers that co-mingle U.S. funds with local funds, thereby rendering it difficult to track and monitor their use. Instead, future funds under the Compact will be provided through targeted, sectoral assistance, each with a clearly defined scope and objectives.

In the amended Compacts, the FSM, RMI, and U.S. have agreed that any future grant assistance will be used in six sectors:

- health,
- education,
- infrastructure,
- private sector development,
- public sector capacity building, and
- the environment.

Built into each sectoral grant will be regular planning, monitoring, and reporting requirements. The amended Compacts also provide the necessary authority and resources to ensure effective oversight and reasonable progress toward the agreed objectives.

Trust Fund

A major element of the new Compact provisions is the termination of annual mandatory payments to the FSM and the RMI at the end of Fiscal Year 2023—and the establishment of a trust fund to provide an ongoing source of revenue starting in Fiscal Year 2024. In its earlier proposals to the U.S., both the FSM and RMI anticipated the U.S. interest in the termination of mandatory annual financial assistance by proposing that the U.S. capitalize a trust fund over the next term of Compact

assistance. Under the amended Compact, the Administration has agreed that annual U.S. financial assistance will terminate at the end of Fiscal Year 2024, and thereafter the trust fund will provide an ongoing source of revenue. Congress has previously authorized and funded the use of similar trust funds, including one established under the Compact with the Republic of Palau, and several established in the Marshall Islands as compensation for the U.S. nuclear weapons testing program.

Federal Services and Program Assistance

With a few notable exceptions, Federal program coordination and oversight of Compact Funds has been ineffective. We are committed to putting in place a more effective system of coordinating and monitoring that assistance during the amended Compact period.

Kwajalein MUORA Extension

As part of the amended Compact, the United States and the Republic of the Marshall Islands have agreed to a long-term extension of the Military Use and Operating Rights Agreement (MUORA) for the Ronald Reagan Ballistic Missile Defense Test Site on Kwajalein Atoll. The Reagan Test Site (RTS) serves a key role in research, development, test and evaluation for the Administration's high-priority missile defense and space programs.

Although the current Military Use and Operating Rights Agreement covering U.S. use of these defense sites runs through 2016, in November 2001, RMI President Note reaffirmed the RMI's willingness to consider a long-term extension of U.S. use of Kwajalein Atoll for our defense needs. Subsequently, the RMI Government proposed that the ongoing negotiations to amend the Compact of Free Association provided a convenient forum to consider amendments extending the Military Use and Operating Rights Agreement. Following consultations with the Department of Defense, the Administration decided to pursue such an extension, if agreement could be concluded on acceptable terms, and negotiations on this issue would not delay our efforts to obtain agreement on amendments to the Compact.

Sections 211 and 212 of Title Two of the Compact, as amended, and the MUORA, as amended, provide for the following:

- The parties agree to extend the MUORA for a period of fifty years from 2016 (the current expiration date) to 2066, with a U.S. option to extend it for an additional twenty years to Fiscal Year 2086.
- To achieve the flexibility necessary to permit the long-term extension of the agreement, the two sides agreed to a schedule of early termination payments if the United States chooses to leave Kwajalein before the end of the agreement. This outcome could be exercised anytime after 2023, on advance notice of at least seven years.
- As Compensation:
- These agreements establish a new series of Kwajalein payments beginning in Fiscal Year 2004 (October 1, 2003) at a level of \$15 million per year (increased from the current \$11.3 million) with a further increase to a new base of \$18 million in 2014. The United States Government is obligated in any case to make payments through Fiscal Year 2023, and thereafter, depending on whether it chooses to continue its use of Kwajalein Atoll. The RMI has assured us that it will endeavor to ensure that payments to landowners are distributed more equitably than they have been in the past in a manner consistent with Marshallese custom and tradition.
- The U.S. will continue paying the \$1.9 million per year in Kwajalein impact money established in the current agreement. However, beginning in Fiscal Year 2004, this payment, which has not previously been adjusted for inflation, will be subject to the provisions of the new Compact Fiscal Procedures Agreement, will be indexed for inflation based on the formula established in the amended Compact, and emphasis will be on addressing the special needs of the Kwajalein landowners most affected by the United States presence on Kwajalein.
- Pursuant to the Compact, U.S. Army Kwajalein Atoll (USAKA) has developed, in cooperation with the RMI Environmental Protection Authority, a strong set of environmental standards and a formal process to review these standards annually and report to both governments. To promote a greater RMI capability for independent analysis of the Survey's findings and conclusions, the U.S. will provide an annual grant of \$200,000 to support increased participation of the GRMI EPA in the Survey.

For some years now, overcrowding on the Kwajalein island of Ebeye, where most of the Marshallese work force supporting the defense sites lives, has created an unmet series of special infrastructure needs for the Marshallese Communities on

Ebeye and some other islands of the Kwajalein Atoll. This agreement will address these needs in the following way:

- First, the U.S. and the RMI have agreed that \$3.1 million per year of the RMI grant funding will go towards meeting the special infrastructure and development needs of the Marshallese communities on Kwajalein Atoll. In 2014, this funding will increase to \$5.1 million per year. These funds are indexed according to the Compact Title Two formula.
- Second, considering the \$1.9 million impact funding mentioned above, which is specified by the Compact to offset the impact of U.S. defense activities on Kwajalein Atoll, together with the Ebeye special needs funding, \$5 million per year (increasing to \$7 million in 2014), all of which will be focused on improving the quality of life of the Marshallese communities on Kwajalein, starting October 1, 2004.

In sum, the Administration feels that extending the MUORA, in concert with the provisions of the amended Compact, will promote the economic stability and opportunity of the RMI for the indefinite future.

Immigration

Based on our mixed experience since the Compact took effect, as well as in the wake of the September 11th attack, we have reexamined the immigration provisions of the existing Compact. Section 141(a) provides that citizens of the RMI and FSM “may enter into, lawfully engage in occupations, and establish residence as a non-immigrant in the United States” without regard to certain grounds of inadmissibility under the Immigration and Nationality Act (INA). Our examination and the subsequent negotiations concluded that the immigration provisions should be amended to:

- Require FAS citizens seeking admission under the Compact to use passports.
- Clarify that immigrant visa procedures, rather than Compact nonimmigrant admission, are necessary and appropriate for child adoption cases.
- Limit Compact entry privileges of naturalized FAS citizens to a greater degree.
- Preclude use of passport sales and similar programs from serving as a means for persons from countries other than the FSM and the RMI to obtain visa-free admission privileges under the Compact.
- Make more explicit the authority of the Government of the United States to regulate the terms and conditions of FSM or RMI citizens’ admission and stay in the United States, including its territories and possessions.
- Make explicit that the INA applies in full to persons seeking admission to, or the right to remain in, the United States pursuant to the Compact.
- Provide Compact admission privileges to the immediate relatives of FAS citizens in U.S. military service, whether or not the relatives are FAS citizens.
- Streamline the documentation that FAS citizens may use as evidence of work authorization in the United States.

Under the Compact, as amended, the United States will now require passports for FSM and RMI citizens seeking admission as nonimmigrants to the United States. Further, naturalized citizens of the FSM and RMI will, with certain limited exceptions, now be ineligible for visa-free admission to the United States. In addition, the Compact, as amended, provides other safeguards to prevent the admission under the Compact of persons from other countries who might seek to exploit the visa-free immigration privileges intended for the citizen population of the FAS. It addresses explicitly the problem of passport sales and other naturalization schemes designed to provide visa-free admission privileges to persons from countries other than the FSM and the RMI under the Compact. The Compact, as amended, also provides express safeguards for FSM and RMI children who are coming to the United States permanently pursuant to an adoption, or for the purpose of adoption, by requiring that those children possess an immigrant visa. This clarifies the existing U.S. interpretation of the Compact, and brings the provisions relating to the Freely Associated States into harmony with that pertaining to children from other countries concerning child adoptions and protections available to adopted children.

Impact

Section 104(e)(2) of the existing and amended Compact statutes requires the President to report annually to Congress on the impact of the Compact. A recent GAO study documents the substantial impact of FAS migration to the State of Hawaii, Guam, and the Commonwealth of the Northern Mariana Islands (CNMI). The amended Compact and other proposed amendments to the Compact Act address the migratory impact issue in three ways:

- First, we will provide \$15 million per year of direct compensation to Hawaii, Guam, American Samoa, and the CNMI for the negative impacts of migration.

- Second, the amended Compacts strengthen immigration provisions to improve our ability to regulate RMI and FSM migrants who are eligible for admission.
 - Third, the amended Compacts focus on areas such as improving the health and education of, and private sector jobs for, potential migrants, thereby reducing the impact of migration under the Compact.
- The annual impact funding of \$15 million will be:
- a mandatory appropriation for twenty years.
 - allocated based on a pro rata formula reflecting a periodic census of Micronesians living in Hawaii, Guam, American Samoa, and the CNMI.

Palau

The Compact of Free Association between the United States and Palau is not up for review at this time. We believe, however, that it makes sense for us to bring the immigration, labor and trade provisions of the Palau Compact into line with those agreed with the RMI and FSM. In addition, Palau has sought a change to the communications provision to make its telecommunications carrier eligible to participate in the National Exchange Carriers Association and the Universal Services Support Fund. Negotiations are underway on these issues. If we reach agreement, the Administration will submit these amendments to the Congress.

Conclusion

Thank you for this opportunity to present the Administration's views on the Compact Act with the FSM and RMI. Let me assure you that we welcome any and every opportunity to keep the Committee informed as your deliberations proceed on the Compact Act.

The CHAIRMAN. Ms. Westin?

**STATEMENT OF SUSAN S. WESTIN, MANAGING DIRECTOR,
INTERNATIONAL AFFAIRS AND TRADE, U.S. GENERAL
ACCOUNTING OFFICE**

Ms. WESTIN. Mr. Chairman and members of the Subcommittee, I am pleased to be here today to testify on the Compacts of Free Association that the United States recently signed with the FSM and the RMI. I will just summarize and ask that my written statement become part of the record.

Specifically, I will discuss three main topics: One, the potential cost to the U.S. Government; two, changes to both the structure and levels of future assistance; and three, changes in accountability addressed in the amended Compacts and related agreements.

Turning to the first topic, the potential cost of the amended Compacts, the amended Compacts of Free Association with the FSM and the RMI to renew expiring assistance would require about \$3.5 billion in funding over the next 20 years, with a total possible authorization through 2086 of \$6.6 billion from the U.S. Congress. These dollar amounts include estimated inflation.

I direct your attention to the chart that we have here. It is also in the beginning of our statement. The share of new authorizations to the FSM would be about \$2.3 billion and would end after Fiscal Year 2023. The share of authorizations to the RMI would be about \$1.2 billion for the first 20 years. Further funding of \$3.1 billion for the remainder of the period corresponds to extended grants to Kwajalein and payments related to U.S. military use of land at Kwajalein.

This new authorized funding would be provided to each country in the form of annual grants targeted to priority areas, contributions to a trust fund for each country such that trust fund earnings would replace annual grants beginning in Fiscal Year 2024, payments the U.S. Government makes through the RMI Government

to Kwajalein landowners to compensate them for the U.S. use of their lands for defense sites, and an extension of Federal services that have been provided under the original Compact but are due to expire in Fiscal Year 2003.

Further, the administration is proposing to provide \$15 million annually for Hawaii, Guam, and the Northern Mariana Islands for the costs associated with FSM and RMI citizens who migrate to those areas. This would cost an additional \$300 million over the 20-year period.

Turning to the second topic, changes in the structure and levels of funding, under the U.S. proposals, annual grant amounts to each country would be reduced each year in order to encourage budgetary self-reliance and transition the countries from receiving annual U.S. grant funding to receiving annual trust fund earnings beginning in 2024. This decreasing grant funding combined with FSM and RMI population growth would result in falling per capita grant assistance over the funding period, particularly for the RMI. You can see that on the chart we have here. It is also on page eight of our testimony.

The reduction in real per capita funding over the next 20 years is a continuation of the decreasing amount of available grant funds that the FSM and the RMI had during the 17 years of prior Compact assistance.

The amended Compacts were designed to build trust funds that, beginning in Fiscal Year 2024, yield annual earnings to replace grant assistance that ends in 2023. Our analysis shows that the trust funds may be insufficient to replace expiring grants, depending on assumptions about the rate of return on the trust funds.

Finally, I will discuss provisions in the amended Compacts designed to provide improved accountability over U.S. assistance. This is an area where we have offered several recommendations in past years. Most of our recommendations regarding future Compact assistance have been addressed with the introduction of strengthened accountability measures in the signed amended Compacts and related agreements. Let me give four examples.

One, the amended Compacts would require that grants be targeted to priority areas such as health, education, the environment, and public infrastructure, including funding for maintenance.

Two, grant conditions normally applicable to U.S. State and local governments would apply to each grant.

Three, the United States could withhold payments if either country fails to comply with grant terms and conditions.

And four, joint economic management Committees with each country would be established.

I must emphasize, however, that the successful implementation of the many new accountability provisions will require a sustained commitment, including resources, by the three governments to fulfill their new roles and responsibilities.

Mr. Chairman, this completes my prepared statement and I would be happy to respond to questions.

The CHAIRMAN. Thank you very much.

[The prepared statement of Ms. Westin follows:]

Statement of Susan S. Westin, Managing Director International Affairs and Trade, U.S. General Accounting Office

Mr. Chairman and Members of the Committee:

I am pleased to be here today to testify on the Compact of Free Association between the United States and the Pacific Island nations of the Federated States of Micronesia, or the FSM, and the Republic of the Marshall Islands, or the RMI.¹ In 1986, the United States entered into this Compact with the two countries after almost 40 years of administering the islands under the United Nations Trust Territory of the Pacific Islands. The Compact has provided U.S. assistance to the FSM and the RMI in the form of direct funding as well as Federal services and programs for almost 17 years. Further, the Compact establishes U.S. defense rights and obligations in the region and allows for migration from both countries to the United States. Provisions of the Compact that address economic assistance were scheduled to expire in 2001; however, they can remain and have remained in effect while the United States and each nation renegotiated the affected provisions.²

Today I will discuss our review of the amended Compacts and related agreements that the United States signed with the FSM and the RMI in May and April of 2003, respectively. (According to a Department of State official, while the original Compact was one document that applied to both the FSM and the RMI, the Compact that has been amended is now a separate Compact with each nation.) Specifically, I will discuss changes to levels and structure of future assistance, including the potential cost to the U.S. government. Further, I will comment on changes in accountability and other key issues addressed in the amended Compacts and related agreements.

SUMMARY

The amended Compacts of Free Association with the FSM and the RMI to renew expiring assistance would require about \$3.5 billion in funding over the next 20 years with a total possible authorization through 2086 of \$6.6 billion from the U.S. Congress.³ The amended Compacts would provide decreasing levels of annual assistance over a 20-year term (2004–2023) in order to encourage budgetary self-reliance. Simultaneously, the Compacts would require building up a trust fund (with contributions that would increase annually) for each country to generate annual earnings that would replace the grants that end in 2023. Per capita grant assistance would fall over the 20-year period, particularly for the RMI. At an assumed trust fund rate of return of 6 percent, in 2024 the RMI trust fund would cover expiring grant assistance, while the FSM trust fund would be insufficient to replace grants. By the year 2040, however, RMI trust fund returns also would be unable to replace grant funding.

The amended Compacts include many strengthened reporting and monitoring measures that could improve accountability if diligently implemented. The amended Compacts and related agreements have addressed most of the recommendations that we have made in past reports regarding assistance accountability. For example, assistance would be provided through grants targeted to priority areas, such as health and education, and with specific terms and conditions attached. Annual reporting and consultation requirements would be expanded, and funds could be withheld for noncompliance with Compact terms and conditions. However, the successful implementation of the many new accountability provisions will require a sustained commitment and appropriate resources from the United States, the FSM, and the RMI.

The amended Compacts address other key issues. One key change to Compact defense provisions would occur—U.S. military access to Kwajalein Atoll in the RMI could be extended from 2016 to 2086. This extension would cost \$3.4 billion of the total possible authorization of \$6.6 billion. Further, amended Compact provisions on immigration have been strengthened. FSM and RMI citizens entering the United

¹The FSM had a population of about 107,000 in 2000, while the RMI had a population of 50,840 in 1999, according to each country's most recent census.

²Other Compact provisions are also due to expire in late 2003 if not renewed. These include (1) certain defense provisions, such as the requirement that the FSM and the RMI refrain from actions that the United States determines are incompatible with U.S. defense obligations (the defense veto) and (2) Federal services listed in the Compact.

³Although the amended Compacts have been signed by the U.S., FSM, and RMI governments, they have not been approved by the legislature of any country. Therefore, in our testimony we describe the amended Compacts' requirements and potential impact in a conditional manner in recognition that the Compacts have not yet been enacted. The total possible cost to renew expiring assistance in Fiscal Year 2004 U.S. dollars would be \$3.8 billion on the basis of the Congressional Budget Office's forecasted inflation rate.

States would need to carry a passport, and regulations could be promulgated that would impose time limits and other conditions on admission to the United States for these citizens.

BACKGROUND

The 1986 Compact of Free Association between the United States, the FSM, and the RMI provided a framework for the United States to work toward achieving its three main goals: (1) to secure self-government for the FSM and the RMI, (2) to assist the FSM and the RMI in their efforts to advance economic development and self-sufficiency, and (3) to ensure certain national security rights for all of the parties. The first goal has been met. The FSM and the RMI are independent nations and are members of international organizations such as the United Nations.

The second goal of the Compact—advancing economic development and self-sufficiency for both countries—was to be accomplished primarily through U.S. direct financial payments (to be disbursed and monitored by the U.S. Department of the Interior) to the FSM and the RMI. For 1987 through 2003, U.S. assistance to the FSM and the RMI to support economic development is estimated, on the basis of Interior data, to be about \$2.1 billion.⁴ Economic self-sufficiency has not been achieved. Although total U.S. assistance (Compact direct funding as well as U.S. programs and services) as a percentage of total government revenue has fallen in both countries (particularly in the FSM), the two nations remain highly dependent on U.S. funds. U.S. direct assistance has maintained standards of living that are higher than could be achieved in the absence of U.S. support. Further, the U.S., FSM, and RMI governments provided little accountability over Compact expenditures.

The third goal of the Compact—securing national security rights for all parties—has been achieved. The Compact obligates the United States to defend the FSM and the RMI against an attack or the threat of attack in the same way it would defend its own citizens. The Compact also provides the United States with the right of “strategic denial,” the ability to prevent access to the islands and their territorial waters by the military personnel of other countries or the use of the islands for military purposes. In addition, the Compact grants the United States a “defense veto.” Finally, through a Compact-related agreement, the United States secured continued access to military facilities on Kwajalein Atoll in the RMI through 2016.⁵ In a previous report, we identified Kwajalein Atoll as the key U.S. defense interest in the two countries.⁶ Of these rights, only the defense veto is due to expire in 2003 if not renewed.

Another aspect of the special relationship between the FSM and the RMI and the United States involves the unique immigration rights that the Compact grants. Through the original Compact, citizens of both nations are allowed to live and work in the United States as “nonimmigrants” and can stay for long periods of time, with few restrictions.⁷ Further, the Compact exempted FSM and RMI citizens from meeting U.S. passport, visa, and labor certification requirements when entering the United States. In recognition of the potential adverse impacts that Hawaii and nearby U.S. commonwealths and territories could face as a result of an influx of FSM and RMI citizens, the Congress authorized Compact impact payments to address the financial impact of these nonimmigrants on Guam, Hawaii, and the Commonwealth

⁴The cost of prior assistance in Fiscal Year 2004 U.S. dollars was \$2.6 billion. This estimate does not include payments for Compact-authorized Federal services or U.S. military use of Kwajalein Atoll land, nor does it include investment development funds provided under section 111 of Public Law 99-239. Additionally, the Compact served as the vehicle to reach a full settlement of all compensation claims related to U.S. nuclear tests conducted on Marshallese atolls between 1946 and 1958. In a Compact-related agreement, the U.S. government agreed to provide \$150 million to create a trust fund. While the Compact and its related agreements represented the full settlement of all nuclear claims, it provided the RMI with the right to submit a petition of “changed circumstance” to the U.S. Congress requesting additional compensation. The RMI government submitted such a petition in September 2000, which the U.S. executive branch is still reviewing.

⁵U.S. access to Kwajalein Atoll is established through the U.S.–RMI Military Use and Operating Rights Agreement (MUORA). Funding provided for U.S. military access to Kwajalein for the years 1987 to 2003 is estimated, on the basis of Interior data, to be \$64 million for development assistance and \$144 million for the RMI government to compensate landowners for U.S. use of their lands.

⁶See U.S. General Accounting Office, Foreign Relations: Kwajalein Atoll Is the Key U.S. Defense Interest in Two Micronesian Nations, GAO-02-119 (Washington, D.C.: Jan. 22, 2002).

⁷Typically, nonimmigrants include those individuals who are in the United States temporarily as visitors, students, or workers.

of the Northern Mariana Islands (CNMI).⁸ By 1998, more than 13,000 FSM and RMI citizens had made use of the Compact immigration provisions and were living in the three areas. The governments of the three locations have provided the U.S. government with annual Compact nonimmigrant impact estimates; for example, in 2000 the total estimated impact for the three areas was \$58.2 million. In that year, Guam received \$7.58 million in impact funding, while the other two areas received no funding.⁹

In the fall of 1999, the United States and the two Pacific Island nations began negotiating economic assistance and defense provisions of the Compact that were due to expire. Immigration issues were also addressed. According to the Department of State, the aims of the amended Compacts are to (1) continue economic assistance to advance self-reliance, while improving accountability and effectiveness; (2) continue the defense relationship, including a 50-year lease extension (beyond 2016) of U.S. military access to Kwajalein Atoll in the RMI; (3) strengthen immigration provisions; and (4) provide assistance to lessen the impact of Micronesian migration on Hawaii, Guam, and the CNMI.

AMENDED COMPACTS WOULD ALTER ASSISTANCE LEVELS AND STRUCTURE

Under the amended Compacts with the FSM and the RMI, new congressional authorizations of approximately \$3.5 billion in funding would be required over the next 20 years, with a total possible authorization through 2086 of \$6.6 billion. Economic assistance would be provided to the two countries for 20 years—from 2004 through 2023—with all subsequent funding directed to the RMI for continued U.S. access to military facilities in that country. Under the U.S. proposals, annual grant amounts to each country would be reduced each year in order to encourage budgetary self-reliance and transition the countries from receiving annual U.S. grant funding to receiving annual trust fund earnings. This decrease in grant funding, combined with FSM and RMI population growth, would also result in falling per capita grant assistance over the funding period—particularly for the RMI. If the trust funds established in the amended Compacts earn a 6 percent rate of return, the FSM trust fund would be insufficient to replace expiring annual grants. The RMI trust fund would replace grants in Fiscal Year 2024 but would become insufficient for this purpose by Fiscal Year 2040.

Amended Compacts Could Cost the U.S. Government \$6.6 Billion

Under the amended Compacts with the FSM and the RMI, new congressional authorizations of approximately \$6.6 billion could be required for U.S. payments from fiscal years 2004 to 2086, of which \$3.5 billion would be required for the first 20 years of the Compacts (see table 1). The share of new authorizations to the FSM would be about \$2.3 billion and would end after Fiscal Year 2023. The share of new authorizations to the RMI would be about \$1.2 billion for the first 20 years, with about \$300 million related to extending U.S. military access to Kwajalein Atoll through 2023. Further funding of \$3.1 billion for the remainder of the period corresponds to extended grants to Kwajalein and payments related to U.S. military use of land at Kwajalein Atoll.¹⁰ The cost of this \$6.6 billion new authorization, expressed in Fiscal Year 2004 U.S. dollars, would be \$3.8 billion.

This new authorized funding would be provided to each country in the form of (1) annual grant funds targeted to priority areas (such as health, education, and infrastructure); (2) contributions to a trust fund for each country such that trust fund earnings would become available to the FSM and the RMI in Fiscal Year 2024 to replace expiring annual grants; (3) payments the U.S. government makes to the RMI government that the RMI transfers to Kwajalein landowners to compensate them for the U.S. use of their lands for defense sites; and (4) an extension of Federal services that have been provided under the original Compact but are due to expire in Fiscal Year 2003.

⁸Payments were also authorized for American Samoa, but impact compensation has not been sought.

⁹See U.S. General Accounting Office, *Foreign Relations: Migration From Micronesian Nations Has Had Significant Impact on Guam, Hawaii, and the Commonwealth of the Northern Mariana Islands*, GAO-02-40 (Washington, D.C.: Oct. 5, 2001).

¹⁰U.S. access to Kwajalein Atoll in the RMI has already been secured through 2016 through a Compact-related agreement. The amended Compact with the RMI extends this funding to 2066, with an additional 20-year optional lease extension at that point.

Table 1: Estimated New U.S. Authorizations for the FSM and the RMI, Fiscal Years 2004-2086 (U.S. dollars in millions)

	FSM	RMI	Total
Fiscal years 2004-2023			
Grants for priority areas	\$1,612	\$701*	\$2,313
Trust fund contributions	517	276	793
Payments for U.S. military use of Kwajalein Atoll land ^b	Not applicable	191	191
Compact-authorized federal services ^c	167	37	204
New U.S. authorization for 2004-2023	2,296	1,204	3,500
Fiscal years 2024-2086			
Grants to Kwajalein	Not applicable	948 ^a	948
Payments for U.S. military use of Kwajalein Atoll land	Not applicable	2,133	2,133
New U.S. authorization for 2024-2086	Not applicable	3,081	3,081
Fiscal years 2004-2086, total new U.S. authorizations for the FSM and the RMI	\$2,296	\$4,285	\$6,581

Source: OAG estimate based on information in the amended Compacts. Under the amended Compacts, U.S. payments are adjusted for inflation at two-thirds of the percentage change in the U.S. gross domestic product implicit price deflator.

Note: Numbers may not sum due to rounding.

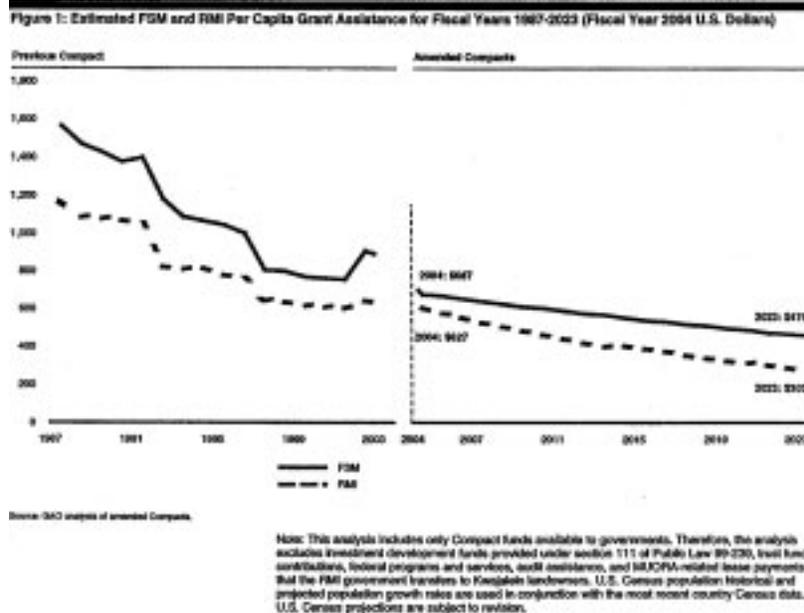
^aThe 1986 U.S.-RMI Military Use and Operating Rights Agreement (MUORA) grants the United States access to certain portions of Kwajalein Atoll and provides \$24.7 million of funding for development and impact on Kwajalein from 2004 to 2016. Approximately \$112 million of the new proposed U.S. grant assistance of \$701 million is for increasing this funding to Kwajalein from 2004 to 2016 and for continuation of the increased level of funding through 2066 and possibly to 2086 if the agreement is extended.

^bAs part of the 1986 MUORA, the RMI government has also allocated \$162 million of U.S. funding from 2004 to 2016 under this agreement to landowners via a traditional distribution system to compensate them for the U.S. use of their lands for defense sites. The amended Compact increases these payments from 2004 to 2016 and continues the increased level of payments through 2066 and possibly to 2086 if the agreement is extended.

^cFederal services authorized in the Compact include weather, aviation, and postal services. Services associated with the Federal Emergency Management Agency have been excluded. An estimate of assistance from the U.S. Agency for International Development's Office of Disaster Assistance has not been included.

Amended Compacts Would Reduce U.S. Grant Support Annually

Under the U.S. proposals, annual grant amounts to each country would be reduced each year in order to encourage budgetary self-reliance and transition the countries from receiving annual U.S. grant funding to receiving annual trust fund earnings. Thus, the amended Compacts increase annual U.S. contributions to the trust funds each year by the grant reduction amount. This decrease in grant funding, combined with FSM and RMI population growth, would also result in falling per capita grant assistance over the funding period—particularly for the RMI (see fig. 1). Using published U.S. Census population growth rate projections for the two countries, the real value of grants per capita to the FSM would begin at an estimated \$687 in Fiscal Year 2004 and would further decrease over the course of the Compact to \$476 in Fiscal Year 2023. The real value of grants per capita to the RMI would begin at an estimated \$627 in Fiscal Year 2004 and would further decrease to an estimated \$303 in Fiscal Year 2023. The reduction in real per capita funding over the next 20 years is a continuation of the decreasing amount of available grant funds (in real terms) that the FSM and the RMI had during the 17 years of prior Compact assistance.



The decline in annual grant assistance could impact FSM and RMI government budget and service provision, employment prospects, migration, and the overall gross domestic product (GDP) outlook, though the immediate effect is likely to differ between the two countries. For example, the FSM is likely to experience fiscal pressures in 2004, when the value of Compact grant assistance drops in real terms by 8 percent relative to the 2001 level (a reduction equal to 3 percent of GDP).¹¹ For the RMI, however, the proposed level of Compact grant assistance in 2004 would actually be 8 percent higher in real terms than the 2001 level (an increase equal to 3 percent of GDP). According to the RMI, this increase would likely be allocated largely to the infrastructure investment budget and would provide a substantial stimulus to the economy in the first years of the new Compact.

Trust Funds May Be Insufficient to Replace Expiring Grants

The amended Compacts were designed to build trust funds that, beginning in Fiscal Year 2024, yield annual earnings to replace grant assistance that ends in 2023. Both the FSM and the RMI are required to provide an initial contribution to their respective trust funds of \$30 million. In designing the trust funds, the Department of State assumed that the trust fund would earn a 6 percent rate of return.¹² The amended Compacts do not address whether trust fund earnings should be sufficient to cover expiring Federal services, but they do create a structure that sets aside earnings above 6 percent, should they occur, that could act as a buffer against years with low or negative trust fund returns. Importantly, whether the estimated value of the proposed trust funds would be sufficient to replace grants or create a buffer account would depend on the rate of return that is realized.¹³

- If the trust funds earn a 6 percent rate of return, then the FSM trust fund would yield a return of \$57 million in Fiscal Year 2023, an amount insufficient to replace expiring grants by an estimated value of \$27 million. The RMI trust fund would yield a return of \$33 million in Fiscal Year 2023, an estimated \$5 million above the amount required to replace grants in Fiscal Year 2024. Nev-

¹¹ The level of grant assistance in 2001 was converted into Fiscal Year 2004 dollars for comparison purposes.

¹² The State Department chose a 6 percent return in order to reflect a conservative investment strategy. This rate of return can be compared with the current average forecasted return for long-term U.S. government bonds of 5.8 percent by the Congressional Budget Office.

¹³ This analysis does not take into account volatile or negative returns. The sufficiency of either the FSM or the RMI trust fund to replace grants has not been tested under conditions of market volatility.

ertheless, the RMI trust fund would become insufficient for replacing grant funding by Fiscal Year 2040.

- If the trust funds are comprised of both stocks (60 percent of the portfolio) and long-term government bonds (40 percent of the portfolio) such that the forecasted average return is around 7.9 percent, then both trust funds would yield returns sufficient to replace expiring grants and to create a buffer account. However, while the RMI trust fund should continue to grow in perpetuity, the FSM trust fund would eventually deplete the buffer account and fail to replace grant funding by Fiscal Year 2048.

AMENDED COMPACTS HAVE STRENGTHENED ACCOUNTABILITY OVER U.S. ASSISTANCE

I will now discuss provisions in the amended Compacts designed to provide improved accountability over, and effectiveness of, U.S. assistance. This is an area where we have offered several recommendations in past years, as we have found accountability over past assistance to be lacking.¹⁴ In sum, most of our recommendations regarding future Compact assistance have been addressed with the introduction of strengthened accountability measures in the signed amended Compacts and related agreements. I must emphasize, however, that the extent to which these provisions will ultimately provide increased accountability over, and effectiveness of, future U.S. assistance will depend upon how diligently the provisions are implemented and monitored by all governments.

The following summary describes key accountability measures included in the amended Compacts and related agreements:

- The amended Compacts would require that grants be targeted to priority areas such as health, education, the environment, and public infrastructure. In both countries, 5 percent of the amount dedicated to infrastructure, combined with a matching amount from the island governments, would be placed in an infrastructure maintenance fund.
- Compact-related agreements with both countries (the so-called “fiscal procedures agreements”) would establish a joint economic management committee for the FSM and the RMI that would meet at least once annually. The duties of the committees would include (1) reviewing planning documents and evaluating island government progress to foster economic advancement and budgetary self-reliance; (2) consulting with program and service providers and other bilateral and multilateral partners to coordinate or monitor the use of development assistance; (3) reviewing audits; (4) reviewing performance outcomes in relation to the previous year’s grant funding level, terms, and conditions; and (5) reviewing and approving grant allocations (which would be binding) and performance objectives for the upcoming year. Further, the fiscal procedures agreements would give the United States control over the annual review process: The United States would appoint three government members to each committee, including the chairman, while the FSM or the RMI would appoint two government members.
- Grant conditions normally applicable to U.S. state and local governments would apply to each grant. General terms and conditions for the grants would include conformance to plans, strategies, budgets, project specifications, architectural and engineering specifications, and performance standards. Other special conditions or restrictions could be attached to grants as necessary.
- The United States could withhold payments if either country fails to comply with grant terms and conditions. In addition, funds could be withheld if the FSM or RMI governments do not cooperate in U.S. investigations regarding whether Compact funds have been used for purposes other than those set forth in the amended Compacts.
- The fiscal procedures agreements would require numerous reporting requirements for the two countries. For example, each country must prepare strategic planning documents that are updated regularly, annual budgets that propose sector expenditures and performance measures, annual reports to the U.S. President regarding the use of assistance, quarterly and annual financial reports, and quarterly grant performance reports.
- The amended Compacts’ trust fund management agreements would grant the U.S. government control over trust fund management: The United States would appoint three members, including the chairman, to a committee to administer the trust funds, while the FSM or the RMI would appoint two members. After

¹⁴ See U.S. General Accounting Office, Foreign Assistance: U.S. Funds to Two Micronesian Nations Had Little Impact on Economic Development, GAO/NSIAD-00-216 (Washington, D.C.: Sept. 22, 2000) for a review of the first 12 years of direct Compact assistance.

the initial 20 years, the trust fund committee would remain the same, unless otherwise agreed by the original parties.

The fiscal procedures agreements would require the joint economic management committees to consult with program providers in order to coordinate future U.S. assistance. However, we have seen no evidence demonstrating that an overall assessment of the appropriateness, effectiveness, and oversight of U.S. programs has been conducted, as we recommended.¹⁵

The successful implementation of the many new accountability provisions will require a sustained commitment by the three governments to fulfill their new roles and responsibilities. Appropriate resources from the United States, the FSM, and the RMI represent one form of this commitment. While the amended Compacts do not address staffing issues, officials from Interior's Office of Insular Affairs have informed us that their office intends to post six staff in a new Honolulu office. Further, an Interior official noted that his office has brought one new staff on board in Washington, D.C., and intends to post one person to work in the RMI (one staff is already resident in the FSM). We have not conducted an assessment of Interior's staffing plan and rationale and cannot comment on the adequacy of the plan or whether it represents sufficient resources in the right location.

AMENDED COMPACTS ADDRESS OTHER KEY AREAS

U.S. Military Access to Kwajalein Atoll Could Be Extended Until 2086

The most significant defense-related change in the amended Compacts is the extension of U.S. military access to Kwajalein Atoll in the RMI.¹⁶ While the U.S. government had already secured access to Kwajalein until 2016 through the 1986 MUORA, the newly revised MUORA would grant the United States access until 2066, with an option to extend for an additional 20 years to 2086. According to a Department of Defense (DOD) official, recent DOD assessments have envisioned that access to Kwajalein would be needed well beyond 2016. He stated that DOD has not undertaken any further review of the topic, and none is currently planned. This official also stated that, given the high priority accorded to missile defense programs and to enhancing space operations and capabilities by the current administration, and the inability to project the likely improvement in key technologies beyond 2023, the need to extend the MUORA beyond 2016 is persuasive. He also emphasized that the U.S. government has flexibility in that it can end its use of Kwajalein Atoll any time after 2023 by giving advance notice of 7 years and making a termination payment.

We have estimated that the total cost of this extension would be \$3.4 billion (to cover years 2017 through 2086).¹⁷ The majority of this funding (\$2.3 billion) would be provided by the RMI government to Kwajalein Atoll landowners, while the remainder (\$1.1 billion) would be used for development and impact on Kwajalein Atoll. According to a State Department official, there are approximately 80 landowners. Four landowners receive one-third of the annual payment, which is based on acreage owned. This landowner funding (along with all other Kwajalein-related funds) through 2023 would not be provided by DOD but would instead continue as an Interior appropriation. Departmental responsibility for authorization and appropriation for Kwajalein-related funding beyond 2023 has not been determined according to the Department of State. Of note, the Kwajalein Atoll landowners have not yet agreed to sign an amended land-use agreement with the RMI government to extend U.S. access to Kwajalein beyond 2016 at the funding levels established in the amended Compact.

Amended Compacts Would Strengthen Immigration Provisions

While the original Compact's immigration provisions are not expiring, the Department of State targeted them as requiring changes. The amended Compacts would strengthen the immigration provisions of the Compact by adding new restrictions and expressly applying the provisions of the Immigration and Nationality Act of 1952, as amended (P.L. 82-414) to Compact nonimmigrants.¹⁸ There are several

¹⁵ This recommendation was included in U.S. General Accounting Office, Foreign Assistance: Effectiveness and Accountability Problems Common in U.S. Programs to Assist Two Micronesian Nations, GAO-02-70 (Washington, D.C.: Jan. 22, 2002).

¹⁶ A few expiring provisions would be extended indefinitely in the amended Compacts. The "defense veto" has been extended. In addition, the ability of FSM and RMI citizens to volunteer to serve in the U.S. military would be extended.

¹⁷ Our figure of \$3.4 billion is adjusted for inflation.

¹⁸ As noted in the background section, FSM and RMI citizens who enter the United States are legally classified as "nonimmigrants"—that is, individuals who are in the United States temporarily as visitors, students, or workers.

new immigration provisions in the amended Compacts that differ from those contained in the original Compact. For example, Compact nonimmigrants would now be required to carry a valid passport in order to be admitted into the United States. Further, children coming to the United States for the purpose of adoption would not be admissible under the amended Compacts. Instead, these children would have to apply for admission to the United States under the general immigration requirements for adopted children. In addition, the Attorney General would have the authority to issue regulations that specify the time and conditions of a Compact nonimmigrant's admission into the United States (under the original Compact, regulations could be promulgated to establish limitations on Compact nonimmigrants in U.S. territories or possessions).

In addition, the implementing legislation for the amended Compacts would provide \$15 million annually for U.S. locations that experience costs associated with Compact nonimmigrants. This amount would not be adjusted for inflation, would be in effect for fiscal years 2004 through 2023, and would total \$300 million. Allocation of these funds between locations such as Hawaii, Guam, and the CNMI would be based on the number of qualified nonimmigrants in each location.

Mr. Chairman and Members of the Committee, this completes my prepared statement. I would be happy to respond to any questions you or other Members of the Committee may have at this time.

The CHAIRMAN. I thank the entire panel for your testimony. In the interest of time, I am going to waive my questioning for the moment and I would like to recognize Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. If I could offer a humble suggestion, Mr. Chairman, because of Mr. Cohen's time, we would like to focus our line of questions to Mr. Cohen because he has another important meeting, if that is all right, and we will then defer or delay our questioning Mr. Short and Ms. Westin to a later point in time, if that is all right with you.

The CHAIRMAN. We will have ample time to question the other witnesses.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. I would be remiss, Mr. Chairman, if I do not also recognize the presence of one of our distinguished national leaders representing the great State of Louisiana, the honorable Senator from Louisiana, Bennett Johnston, who is here with us. Again, this is part of the institutional memory, Mr. Chairman, that this gentleman, Senator Johnston, played a key role in so many of these issues that were discussed when the first Compact came into view, not only in this Committee, but as well as in the Senate, and I want to certainly offer my commendations to Senator Johnston for his tremendous help that he has given in solving some of these serious issues and problems that we faced concerning Micronesia.

I want to thank Mr. Cohen for his eloquent statement, as always, and certainly commend him for the tremendous work that he is trying to do, indeed, not only with the insular areas of the Pacific but also in the Virgin Islands, as well.

Mr. Cohen, you had indicated that there should be some sense of a collective accountability. I am very, very concerned about this new mechanism that has been devised in this special Committee composed of the three U.S. representatives and two Micronesian representatives. I get the strong impression that this is going to be the organizing or the comptroller that is going to be literally—I mean, you might as well not have these island governments. Maybe let this Committee of five be running the operations, if they are going to be having to make decisions of whether or not they get the funds or to see that the accountability is provided. I am very, very

concerned about this and I certainly would appreciate your comment on this.

Mr. COHEN. Thank you, Mr. Congressman, and thank you for your comments, as well. There have been some concerns about the joint Committees and some of those concerns have been based on incorrect information.

For example, there was a notion floating around that the joint Committees would have the authority to approve the national budgets of the RMI and the FSM and that simply isn't true. The joint Committees only have the authority to approve the allocations of Compact funds, so I would like to make that clear.

The role of the joint Committee is not to substitute its judgment for the judgment of the sovereign governments of the RMI and the FSM. The way the process will work, the RMI and FSM national governments will propose budgets to the joint Committee. It is not the role of the joint Committee to usurp the prerogative of the national governments by reallocating funds. It is the role of the joint Committee to make sure that the proposed budgets are consistent with the letter and spirit of the compact and also that they pay attention to the performance measures, the information that we have gotten from the performance measures, so that the U.S. taxpayers' investment in the Compact has a chance of succeeding. But it is—

Mr. FALEOMAVAEGA. I am sorry, because my time is running out, Mr. Cohen, here is my problem. Again, with all due respect to the Department of the Interior, we can't even keep an accounting of the trust funds for the American Indians. I am wondering if the Department of the Interior has the expertise that could provide for this special Committee of accountability to the RMI and the FSM. I am concerned, again, how this is going to operate in a way that we maintain the integrity of these governments to function.

I would like to think that these governments are in partnership with our government and not us telling them what to do in every instance and how to spend the money, and if the money is not accounted for, this Committee is going to say you cannot spend any more, because this is the impression that I get of this Committee.

Mr. COHEN. I appreciate that concern, Congressman. My first point is that the joint Committee does not just include the Department of Interior. In fact, the executive branch has not yet finalized the rules under which the U.S. delegation will be selected. I think it is likely that Interior will have a representative but will also have representatives from other agencies of the Federal Government.

We are adding resources in order to provide oversight and to staff the U.S. delegation to the joint Committee. We are adding eight full-time employees whose job it will be—a main part of their job will be to staff this Committee. So we are adding the expertise we need.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. I am sorry. My time is up.

The CHAIRMAN. Ms. Bordallo?

Ms. BORDALLO. Thank you, Mr. Chairman. In the interest of time, I know Mr. Cohen has another engagement, so I would like to address my two questions to him.

Mr. Secretary, in the past Compact, Chuuk State received about 37 percent of the Compact funding even though they account for one-half of the FSM population. Schools and health care in Chuuk was underfunded, from my understanding, and the result has been substantial migration to Guam, where migrant families have had a serious impact on Guam Memorial Hospital and our public schools. They make up more than 10 percent of the school children.

What is Interior's objective for allocating grant assistance among the FSM states? Will education funds be fairly distributed based on a per capita formula? In other words, will Chuuk get its fair share?

Mr. COHEN. Thank you, Congresswoman, and that is a very good question and it is a very sensitive issue, as you can imagine, because we do treat our counterparts in the Freely Associated States as partners and we respect their national sovereignty, and hence, it is very delicate for us to get involved in the allocations that are made by the FSM national government.

We trust that the FSM national government will make proper, equitable allocations among the states, and to the extent that allocations are out of whack, to the extent that they violate the letter and spirit of the Compact or they jeopardize the ability of our Compact investment in these islands to succeed, then I think it is appropriate for the joint Committees, which would not just include interior, to step in. But we have to give due deference to the prerogative of the national government of the FSM to allocate among the States.

Ms. BORDALLO. Thank you. That answers my questions.

Also, in 2001, the GAO recommended that future Compact funds be directed to address specific Compact migrant impact on Guam, Hawaii, and the CNMI. Will Interior work with Guam Memorial Hospital to make sure that the specific health care being sought at public expense in Guam is provided in the FSM?

Mr. COHEN. We will certainly work with the Government of Guam—I am sorry, could you please repeat the question? I want to make sure I understood—

Ms. BORDALLO. OK. The GAO recommended that future Compact funds be directed to address specific Compact migrant impact on Guam, Hawaii, and the CNMI. Will Interior work with Guam Memorial Hospital to make sure that the specific health care being sought at public expense in Guam is provided in the FSM?

Mr. COHEN. We will certainly work with Guam to award its share of our Compact impact funds on a grants basis so that the process will enable the Government of Guam to set its own priorities, including making sure that the GMH is properly compensated to the extent that we have resources available.

One thing I would like to point out is that under the current system, all Compact impact funds to Guam have to be used for infrastructure projects, which doesn't make much sense, and we are changing that. We are allowing these funds to be used unrestricted for impact services.

Ms. BORDALLO. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. We have a vote on the floor, but I want to quickly recognize Mr. Gallegly.

Mr. GALLEGLY. Thank you very much, Mr. Chairman. For the record, I just ask unanimous consent that I place an opening statement in the record.

The CHAIRMAN. Without objection.
[The prepared statement of Mr. Gallegly follows:]

Statement of Hon. Elton Gallegly, a Representative in Congress from the State of California

I will be brief, Mr. Chairman.

I am pleased to have this opportunity to discuss the importance of the special relationship between the Republic of the Marshall Islands and the Federated States of Micronesia under the Compacts of Free Association.

It is important to note that the Republic of the Marshall Islands and the Federated States of Micronesia have been critical components in our nation's defense for the last fifty years. I know the importance of these nations firsthand—my district alone has two military bases that have a symbiotic relationship with the Ronald Reagan Ballistic Missile Test Site on the Kwajalein Atoll in the Marshalls.

Vandenberg Air Force Base in northern Santa Barbara County and the Point Mugu Naval Air Station in Southern Ventura County both coordinate with Kwajalein in developing a missile defense shield. Rockets are routinely launched from Vandenberg, while interceptors are launched from Kwajalein. Tracking of both missiles and interceptors takes place at the Point Mugu Naval Air Station, which can fly P-3's equipped with high-powered cameras back and forth to Kwajalein.

I am pleased that Sections 211 and 212 of Title Two of the Compact includes an extension of the U.S. Army's use of Kwajalein to 2066, with an option to extend it to 2086. The critical testing performed there will someday give the U.S. the capability to intercept incoming missiles from rogue states such as North Korea.

I am also pleased to have this forum today to focus on issues that are still yet to be fully addressed in the Compact, such as the permissive entrance provisions of the Compact for Micronesians and the Marshallese, which continue to act as an under funded mandate that has had a particularly negative fiscal impact on Guam, Hawaii and the Northern Mariana Islands. Legislation I have introduced with the gentlelady from Guam, Mrs. Bordallo—the Compact Impact Assistance Act—gives the Secretary of Interior the flexibility to forgive Guam debt in exchange for the U.S. not paying continued compensation to Guam for migration impacts under the Compact. I believe this is an innovative approach to this ongoing problem.

In addition, I still have concerns regarding the radiological effects of nuclear testing on the atolls in the Marshalls and Micronesia. I believe it is important for the United States to live up to its commitments to the island residents who have been affected by this testing. For this reason, I have joined with my colleague, Mr. Faleomavaega, in introducing legislation to transfer a decommissioned NOAA vessel to the government of the atoll of Utrok in the Marshalls. This ship will allow for radiological monitoring, resettlement and rehabilitation of the residents of the Utrok Atoll. It is my hope that the committee consider this legislation in the near future. I thank the Chairman, and yield.

Mr. GALLEGLY. I would like to take this opportunity and ask my colleagues to join with me in welcoming a very dear friend of mine, a member that served on this Committee when I first came here back in the mid-1980's, the highest-ranking military officer in the Marine Corps, General Ben Blaz, former Congressman from Guam. Ben, thank you for being here this morning.

[Applause.]

Mr. GALLEGLY. Mr. Chairman, in the interest of time, I will just place this statement in the record.

The CHAIRMAN. We are going to temporarily recess the Committee so that the members can take a vote, and when we return, obviously, I will give Mr. Gallegly an opportunity to ask his questions.

The Committee will stand in recess.

[Recess.]

The CHAIRMAN. I am going to call the hearing back to order. If I could have everybody take their seats, please.

Thank you. I would like to recognize Mrs. Christensen for her questions.

Mrs. CHRISTENSEN. Thank you, Mr. Chairman. I apologize for having to step out to attend another function temporarily, so I hope that my questions are not repetitive.

There is a \$7 million shortfall in what the FSM had requested, or their analysis had come up with as to what their budgetary requirements would be annually. It really takes it down to about \$12 million, as I understand, a \$12 million deficit from their original calculation. Was there a problem with the analysis that brought them to the, I think it was—well, to the figure that they had proposed in negotiations?

Mr. SHORT. The U.S. is prepared to provide and has agreed in the signed Compact to provide \$76 million a year in the first year, Fiscal Year 2004, and \$16 million a year in the trust, and with other small amounts, a total of \$92.7 million a year to the Federated States of Micronesia. Now, that \$76 million is below the requested number by the FSM for their annual grant assistance.

Mrs. CHRISTENSEN. Was it a problem with their—I understand that they underwent a very thorough and relatively long analysis to come up with that figure. Was there a problem with their analysis? Why is there a difference?

Mr. SHORT. The number 76 is what the administration was willing to support, and we recognize that in any analysis, especially in the area of capital improvements, that the requirements are significant and almost open-ended. We felt that we came as close as we could. And also, in the process of negotiations with the FSM, there were tradeoffs between the amount of resources to put into the trust fund on an annual basis and the decrements and the amount that would go to the grant. So there was a process of negotiation with the FSM as to the allocation between the trust fund amount on an annual basis, the grant, and the decrements that would be taken out of that annual grant assistance.

Mrs. CHRISTENSEN. As I understand it, there are several goals that were identified in the renegotiation of the Compact. The administration feels that the sums that you are willing to provide are adequate to allow and support the meeting of the goals that you have jointly identified?

Mr. SHORT. Yes, ma'am.

Mrs. CHRISTENSEN. I have one other question. I am sorry, I didn't have a chance to get through all of your testimony. I represent the U.S. Virgin Islands. We have had our share of hurricanes and FEMA has been very important to us. I understand that FEMA will not be available—the resources of FEMA would not be available under the current renegotiated contract, and in place of that, what has been discussed is a mechanism to deal with hurricanes or typhoons, as the case might be. What is being put in its place?

Mr. SHORT. Disaster response will be covered by the Office of Foreign Disaster Assistance, which is an element of the U.S. Agency for International Development. This is the same organization that has been in place in Palau since its Compact came into effect.

Mrs. CHRISTENSEN. Just one other question, and just a process sort of a question. I understand that on certain issues as the negotiations took place that there may have been times when the administration would say, let Congress handle that, and other times where the administration would prescribe what would take place in a certain instance. Because of different approaches to different issues that may be in some cases, like perhaps Leave No Child Behind, FSM and Micronesia may not have received adequate treatment under certain programs.

What is the process, or is it that once the negotiations start, that you expect Congress to decide on every issue, or is it the administration, and when certain programs are developed here, initiatives are started here, that we should go ahead and make sure that the FSM and Micronesia are included?

Mr. SHORT. Ma'am, I mentioned this briefly in my testimony.

Mrs. CHRISTENSEN. I am sorry. I wasn't—

Mr. SHORT. The Compact provides assistance basically in three routes: Grant assistance under the Compact; Federal programs and services that are enumerated in the Compact, such as the Weather Service, Postal, and so on and so forth; and recognizes that the Congress has in the past provided for various Federal programs, the education programs, for example, that you are addressing.

So the Compact does not provide for those programs. They have been separately provided for pursuant to individual Acts of the Congress and they stand or are modified or deleted based on Congressional action.

In this case, the history of the last couple of years has been that there has been various education programs where—previous applicable to the FAS—where they have been stricken, and one case was brought up here on the Americans with Disabilities and then there is the Pell Grant program that is up next year.

Mrs. CHRISTENSEN. So is—

Mr. SHORT. So the administration—OK. I was not charged to renegotiate those programs because they are outside the context of the Compact. And also, I should note that in formulating Title II of the economic assistance in the Compact, we did not take into effect what might happen in the future with regard to deletion of those programs.

Mrs. CHRISTENSEN. Thank you, Mr. Chairman.

The CHAIRMAN. If I could just briefly follow up on this line of questioning, the Compact was not—during your negotiations, it was not intended to deal with the educational grants?

Mr. SHORT. That is correct. Yes, sir.

The CHAIRMAN. At no time has the educational grants been included in the Compact or the negotiations. That was a separate issue?

Mr. SHORT. Exactly. In fact, it was not a negotiated issue. It was simply a case where the Congress in enacting various pieces of legislation has made them applicable to the Freely Associated States on a case-by-case basis.

The CHAIRMAN. So—

Mr. SHORT. One thing that perhaps would be useful, sir, the administration put together a policy regarding the relationship between certain U.S. Federal programs and the Compact in response

to a question from the Senate. Perhaps I could submit that for the record and it would be useful to delineate the administration's position on the relationship between Federal programs and the Compact activities.

The CHAIRMAN. I think that would be very helpful as we move forward with this legislation, to have that, so thank you.

Mr. SHORT. OK.

The CHAIRMAN. Ms. Westin?

Ms. WESTIN. I just wanted to add, to make sure that there is not confusion between using the word "grants" and then talking about the programs, like Pell Grants and Head Start and special education, the amended Compact does talk about that the grant funds will be targeted to priority areas, including education. But as Mr. Short has said, these were not intended to replace monies that the countries have in the past been eligible and have received under the Pell Grant program, under Head Start, under special education.

I don't have exact figures, but we did look a little bit at the impact of Pell Grants on both countries and they depend heavily for their higher education on the Pell Grants. It is a major source of funding for the colleges in both the FSM and the RMI, and the loss of this funding could possibly result in the collapse of both colleges.

The CHAIRMAN. That is a somewhat troubling statement. I believe that the purpose, or at least one of the purposes of this Compact, is the economic development and economic sufficiency in these areas. Education is a very big part of that. I don't know if you are prepared to answer this question, Mr. Short, but if we were to end that, can you give the Committee an idea as to what the impact would be on the educational system?

Mr. SHORT. Yes, I can. This is on the loss of Federal programs outside the context of the Compact. I think it is clear that loss of eligibility, especially for the Department of Education funds, may mean that the RMI and FSM will either have to focus more Compact funds in those areas, either turn to local resources, or simply do less in that area. I mean, those are the options.

The CHAIRMAN. OK. Let me stop you right there. To put more Compact monies into those areas in order to maintain it would mean that it would be taken away from areas that you felt were important—

Mr. SHORT. Yes, sir.

The CHAIRMAN. —because—

Mr. SHORT. Other areas such as health, environment, infrastructure development.

The CHAIRMAN. So they are areas that you felt were important enough in your negotiations that you included dollars to cover that?

Mr. SHORT. Yes.

The CHAIRMAN. The other option being that they do nothing and the system collapses?

Mr. SHORT. That is correct.

The CHAIRMAN. Which destroys the other parts of the Compact.

Mr. SHORT. Precisely.

Mr. ABERCROMBIE. Mr. Chairman, would you yield a moment?

The CHAIRMAN. I would be happy to yield to my friend.

Mr. ABERCROMBIE. Mr. Short or Ms. Westin, I am not really asking you to give a definitive statement on this or even necessarily to respond by way of observation, but my thought would be that should something of what you are speaking of with the Chairman now take place, I have an idea what would happen. The immigration out of these countries would accelerate and we would find Guam and Hawaii and the West Coast of the United States or other enclaves of citizens of these nations—the acceleration would take place and the impact on Guam, on Hawaii and other areas, I would say California probably more likely than anything else, would be considerable.

Is that an unreasonable thought that might take place should there be, for example, a collapse in the college, as you characterize it, Ms. Westin? If they would collapse, don't you think people would then leave?

Ms. WESTIN. When we did our report on immigration that came out, I believe a little over a year ago, we noted three reasons for the immigration, basically, were for education services, for health services, and for lack of jobs, essentially, and that is why we talked about having a focus on money going to health and education, which is structured in the new Compact.

Mr. ABERCROMBIE. I understand.

Ms. WESTIN. But Mr. Short is very correct in saying that these other Federal programs were not dealt with by negotiations in the Compact.

Mr. ABERCROMBIE. I understand that.

Ms. WESTIN. That is outside the realm of those negotiations.

Mr. ABERCROMBIE. I understand, but you understand the thrust of the Chairman's approach here in his questioning. It is clear what he is driving at, right?

Ms. WESTIN. That you have to take into account that if they lose these funds from programs where they have had the eligibility and received many, many dollars in the past, it will have an impact. It will have an impact on education, and as I said, that is one of the three things, educational opportunities, that we found was a driver of immigration.

Mr. ABERCROMBIE. And by definition, then could undermine the whole object of the Compact in the first place.

The CHAIRMAN. Reclaiming my time, I would just tell my friend from Hawaii that if you look at this scenario playing out, what you end up with is those parents that value education the most, those students that value education the most, will be the ones that encourage their kids to come to Hawaii or come to California and get their education. The chances are they won't go back at that point because they will get a job and get married and everything wherever they go. I think the long-term impact of following through on this path would be devastating. I think it is something that we had better address in the future.

I am going to—Mr. Abercrombie, did you have questions? I will recognize you on your own time.

Mr. ABERCROMBIE. Thank you very much, Mr. Chairman. In some respects, what we just talked about covers what I wanted to deal with. But so we are absolutely clear on the record, if both of you recall, Mr. Cohen's phrase was, to the extent we have resources

available, was his response—I believe it was his exact words—with regard to meeting whether it was grants or whether it was payments with regard to health care, et cetera, elsewhere.

I guess this really should go to Ms. Westin, then. Ms. Westin, if we were to accept the idea that even if the Compact as negotiated by Mr. Short and his colleagues were to be implemented in terms of this bill in every respect, is it likely that there would, in your judgment, to the degree you feel you can give a judgment or give an observation, is it likely that there would continue to be an impact in Guam and Hawaii and elsewhere with regard to education, health care, and other services now currently being provided? Is that impact likely to continue?

Ms. WESTIN. I think that there is likely to continue to be an impact, but the thrust of the structure of the amended Compacts was to have the grants going to the priority areas like education, like health, and like infrastructure, environment, all of these, hopefully providing better education, for better health services in the islands, and the possibility of jobs—

Mr. ABERCROMBIE. Yes, I understand completely—

Ms. WESTIN. —or at least economic development, with the idea, then, that that would lessen the reasons for—

Mr. ABERCROMBIE. No, I understand that—

Ms. WESTIN. —for citizens wanting to immigrate.

Mr. ABERCROMBIE. And maybe my question isn't fair to you as a result. I understand that completely, but if I understood your testimony correctly and if I understand what Mr. Cohen and Mr. Short testified to, as well, the amount of money that is going is not substantially different than that which has been invested so far, isn't that correct?

Mr. SHORT. Roughly, yes, that is correct. Perhaps the difference will be on the emphasis.

Mr. ABERCROMBIE. I know. I don't want to—

Mr. SHORT. Total dollar value is about equivalent to the past.

Mr. ABERCROMBIE. OK, but this is my—I am going into the end of my third decade in elective office, in public office, and I know all about emphasis, but I will tell you, it comes down to money. It is always money. Money doesn't talk, it screams.

If it is the same amount of money, you can have all the good will in the world in terms of your advisory Committee and all the best intentions in the world, but my guess is, Mr. Chairman, that that exodus for health care, for education, et cetera, is going to continue. There may be some marginal gain, there may be some retention of people, or people may want to come back a little bit more than they may otherwise. But that is where the difficulty, I think, for us is.

And at a minimum, even if that succeeds, Ms. Westin, would you—you haven't had a chance to see, I think, in front of you in writing the studies from Hawaii. You may have had the chance to see that from Guam. I don't know if that material has been provided to you.

Ms. WESTIN. Not the new ones, no.

Mr. ABERCROMBIE. OK. But there, we are talking about—I will just cite you, and if you will accept for conversation's sake that my figures are fairly accurate—that where Hawaii is concerned, we are dealing with probably roughly \$30 to \$35 million a year in impact

that can be reasonably accounted for through the Department of Education, through the Department of Health, and again, if you will take my word for it, this has been pretty well documented in the material submitted to us by the State of Hawaii and has become part of the record today.

Would you agree that it is likely that even with the best outcome from the new Compact, and as Mr. Short puts it, the reemphasis or change of emphasis or a little more concentration on accountability, that if we are spending \$30 to \$35 million now, that that is likely to continue for a good portion of the next decade, so that when we authorize this bill, that it is reasonable for some of us to hope that the numbers might change with regard to the \$15 million? Yes?

Ms. WESTIN. Well, as you know, directing to talk about what might be likely in the future is always uncomfortable for somebody from GAO—

Mr. ABERCROMBIE. Of course.

Ms. WESTIN. —who tends to deal with the past. I don't—

Mr. ABERCROMBIE. I said we are having a conversation here. I am not holding you to anything hard and fast.

Ms. WESTIN. Oh, OK.

[Laughter.]

Mr. ABERCROMBIE. I am relying on your professionalism and your experience as to whether my proposition to you is a reasonable one.

Ms. WESTIN. I would not see any—

Mr. ABERCROMBIE. Excuse me—in the context of us trying to have to put legislation forward, because we are also speculating on the future. But that is what we do for a living.

Ms. WESTIN. Right. I don't think that you would see an immediate impact in the change of immigration. Education and health services improving could have an impact over time, but you are not going to see an immediate impact.

I think you would see the more immediate impact on education if, for example, the eligibility for Pell Grants was not extended once it expires, because there, we have seen how much of the budgets of the colleges of the two countries depend on Pell Grant money, and that is why I made my statement that it is certainly a possibility that the colleges would collapse without the eligibility of Pell Grants any further.

Whether it would lead to, in the next five or 6 years, an increase in immigration to the three areas, it is a little hard to speculate on that. But I think that Hawaii, Guam, and the Northern Mariana Islands will continue to feel the impact of the migration out of the two countries.

Mr. ABERCROMBIE. Let me just ask one other thing fairly quickly. Again, I am asking just to give an educated guess on this. Again, if the money stays the same in terms of investment, regardless of the reemphasis, if you are dealing with situations like cancer in a child's life, the likelihood of increasing the facilities, the sophistication of the hospital facilities, increasing the numbers of physicians that may have specialties to deal with things like cancer in children.

Again, isn't it likely that people who find themselves in situations requiring specialized health care are likely to continue to

have to go to Guam or to Hawaii or elsewhere in order to receive those services? Isn't it unlikely under the present investment protocols that there will be significant increase either in personnel or in facilities to handle specialized health problems?

Mr. SHORT. Congressman, let me just address that in one context. When you deal with impact in Hawaii, especially in the medical area, you deal with it really in two areas. One are individuals from the Marshall Islands who are referred there by the government for specialty-type care. The other are Micronesian migrants who are residing in, for example, Hawaii, who seek medical attention locally and don't have any coverage or are not referred by the government.

Mr. ABERCROMBIE. Yes.

Mr. SHORT. The Government of the Marshall Islands, for example, has, I believe, brought up to currency all their accounts with the hospitals in Hawaii and they recognize that they have limited capabilities and they do have to refer, and this might be a question you want to direct to either of the Micronesian testifiers that will be coming on behind us. But there will continue to be acute needs that can't be met in both jurisdictions where people would be referred. But when referred by the government, the government undertakes the reimbursement, and most of your impact on medical is for people who are residing in Hawaii and who have no coverage.

Mr. ABERCROMBIE. Thank you very much.

The CHAIRMAN. I thank the gentleman.

Any further questions for this panel? The gentlelady from Guam?

Ms. BORDALLO. Thank you, Mr. Chairman. I would like to follow up on our Chairman's questions on FEMA, the elimination of the FEMA program, and also Dr. Christensen. What will happen, what will the impact be on infrastructure improvements in the islands? Most of these, and, in fact, all of them, the infrastructure has been built with Federal monies, so I am just wondering, how will they be able to improve it, keep it maintained?

Mr. SHORT. With the existing FEMA program, there is a matching program whereby if public facilities are destroyed or damaged, they can be replaced on a matching basis. The Office of Foreign Disaster Assistance in the Department of State does not provide that coverage. So there is a gap in the coverage from the current coverage to the future.

Ms. BORDALLO. My next question is for Ms. Westin. What will the impact on the standard of living in the FSM and the RMI under the amended Compacts, which decrease grant assistance annually? Is there evidence that economic growth will be sufficient each year to absorb the loss of U.S. funds?

Ms. WESTIN. In small island economies, economic growth is always a challenge, and as you know, we looked at the first 15 years of the Compact to see what kind of economic development there had been as a result of Compact money and found that there hadn't been too much as a result of the Compact money.

Ms. BORDALLO. But now you are decreasing it annually.

Ms. WESTIN. But now it will be decreasing annually, and also you have to remember that the structure of the assistance has changed. So as the payments and the grant assistance goes down, the contributions to the trust fund goes up. So although it is about

the same amount of money, the structure of the assistance is changing over the next 20 years.

I think there have been—probably the best studies have been done by the Asian Development Bank in terms of talking about the economic development prospects for these two countries. But it is difficult for island nations of limited resources. They are not too close to heavily populated areas where they might be able to expand tourism to a great extent. So it is—

Ms. BORDALLO. So you feel this is—

Ms. WESTIN. —difficult to talk about economic development.

Ms. BORDALLO. You feel this is a sound plan?

Ms. WESTIN. Do I feel the Compact is a sound plan?

Ms. BORDALLO. Yes.

Ms. WESTIN. What we looked at was to really see what kind of accountability provisions they put in and really to develop the cost. But we at GAO didn't negotiate the compact, nor have we really assessed it as to whether this will be a successful thing.

Ms. BORDALLO. In answer to my question, then, in your own personal assessment, do you feel it is a sound plan?

Ms. WESTIN. I don't have any reason to say that it is not a sound plan. But I do think that economic development will continue to be difficult for these countries.

Ms. BORDALLO. Mr. Short—I have one other question, Mr. Chairman. Without an agreement between Kwajalein landowners and the RMI government for access beyond 2016, what is the value of the Compact extension for Kwajalein use and what happens to the increased funds for Kwajalein access through 2016 if a land use agreement is not struck by October 1, 2003? Are the payments made?

Mr. SHORT. Let me put that in context. When we deal with foreign military access and rights, we deal government to government, as in this case or any other nation in the world. So we have dealt with the Marshall Islands Government on the extension of the Kwajalein facility lease.

We have a present lease that runs through 2016, as you indicated. There is an agreement between the Government of the Marshall Islands and the affected landowners called the land use agreement whereby they pass the money through on their own formula. We deal government to government. The Marshall Islands Government has signed this arrangement and they are committed to providing us access at the facility. We expect that they will, in turn, deal with the landowners and work out any relationship that is needed there regarding the land use agreement.

Ms. BORDALLO. All right, thank you. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentlelady.

The gentleman from Puerto Rico, do you have any questions? The gentleman from Arizona? No questions? The gentleman from Washington? No questions? Mr. Faleomavaega?

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. As I had indicated earlier, Mr. Chairman, I do have some very serious concerns with some of the provisions or nonexistence of some of the things that I had hoped for that would be part of the proposed Compact. I certainly don't envy Mr. Short and the several-month period that

he has had to conduct such a difficult task of negotiating this proposed Compact that is now before us.

I note also with interest, Mr. Chairman, and I want to ask Mr. Short and Ms. Westin, because there seems to be a very serious timetable effect, that if this Compact is not approved before October of this year, I get the very strong impression that these people are going to be without funds. Has the administration developed an "option B" perhaps that if this Compact is not approved before October of this year, where do we go from here?

Mr. SHORT. Sir, I think we have the pieces in place to achieve our objective, which is to put a compact in place by 1 October. The President's budget that is presently being considered on the appropriations side includes the full 2004 funding, the amended Compact of Free Association, and we have introduced the bill and it is being actively considered in both Houses. We are on a very tight time schedule, but we feel we can close by the end of September. There might be some sort of savings situation that we would have to address in September, but so far, the assurances from both sides of the Hill have been that we think we can move it in the time that we have remaining. I do admit that it is a very short fuse.

Mr. FALEOMAVAEGA. I like the assurances, Mr. Short, but that still doesn't answer my question. If this Compact is not approved before October of this year, where do we go from here as far as the funding? Is there some mechanism, some continuous resolution, or will the administration support some legislation to the effect of continuing the current funding levels for these, for RMI and FSM in the event that the Compact may not be approved before October of this year?

Mr. SHORT. It is possible that if we do not achieve the 1 October objective that there would be a contingency put in place as a place saver until a Compact is approved.

Mr. FALEOMAVAEGA. So the administration is prepared for that contingency?

Mr. SHORT. Yes, sir.

Mr. FALEOMAVAEGA. —I mean, we don't know, but I would feel very comfortable, if some of the concerns that were raised here will be corrected before then, and will be approved in the Compact.

Ms. Westin, again, I appreciate your testimony, as always. We have had the opportunity of testifying before the International Relations Committee, of which I am a member, so now we are having a double dose of this, so I appreciate your patience, along with Mr. Short, as we continue this dialog.

You mentioned, Ms. Westin, that according to the GAO review, there is a distinction between Federal grants and programs and I wanted to ask you if you could submit for the record the listing of all Federal grants and Federal programs that the current Compact provides for FSM as well as RMI. Would you be able to do that for us?

Ms. WESTIN. Yes. We will be able to that.

Mr. FALEOMAVAEGA. OK.

Ms. WESTIN. Can I check 1 second with my colleague?

Mr. FALEOMAVAEGA. Please.

Ms. WESTIN. We wouldn't have something that is absolutely current, but we did put out a pretty large programs report within the last 18 months. Would that be suitable?

Mr. FALEOMAVAEGA. The sooner the better, if I could get that information. I would really appreciate it, Ms. Westin.

Ms. WESTIN. Sir, having the work that we have completed, would that meet your needs, even though it is not current right up to today?

Mr. FALEOMAVAEGA. Just a simple listing—especially of the major grants and the major programs.

Ms. WESTIN. Yes, we have that.

Mr. FALEOMAVAEGA. OK. I would appreciate that. And also, a listing of what the proposed Compact will not provide in terms of Federal grants and Federal programs. I would appreciate if you could help me on that, Ms. Westin.

Ms. WESTIN. Well, the Compact itself doesn't provide for many of the Federal programs that have been provided in the past. We don't have real direct knowledge of what may or may not be included. I think that is action that is being undertaken in other Committees now.

Mr. FALEOMAVAEGA. That is OK. I will proceed with that.

Ms. Westin, on the Federated States of Micronesia and the Marshall Islands budgets, what percentage of the annual budgets that they have comes from the local revenue stream of collection? And also, I would be interested to know what percentage comes from the Federal Government. Do we have that on hand as part of the GAO review?

Ms. WESTIN. We had those figures exactly when we put out a report 2 years ago. I think it is now in the neighborhood of about 50 percent, 50 percent from local revenues—

Mr. FALEOMAVAEGA. Is Federal?

Ms. WESTIN. —50 percent from—

Mr. FALEOMAVAEGA. Oh, 50 percent is the local revenue? All right. And is there also an accounting of how much the FSM and RMI receive from foreign or regional organizations like ADB and the others? Do you have an accounting for that?

Ms. WESTIN. I do. I don't have those figures with me. Can I provide them to you?

Mr. FALEOMAVAEGA. Please. You mentioned also, Ms. Westin, you say that economic development is difficult for both of these island governments. At the same time, we are making a proposal to decrease the funding of the 20-year period. This doesn't strike me as a common sense approach in helping economic development for both the FSM and RMI. Am I getting something wrong here, or can you help me with this? I mean, I get the impression there is definitely a need for economic development. Shouldn't we also then be in the process of increasing the assistance, if necessary, for the next 20-year period?

Ms. WESTIN. Well, I think one type of assistance that is structured into the Compact that I really expect will be increasing will be the technical assistance, because as Mr. Cohen talked about the Committees, one of the things that I heard from both governments when I visited the islands was that they really do need technical assistance in the help of looking at grants, making sure that it is

a good grant proposal, that the money is well spent, and then this is what you would expect then would really lead to economic development.

Mr. FALEOMAVAEGA. Following Mr. Abercrombie's line of questioning earlier, Ms. Westin, what is the minimum wage per capita income right now in the RMI and the Federated States of Micronesia? Isn't it \$1.50 an hour or something like that, or \$3,500 per annum?

Ms. WESTIN. It might be that the next panel would be able to have those figures exactly.

Mr. FALEOMAVAEGA. I had hoped that maybe it was part of your GAO review.

Ms. WESTIN. No—

Mr. FALEOMAVAEGA. It is not in there?

Ms. WESTIN. —I don't think I have those figures exactly right now.

Mr. FALEOMAVAEGA. OK. So we don't even know what the per capita income is for the RMI and the FSM. Shall we let the others testify on the next panel?

Ms. WESTIN. It is about \$1,100, \$1,200 a year.

Mr. FALEOMAVAEGA. Eleven or \$1,200? What was it before, 15 years ago? I am curious. I am trying to get some sense of continuity here, what had we done 15 years ago? To say that we have made a lot of improvements now but that we are going to decrease the funding for these people, and yet there is no real substantive change to say that there is really an economic progress going on with these two entities. This is where I am very concerned, and I would appreciate your comment on that, Ms. Westin, if I am wrong in my observations on this.

Ms. WESTIN. I would be happy to provide for you the exact figures. I don't have them with me right now. But again, what I could say is that I think the new Compact with these joint management Committees will help provide technical assistance which should, I think, help to see that the money that is provided through these grants will be well spent and, we hope, lead to—move toward economic self-sufficiency. But part of that is that the development of the trust funds, so as the grants are discontinued, there will be money available every year from the trust funds.

Mr. FALEOMAVAEGA. The problem that I have, Mr. Chairman, and also want to share again with Mr. Short and Ms. Westin, there has been some suggestion that this has been a miracle success in terms of what we have done in the last 15 years in dealing with the FSM and RMI. I would beg to differ with that opinion. We have made a failure.

I am talking about the nuclear problems that these people were subjected to in our nuclear testing program in the 1950's that we still have not provided adequate, not only medical treatment, not even compensation for the 300 or 400 Marshallese that were directly subjected to nuclear radiation when the Bravo shot took effect in 1954, 1,000 times more powerful than the nuclear bombs that we dropped at Hiroshima and Nagasaki. We still have not resolved that issue with the Marshallese people, and that, to me, is not a success. That is a total failure.

There is still a very serious problem that we have in dealing with the landowners and the lease agreements in dealing with the Kwajalein, which to me is a multi-billion dollar operation that we currently have on that island, and again, we have not come to a fruitful conclusion to that basis of negotiating, not only with the landowners but even with the Marshallese government.

And I am very concerned, Mr. Short, in terms of some of the information that has been brought to my attention in the negotiation process. When our friends from the FSM and RMI said we want to negotiate, they said, no, we can't. I am not authorized. It is not in the agenda. It is not in my program. So where is this partnership and a sense of fairness that there was a sense of comity and understanding, but the way that we seem to—this is not just this administration, to be sure. This is also both Democratic and Republican administrations. We have not dealt with these people in a fair and equitable way. I am sorry to say that.

Thank you, Mr. Chairman.

Mr. CALVERT. [Presiding.] I thank the gentleman.

Mr. Udall, do you have a question? We are going to real quickly go through this so we can get to our next panel. Mr. Udall, you are recognized.

Mr. UDALL OF NEW MEXICO. Just a couple of quick questions here. Thank you both for coming.

Concerning the elimination of the FAS access to FEMA programs, how will their ineligibility impact the potential loss to infrastructure improvements that were built with Federal money? And then, second, will this not ultimately put at risk the investments we are making to improve their infrastructure?

Mr. SHORT. That definitely is a gap in the coverage. The Office of Foreign Disaster Assistance provides disaster response but does not provide for the coverage that has been provided under FEMA, which included the matching, basically, asset and capital replacement.

Mr. UDALL OF NEW MEXICO. Thank you. I yield back, Mr. Chairman. Thank you.

Mr. CALVERT. I thank the gentleman.

Mrs. Christensen, you are recognized.

Mrs. CHRISTENSEN. Thank you, Mr. Chairman. I have one question that arises also out of the concern of the funding and the adequacy of funding.

It is my understanding that only a partial inflation adjustment is included in the Compact, both for grant assistance and also for military use and the operating rights agreement. Why is it that it is only a partial?

Mr. SHORT. The previous Compact—

Mrs. CHRISTENSEN. Especially in light of the fact that you are underfunding based on their analysis of the needs. There is loss through Federal grant programs. Why are we only using a partial adjustment?

Mr. SHORT. The present Compact that is in place today and has been in effect for 17 years provides a formula that is two-thirds of the implicit price deflator, capped at 7 percent. The average over the last 17 years has been about one or 2 percent. It was higher in the earlier years. It has been rather much lower more recently.

The same formulation was carried forward on the amended Compact. That is, two-thirds of the implicit price deflator, capped at 5 percent rather than seven. That is simply the formulation that the administration proposed that addresses but does not totally address the impact of inflation.

Mrs. CHRISTENSEN. It just seems to me that that partial adjustment, in light of everything else, is not consistent. I understand that in the trust, there is a full cost, full inflation adjustment. It is something I think we need to look at, as well.

Mr. CALVERT. I thank the gentlelady.

I think the gentlelady from Puerto Rico has one additional question, and then we will move on.

Ms. BORDALLO. From Guam.

Mr. CALVERT. Excuse me, Guam. Excuse me. I am sorry.

Ms. BORDALLO. Thank you, Mr. Chairman.

Mr. CALVERT. The gentlelady is recognized.

Ms. BORDALLO. Ms. Westin, the immigration trends, have you taken that into account at all? For example, what percent of the FSM and RMI populations are under 16 years of age now and is there a trend that we can foresee in the future?

Ms. WESTIN. I don't have those figures in front of me, but I am sure we could get them for you. We took immigration into account when we looked at trying to determine what the per capita assistance would be over time in terms of looking at population growth, and that included immigration projections.

Ms. BORDALLO. I see. I am just thinking, Mr. Chairman, because you know young people now, and particularly if economically these islands are not doing well, certainly they will look for bigger and better things. I just wondered if you had taken that into account. Thank you, Mr. Chairman.

Mr. FALCOMA. Would the Chairman yield?

Mr. CALVERT. The gentleman is recognized.

Mr. FALCOMA. Just an observation, Mr. Chairman, that I am sorry that there is no representative here from the Department of Defense to testify. I believe that this is one of the most critical issues relative to the Compact of negotiations simply because we have to face the reality, what is our national interest? What do we really have there that causes us to negotiate and to have this unique political relationship with these Pacific island governments?

And simply, the bottom line is strategic. The fact that the multi-billion-dollar presence that we have there in the facility at Kwajalein missile testing gives it even a greater sense of urgency. I think the President's hope that we will go back again and testing our missile capabilities program, I sincerely hope the President is not going to undertake another nuclear testing program because that is a very serious concern.

I don't know if my good friend Ben Blaz is still in the audience, but I am reminded of two things that always seem to strike me as something that I hope that my colleagues in the Committee and the Congress will always seem to bear and understand and appreciate. At the height of the cold war, the problems, Micronesia offered tremendous, tremendous aid and assistance to our national security. Without those nuclear testings, nuclear bombs that we exploded in the Marshalls, I don't think we would have achieved the

success during the cold war. And yet, in return, we have failed to give proper assistance and education and economic assistance to the people of the Marshall Islands.

I will always remember what Henry Kissinger said about Micronesia. There are only 90,000 of them. Who gives a damn? That is the kind of attitude that really disturbs me in our government, and this is the attitude that we have displayed toward the people of Micronesia.

And Ben Blaz, I always will remember what General Blaz said in this Committee. Sometimes those of our fellow Americans, even our friends from Micronesia, because of the sacrifices they make in defense of our nation, and Ben Blaz always says, we are equal in war but not in peace.

Thank you, Mr. Chairman.

Mr. CALVERT. I thank the gentleman.

Just one comment. I am on the Armed Services Committee. I don't believe that—I think the days of above-ground testing are over, so I don't think the people of the Marshall Islands have that to fear.

With that, there are no additional questions for this panel. This panel is excused. We thank you for your attendance here today.

Mr. CALVERT. Now, we will recognize our next panel, Mr. Peter Christian from FSM and Mr. Gerald Zackios from the RMI, if you will please come forward.

If both the gentlemen would please rise and raise your right hand and repeat after me—gentlemen, Mr. Christian and Mr. Zackios, it is a tradition of this Committee to swear in our witnesses, so if you would please rise, we would appreciate it. Please raise your right arm.

Do you solemnly swear or affirm under the penalty of perjury that the statements made and the responses given will be the whole truth, nothing but the truth, so help you, God?

Mr. CHRISTIAN. I do.

Mr. ZACKIOS. I do.

Mr. CALVERT. Thank you. Both witnesses answered in the affirmative. We would now like to thank the witnesses for their attendance and I would now recognize Mr. Peter Christian from the FSM for his testimony. We are attempting to stay within our 5-minute rule. Certainly, all of your testimony will be entered into the record and we appreciate your attendance and you are recognized. Thank you.

**STATEMENT OF THE HON. SENATOR PETER M. CHRISTIAN,
CHIEF NEGOTIATOR, FEDERATED STATES OF MICRONESIA**

Mr. CHRISTIAN. Thank you very much, Congressman Calvert. I say aloha to the other gentlemen to your left. Good morning.

Mr. Chairman, it is my honor again to be called to appear before this Committee to provide the testimony of my government on behalf of the people of the Federated States of Micronesia. Our written statement on the pertinent issues we wish to discuss with this Committee has been submitted earlier, and in it, the Committee will find some detailed explanation of our outstanding concerns.

We are also prepared, in case the Committee wishes, to meet with any member of your staff to answer some questions that may

be required of us. We have a full contingency of people here with all the answers, Mr. Chairman, and I am sure they will be happy to meet with your staff to bring them up to date on our positions on those concerns that we will very shortly list.

Mr. Chairman and honorable Members of Congress, this morning, my testimony will simply attempt to guide our attention to the list that I will submit to you now. The administration is aware of our intention to bring these before Congress and these items are those unresolved issues on the date that we signed the document agreeing that that could be submitted to Congress for consideration. At that particular time, there were some issues that were not resolved between the United States team and the Federated States of Micronesia negotiations team.

I would like to highlight those points. One is the \$7 million shortfall that we have been speaking about for the past 12 months. Second is the concept of the decremented grants. Third is the inflation adjustment, which has been touched upon earlier by the witnesses here and also the panel. Fourth, the continued FSM eligibility for Federal programs. Fifth, the reinstatement of FEMA. And sixth, tax and trade provisions.

Mr. Chairman, in addition to the items above, I must point out to the Committee, in case it does not already know, some elements of the draft legislation which were not part of the agreed-to proposed Compact amendment. In reviewing the administration's proposed changes, we found at least three major problems for which we also seek Congress's help in making adjustments.

These include the unilateral decision by the administration to take \$250,000 from Compact grants to implement United States policy on machine-readable passports. Two, the imposition of a 1-year deadline for FSM to develop and to implement an immigrant screening program. Third, the unilateral decision by the administration to change Compact language mandating programs as currently provided by the current Compact. This change, I would like to add, Mr. Chairman, concerns provision of compensatory Federal programs approved by Congress in 1986 as partial offset of loss of tax and trade benefits, previously agreed to by the administration and approved by the Congress.

I would like at this time, Mr. Chairman, if you will, to touch on a question posed by the gentlelady from Guam. The question was, is the Compact a sound document? We believe, sir, that the Compact is a sound document and we believe that it will be a more sound document if the adjustments we seek before this Committee can be accommodated. However, I regret to say that the sound document meets with a problem in the fiscal procedures developed by the Interior, by the administration, in their hope to help us implement the Compact provisions.

In addition, Mr. Chairman, we would like to propose that your Committee recommend to Congress that the Compact legislation before you be changed to include a provision for a 3-year comprehensive Congressional review of the health of the FSM economy, mostly to examine whether a need then exists requiring review and adjustment.

In conclusion, Mr. Chairman and members, we solicit the Committee's careful review of our concerns raised and we further re-

quest the Committee's favorable recommendation on the adjustments.

Finally, Mr. Chairman, we respectfully urge Congress to act favorably on the Compact legislation.

At the last time I was here, Mr. Chairman, I was called out before my statement was over, so I have decided to make it very short this time and thank you very much again for allowing me to appear on behalf of my people to solicit your support. Thank you very much.

Mr. CALVERT. We thank the gentleman for his testimony.

[The prepared statement of Mr. Christian follows:]

Statement of Hon. Senator Peter Christian, Speaker of the Congress of the Federated States of Micronesia and Chief Negotiator of the Joint Committee on Compact Economic Negotiations

Mr. Chairman,

I have the honor to appear before you today on behalf of the Federated States of Micronesia, and wish to thank you and the Members of your Committee for holding this important and timely hearing on a matter of utmost importance to my nation.

Mr. Chairman, the negotiations on the Compact amendments have evolved considerably since the last hearing held by your Committee in July 2002. We have now concluded negotiations with the Administration on a package of Compact amendments. We joined the U.S. in signing these agreements in May of this year, and look forward to working with Members and staff to address concerns we have regarding the proposed legislation now before you so that Congress may pass this important legislation on a timely basis.

We stand at an important juncture in the special relationship between our nations. The Compact as it is to be amended, intends to further our mutual commitment to preserve the peace and stability of the central Pacific, and to promote the continued development of the FSM on a sustainable basis. Mr. Chairman, these documents will profoundly affect the fate of the Micronesian people and the security and stability of the region for the next twenty years and beyond.

The sectoral approach to grant assistance in the new agreement is a marked change from past practice. As such it will require implementation adjustments by both sides. Nonetheless, it provides the best mechanism for reaching our mutual goals and will direct assistance to where it is needed most.

Similarly, we welcome and are committed to implementing new accountability and oversight requirements. It is no secret that there have been mistakes on both sides under the original Compact. While we were not always in agreement with the tone and findings of the GAO's reports during the past several years, we are thankful to the Congress for undertaking this important initiative and shedding light on deficiencies. Their work assisted both the U.S. and FSM negotiators in addressing these issues in the amendment documents.

At the outset of the talks, the FSM proposed the notion of a joint committee to oversee implementation of the Compact. This proposal was welcomed by the US, and ultimately took the form of the proposed Joint Economic Management Committee (JEMCO). The JEMCO will consist of representatives from the U.S. and FSM, with a U.S. majority, and will meet regularly to identify any problems in Compact implementation and develop prompt and cooperative responses. This approach certainly adds to the measures available to make proportional and selective interventions to ensure effective implementation of the amended Compact; however, and most importantly, the JEMCO provides a mechanism for constructive, consultative and consistent dialogue that was missing in the past.

We appreciate the generous nature of the U.S. proposal. However, there remain certain provisions of the Administration's proposal that cause the FSM serious concern. Unless addressed by the U.S. Congress during the approval process, these problems hold the potential to unravel the carefully-woven fabric of the Compact package. And that package, Mr. Chairman, was designed in close consultation with professional economists and adopted by the FSM leadership to achieve our mutual goal of ultimate self-reliance.

First and foremost, our concerns center on the level of economic assistance over the next twenty years. Beginning in 1997, the FSM began work on constructing a comprehensive economic analysis of its needs over the next twenty years. This anal-

ysis was at the core of our original economic proposal made in 1999, which called for economic assistance at the level of \$84 million annually over the next twenty years. Six months later, the U.S. responded with an initial offer of \$61 million annually that fell far short of our annual needs and disastrously short of creating a Trust Fund sufficient to secure stability at the end of the period. After further analysis of ongoing macroeconomic trends, the FSM was able to lower its minimum required figure by \$5 million annually. Still, the U.S. proposal as reflected in the legislation before you falls \$7 million annually short of that level.

The FSM demonstrated that such a marked reduction in current levels of assistance would threaten the viability of the nation from the outset. The rationale for the economic package was to provide economic stability throughout the twenty year period, while allowing for a gradual reduction in the level of the FSM's reliance on annual assistance as the economy grows. On numerous occasions we presented our economic reasoning to the U.S. negotiator, and at no time were they met with countering arguments. Neither has there ever been any dispute with the analysis or the anticipated outcomes based on economic modeling. Instead, we were told that the U.S. assistance proposal was simply the maximum that the U.S. could offer—in essence, the result of a political decision rather than being based on sound and responsible economic analysis.

Fortunately, and through the hard work of negotiators on both sides, we were able to bridge the gap to the point where we could agree on submitting the document for Congressional consideration. However the sum of the annual grant and Trust Fund contributions still falls \$7 million short on an annual basis of what we identified as the absolute minimum required for the FSM economy to achieve our mutual goals. Those being, among others, to gradually improve economic vitality and living standards during the next twenty years and to have a sufficiently funded Trust Fund to achieve self-reliance.

In addition to the effects of the initial proposed reduction in grant funding in 2004, the FSM is facing significant pressures placed on the economy by the need to raise the necessary \$30 million trust fund contribution and by the reduction in government capacity due to new restrictions on the funds. Quite frankly, the potential for economic instability exists. The \$7 million in additional annual funding requested by the FSM may not seem like much in the overall scheme of the Compact or relative to the U.S. foreign assistance budget, but it is critical to the health of the FSM's economy, the well-being of our people, and to the future of our nation.

The adequacy of the Trust Fund is also a profoundly important aspect of our long-term development strategy as it gives our people and potential investors a sense of hope and confidence in a sustainable future. In considering the legislative package as submitted, the U.S. Congress should take note of the stated Compact goals and determine whether the funding levels and mechanisms can produce the desired result, making such adjustments as it may deem necessary.

There are several other aspects of the Compact proposals that are troublesome from our point of view. First, there is the inadequacy of the inflation adjustment. This involves two separate issues—the formula to calculate the annual adjustment and the base year for adjustment. The FSM seeks the assistance of the Congress in restoring full inflation adjustment and adjusting the base year to 2002, the last year of original Compact funding.

Another area of great concern to the FSM is the loss of FEMA disaster relief assistance. Without reinstatement of this important benefit by the U.S. Congress, the substantial investment made by the US, and pledged for the next twenty years, is placed in jeopardy. As the proposed amendments now stand, storms or other natural disasters—a statistical certainty—hold the potential to irreparably damage the social and economic infrastructure upon which our nation's growth prospects rely.

Similar to the FEMA issue, we are very concerned by threats to the continuation of important and successful Federal programs under the Compact as amended. Throughout the negotiations, the Administration has stated that it was not their desire to preempt the Congress on these important issues. At the same time, Congress has at times (such as in the "No Child Left Behind Act") called upon the negotiators to decide the matter. In many areas this has resulted in essential Federal programs extended to the FSM possibly falling through the cracks and no longer being made available to support our development efforts. Again, loss of complementary programs presents a further threat to near-term stability and reduces the chances to achieve even our modest economic growth projections.

The U.S. negotiator has since clarified the Administration's position on the matter, stating that calculations of the U.S. assistance offer were made based upon the assumption that Federal programs would continue at their current levels. We hope that Congress, in its wisdom, will take note of this important statement and act to

ensure the continuation of invaluable programs to the FSM, such as those under NCLBA, IDEA, Head Start, Pell Grants, and others.

Mr. Chairman, during our lengthy negotiations we sought to address non-financial methods in which the U.S. could enhance the FSM's growth prospects for the future. We seek to maintain and modernize tax and trade provisions that will enhance the economic linkages between our two nations. Specifically we wish to work with Members to redress the elimination of reference to certain tax provisions in the legislation before you by ensuring that the original intent of those tax provisions will be maintained. In order to support private sector development and to foster private investment, we would like the U.S. Congress to consider enhancing the trade provisions available to the FSM. The scope for trade preferences has narrowed and the prevailing conditions have changed since the Compact was first drafted; however, we believe both our special relationship of Free Association and the clear intent of the proposed twenty year package provide sufficient justification for the FSM to gain access to modernized trade privileges.

The proposal before you includes changes to the non-expiring immigration provisions of the Compact. These changes have been made at the insistence of the Administration. While the FSM agreed to discuss, and did discuss, in good faith and on a bilateral basis, specific issues of concern as to our citizen's entry and residence in the United States, we would not have amended the Compact to accomplish the result of our discussions. The FSM fully understands the U.S. concerns over security, and we support the U.S. in all its positions against terrorism and transnational crime. But the FSM and our citizens are not a threat to the United States. We have never sold passports to foreign nationals; we do not naturalize foreign citizens; we do not facilitate the adoption of our children to "baby brokers." We do agree with the U.S. that passports should be required of our citizens, and we are willing to accommodate the expressed interest in the FSM's use of the latest technology to reduce the risk of passport fraud. The FSM wants to do its part to assist the U.S. in its important task of securing the peace and in securing its borders.

Mr. Chairman, allow me to turn to elements of the legislation that are not part of the proposed Compact amendments. We wish the Committee to be aware that the FSM had no part in the drafting of these Compact Act proposals by the Administration. We were assured that any changes from the existing language in PL 99-239, would be solely to update existing language. When we finally had the opportunity to review the proposal transmitted by the Administration, we found that the changes went far beyond a simple "updating." We identified at least three major problems for which we seek adjustments by the Congress.

First there is the issue of transition to a machine-readable passport scheme. This is a concept to which the FSM has repeatedly pledged its support. However, we find it quite alarming that the Administration has seen fit, unilaterally, without prior notice, to set aside \$250,000 or more from the Compact's capacity-building assistance for this purpose. It is alarming for many reasons—the fact that budgets are in the process of being developed on the negotiated package, the fact that the sector is currently under-funded even before these changes, and for the precedent it sets for future Administration action without consultation.

Second, and similar to the first, is that the Administration insists on mandating the FSM's development of a more effective immigrant screening system. We are given just one year to do this. Again, the FSM has repeatedly agreed to undertake steps to implement such systems. However, and by all reasonable estimates, it is an extremely complex and expensive undertaking. With multiple court systems, four states, and a decentralized judicial system, it is unlikely this effort could be concluded in just one year. Under the Administration's unilateral proposal, FSM failure to meet this arbitrary deadline would result in withholding of Compact assistance. Such a punitive provision is unnecessary and unjustified considering our mutual interest in pursuing this objective.

Third, there is the matter of changes to the language concerning provision of compensatory Federal programs. In 1986, Congress initiated and passed this language in order to mandate these programs, and funding, to the FSM as partial compensation for loss of tax and trade benefits agreed to by the Administration but eliminated by Congress prior to passage. Unexpectedly, the Administration now has proposed to alter the language of the compensatory provisions to make them optional for the U.S. agencies. The FSM requests that the Congress restore the original language consistent with the original Congressional intent.

Mr. Chairman, I have highlighted a number of problems and uncertainties posed by the Compact amendments and the Compact Act proposals. We would like to propose the Congress include in its legislation a provision for a three-year comprehensive Congressional review of the health of the FSM economy, to examine whether,

in light of experience, a need then exists for further adjustments beyond those that now may be made.

In conclusion, Mr. Chairman, the U.S. and the FSM, acting together, have drawn upon the lessons of the original Compact in an attempt to develop a document that will further the mutual interests of both nations. With the help of the U.S. Congress in addressing our concerns about the legislation before you, we can arrive at an agreement that ensures the continued viability of a nation and the well-being of its people, and that maintains the peace and security of this critical region of the world.

Both the U.S. and the FSM can be rightly proud of the unique bonds we have forged in the Compact period. We hope to be equally proud of the course that will be set for the next 20 years and beyond. We urge Congress to act favorably on the Compact legislation, and to make the adjustments necessary to ensure a solid foundation for the future.

I thank you, Mr. Chairman.

Mr. CALVERT. Next, we have Mr. Gerald Zackios from the RMI. Mr. Zackios, you are recognized.

STATEMENT OF GERALD M. ZACKIOS, MINISTER OF FOREIGN AFFAIRS, GOVERNMENT OF THE REPUBLIC OF THE MARSHALL ISLANDS

Mr. ZACKIOS. Thank you, Mr. Chairman. Before I proceed with my testimony this morning, if I may respectfully request that the record be open for submission of a joint statement by the people of the four atolls affected by the nuclear testing program.

Mr. CALVERT. Without objection, so ordered.

Mr. ZACKIOS. Mr. Chairman, on behalf of the people of the Republic of the Marshall Islands, RMI, I want to express our gratitude to you and this Committee for its review of the proposed legislation to sustain the success of free association between our governments.

The special and unique history between our two countries extend from World War II, when Marshallese scouts assisted U.S. soldiers advancing across the Pacific. The testing of 67 atomic and thermonuclear warheads from 1946 to 1958 tied our fate to yours.

As the closest of U.S. allies, we have provided land and sea rights at Kwajalein Atoll since the 1960's to support U.S. missile defense programs. Today, Marshallese citizens are serving in the U.S. Armed Forces in Operation Iraqi Freedom, as they did in the liberation of Kuwait in 1991.

The RMI Government respectfully requests that Congress approve the negotiated agreements. My government will also be seeking early approval of the agreements by the Nitijela, or national parliament. President Note and his cabinet believe the agreements will provide the continuity and stability that is imperative in our bilateral relationship.

While we support our agreements, several outstanding issues remain. Before summarizing these issues, Mr. Chairman, I ask that the Committee first hear our basis for how we see the Compact's grant assistance, commitments, and obligations.

As a first principle, the Compact is not a grant handout or a foreign aid program. It is an alliance closer than NATO, in which the RMI continues to support U.S. leadership in the preservation of international peace and security. It is a two-way relationship, a real partnership.

We are not just asking for more. We are asking for Congress to fine-tune the amended Compact so that it does endure for the benefit of both parties. The RMI now and in the future is obligated not to erode its unique security and defense commitments that include the defense veto, third country denial of use of air, land, and sea space, and the eligibility of Marshallese to join and be drafted into the U.S. Armed Forces. On the other side of the equation, we hope that the U.S. does not allow its commitments to the RMI on economic assistance, immigration, and Federal programs to erode.

The unresolved issues include, first, a full inflation adjustment for Compact funds so that the grant assistance and compensation provided by the Compact does not lose real value and fully supports the Compact's mutual commitments. We do not know why a partial adjustment is mandated unless the United States has the intention of deflating the grant assistance and compensation and, thus, our budget and economy.

While we can achieve more revenue generation and cut budget costs to fill this increasing gap, we do it with such a rapid decline in the funding. A full inflation adjustment would reduce this gap and make fiscal stability more manageable. The full inflation adjustment for the trust fund contributions would make this funding mechanism for the post-2023 period more viable to meet its long-term obligations.

For Kwajalein landowner compensation under the Military Use and Operating Rights Agreement, MUORA, with only a partial inflation adjustment, the landowners give to the U.S. Government a rebate annually and that multiplies the longer MUORA is in effect.

Second, we seek the continuation of Federal education programs and services that are an integral part of the RMI's education system. If these programs and services were removed, we will severely injure the delivery of education in the RMI as well as limit education opportunities for Marshallese youth. As it stands now, we are losing eligibility under the No Child Left Behind Act as well as other programs, including Pell Grants in 2004.

Mr. Chairman, both our governments have made education a key priority sector for Compact grant assistance. However, if Federal programs and services are eliminated, the added investments we plan to make will not have an impact. More specifically, if the Pell Grant program is not continued, the College of the Marshall Islands would be in a critical position and post-secondary education would be unattainable for almost all Marshallese.

Third, we ask for Congressional support to assist the repaving of the Majuro International Airport so U.S. commercial air services and military access is maintained for this sole international air link for the RMI and a crucial link for the Micronesian region.

Fourth, we urge and we seek continuing eligibility for FEMA disaster and rehabilitation assistance, especially since most of our infrastructure has and will continue to be built using Compact funds and since our low-lying atoll environment is highly susceptible to natural disasters. This assistance has been seldom used, but has proven critical in times of need.

Fifth, in order to finally realize the long-term objectives and goals of the RMI Government as well as the Kwajalein landowners, it is imperative that the early termination provisions of the

MUORA be modified to ensure that the United States does not vacate Kwajalein earlier than 2030. Such an extension, which is only 7 years past the current earliest termination date, would help the landowners buildup their own trust fund and it would provide incentives to make viable the RMI and U.S. investment for medium- and long-term. An example of this is the current discussion for a fiber optic cable project that involves the RMI and U.S. Army's base and missile defense program.

Sixth, the RMI Government petitioned the Congress under the Compact "changed circumstances" petition in September of 2000 and updated it in November of 2001. Congress has yet not responded to the RMI's petition for additional compensation contemplated by the settlement agreement. To move forward, we ask that this Committee schedule a hearing focusing on the nuclear claims issues. Also, Congress requested the administration review the RMI's petition over a year ago and we understand that there still is no definite date for its completion and release.

Meanwhile, Marshallese who were directly exposed to the nuclear tests continue to die from cancers and leukemia without ever receiving full compensation for their injuries. Moreover, entire communities continue to live in exile from their homelands to this day. Confronting and resolving these issues should not be put off any longer and we believe solutions are possible.

The final issue, Mr. Chairman, concerns the Compact Act. We were not provided the opportunity to address our concerns resulting from the administration's unilateral changes. While our main issues are in our submitted testimony, we were taken aback by the changes that were made without consultation and not in the spirit of the Compact agreements we had painstakingly negotiated. I hope we can resolve several of the key issues changed in the Act.

Mr. Chairman, my government endorses the Compact's amended Compact accountability provisions. We firmly believe just as the U.S. Government must be accountable to its taxpayers for Compact funds, my government must be accountable to its citizens for spending Compact funds and our own resources. We are currently working closely with the U.S. Department of Interior in applying the fiscal procedures agreement and we welcome their support and cooperation.

Mr. Chairman, I realize our issues together may sound overwhelming to you and other members. I believe that, together, we can address these issues in a timely manner. We have come a long way in our relationship. The issues identified are to move our relationship forward so we both step into the future together. We are striving for a Compact that serves both our needs while giving us both the tools to meet our obligations. I look forward to working with you and your staff so our common interests are achieved and we conclude the amended Compact in both our legislatures. Thank you.

Mr. CALVERT. I thank the gentleman.

[The prepared statement of Mr. Zackios follows:]

**Statement of Hon. Gerald M. Zackios, Minister of Foreign Affairs,
Republic of the Marshall Islands**

On behalf of the people and the Government of the Republic of the Marshall Islands (RMI), I want to express our gratitude to this Committee for its oversight and

review on behalf of the U.S. House of Representatives of agreements and proposed legislation to sustain the success of free association between our governments. The agreements that have been signed by our governments to renew expiring provisions of the Compact, and to adapt some of its provisions to our evolving alliance amid new realities, were negotiated in a spirit of friendship and respect. Consistent with the special and unique history and features of our bilateral alliance, both the RMI and U.S. negotiators have consulted regularly with the Members and staff of this and other Committees of the U.S. Congress regarding the progress of our negotiation process.

This special and unique history between our two countries extends from World War II when Marshallese scouts assisted U.S. soldiers as they advanced across the Pacific through to the testing of 67 atomic and thermonuclear warheads from 1946–1958, to the continuous provision of land and sea at Kwajalein Atoll since the 1960s and the continued cutting edge advancements made there for U.S. missile defense. Today, Marshallese citizens are serving in the U.S. Armed Forces, with many having participated in Operation Iraqi Freedom. We are proud that our citizens are serving not only because it is a Compact provision but also because we share the same ideals as the United States: the pursuit of life, liberty and happiness and our real experience in democratic governance and freedom.

The RMI Government fully supports and respectfully requests that Congress approve the negotiated agreements. My government is also seeking early approval of the agreements by the Nitijela, our national parliament. President Note and his Cabinet believe the agreements will provide the continuity and stability that is imperative in our bilateral relationship with the United States, thereby also enabling the RMI to continue, domestically and internationally, to support the political, social and economic development of our people.

As we can now see how free association has evolved over the last 17 years of the Compact, we have come to realize that the bilateral relationship that was constructed during the late 1970s and to the mid-1980s has more than survived the test of time. The agreement and relationship has evolved to changing circumstances—circumstances within the global and regional context; circumstances and priorities within the United States; and circumstances and challenges within the RMI. Some will concentrate on the weaknesses of the past years, however, the strengths and accomplishments of our relationship, and the Compact that embodies this relationship, far outweigh the weaknesses. If not, we would not be here today discussing the acceptance of amendments to the Compact.

Mr. Chairman, as you and the Committee members know, we have negotiated an agreement that adjusts the Compact to today's world and today's needs and tries to set a realistic framework for the future. The main components of this agreement are the renewal of the Compact's economic provisions that contain several new or revised elements. Most notable is the introduction of a trust fund and a more practical and transparent accountability framework; a renewal of our mutual security and defense relations which set forth obligations that remain unprecedented in U.S. bilateral relations with any other country; revised immigration policies and procedures that address U.S. security and other concerns but maintain the right for Marshallese to live, work and learn in the United States; and, while not expiring, an amended Military Use and Operating Rights Agreement that continues the use of Kwajalein Atoll for the U.S. Army beyond 2016 with the potential to remain until 2086.

Mr. Chairman, we have painstakingly negotiated these elements with the U.S. Administration over the last 2 years. We thank U.S. Compact Negotiator Al Short and the Administration for their constant pursuit of an agreement and we thank them for their patience in working with us to address our concerns, our hopes, and our belief in the future of our relationship.

While we stand by what was negotiated, there remain several outstanding issues that the Administration could not respond to or changes that were made without consultation. My government hopes and expects that all pending issues between our nations can and will be addressed in the same spirit of trust, justice, and partnership that produced the amendments to the Compact agreements. We believe outstanding issues can be resolved positively in a way that preserves and further improves our relationship.

We do not see the Compact as a grant hand-out or a foreign aid program as the underpinning of our relationship. To the contrary, we strongly believe that we have provided and continue to provide the United States with our very limited land, our vast air space and sea area, and even our people—past, present, and future—through the historical and present security and defense relationship, including the sacrifices we have and continue to endure because of these commitments. In our

view, it is a two-way relationship, a real partnership. Thus, when the Congress addresses our remaining issues, we hope that you view them in this context.

We are not asking for “more” just to supplement what we negotiated with the Administration. We are asking Congress to fine tune the Compact, as amended, so that it does endure for the benefit of both parties. The RMI has not and in the future is obligated not to erode its unique security and defense commitments that include: the defense veto; third-country denial; use of air, land and sea space; and the eligibility of Marshallese to join the U.S. Armed Forces. On the other side of the equation, we hope that the U.S. commitments to the RMI on the economic, immigration and certain eligibility for Federal programs do not erode.

The unresolved pending issues include: 1) a full inflation adjustment for Compact funds so that the grant assistance and compensation provided by the Compact does not lose real value and fully compensates the RMI and its citizens for its continued support and commitments of the Compact’s provisions; 2) the continuation of Federal education programs and services that are an integral part of the RMI’s education system and, if removed, would severely injure the delivery of education in the RMI as well as limit education opportunities for Marshallese youth; 3) Congressional support to assist the repaving of the Majuro international airport so U.S. commercial air service and military access is maintained for the sole international air link for the RMI and a crucial link for the Micronesian region; 4) continued eligibility for FEMA disaster and rehabilitation assistance especially since most of our infrastructure has been and will continue to be built using Compact funding and since our low-lying atoll environment is highly susceptible to natural disasters; 5) Congressional support for a Kwajalein landowner trust fund; and 6) Congressional consideration of nuclear claims issues arising from the U.S. nuclear weapons testing program.

In reference to these issues, I am submitting with this statement several issue papers that summarize where continued agreement is required. If I may, Mr. Chairman, the following is a summary of our views on the crucial elements of these issues.

Full Inflation Adjustment

Most of the current Compact agreement’s economic assistance has a partial inflation adjustment (2/3rds of the Gross National Product Implicit Price Deflator). Since the grant assistance was only partially inflation adjusted and there were substantial step-downs (by \$4 million in 1992 and \$3 million in 1997), our economy suffered severe economic shocks during these step-downs. The economic growth and budget cuts that were expected materialized to some degree but not at the expected levels.

For the Compact, as amended, we have agreed with the Administration to have the annual grant assistance decremented by \$500,000 annually with the decremented amount being added annually to the trust fund’s annual contribution. While this decremented amount is a large percentage of our annual grant, and grows as a proportion of the grant annually, we agreed to such a large decrement because without it, our trust fund would not be viable for the post 2023 era. In addition, we are committed to contribute \$30 million between now and fiscal year 05—this amounts to about 30 percent of our current annual budget. We consciously made a medium term sacrifice to save for future generations.

While we fully believe in the decremented approach and the reduction of our grant assistance because of this conscious sacrifice, we cannot understand why the grant assistance must lose value to inflation. Since most of our goods for our import-reliant economy are from the United States, and the U.S. dollar is the official currency of the RMI, we not only import U.S. inflation but also the added inflation-affected costs of shipping and handling.

The only answer we can come up with for the U.S. inflation policy is that the United States wishes to deflate our economy by having the funding lose its real value. The U.S. Government has not provided a reason—past or present—of why only a partial inflation adjustment is applied. We have suffered in the past for this error and we hope not to suffer again. It is, to us, ironic that the Administration has agreed to allow the distributions from the Compact trust fund (post 2023 when annual grant assistance is to end) to equal the annual grant assistance plus full inflation.

There are many statements within the U.S. government and my government about achieving “economic advancement and budgetary self-reliance” via the Compact grant assistance. Rather than deal with a generic objective, we have concentrated on budgetary self-reliance as meaning long term fiscal stability as our goal for the Compact’s economic assistance and post grant assistance era. Why? During the current Compact we have put in place the components of democratic governance and a free society. Even given our belt tightening and some economic

growth, we realize that to have properly funded government functions and the related trained human resources, our fiscal situation requires an input from an outside source. We see the main source as being the Compact's grant assistance until 2023 and the trust fund distribution thereafter.

The problem is that with the annual decrement and the loss of the grant funding to inflation, we can fill this growing funding gap in the short term but we cannot do it continuously. The gap just grows at too rapid a pace and we cannot fill it by such large increases in revenue generation or budget cuts. Thus, our request to apply the full inflation adjustment. With this minimal added amount to the grant funding and trust fund contributions we believe we can maintain fiscal stability as well as have a strengthened Compact trust fund that will insure that fiscal and economic stability will occur.

For the funding provided under the Military Use and Operating Rights Agreement (MUORA), the same argument applies with a twist: the Kwajalein landowners are providing their very limited land for use of the Ronald Reagan Missile Test Site at Kwajalein Atoll. Why should the payments under the MUORA only be partially inflation adjusted? With only a partial adjustment, the landowners are really giving the U.S. Government a rebate on their access to Kwajalein. This rebate will multiply as the new MUORA is extended to 2023 and can go as long as 2086. In effect, the longer the MUORA is extended, the more money landowners will lose in terms of the real value of the funding provided and the larger the bargain to the U.S. for access

As I have said above, the RMI commitments do not erode under the Compact and, thus, the U.S. commitments should not erode.

The Importance of Federal Education Programs and Services

Federal education programs and services have proven to be critical in educating young Marshallese and opening doors to those who go on to post-secondary education. Our country has significantly benefited from these programs and services and, I believe, the United States has benefited also. Just as an example, most of our Compact and Embassy team, as well as most of the people in my Ministry, have benefited in an extraordinary way from a U.S. Federal education program, with the most critical being the Pell Grant program. If these doors are shut, our mutual objectives for economic advancement and budget self-reliance will be severely impacted.

The importance of these programs is not only in terms of financing, but even more critically in terms of technical expertise, methods and approaches as well as access to educational institutions.

The RMI Government has made a firm and conscious decision to apply the largest portion of Compact grant assistance to the education sector. For Fiscal Years 2004–2006 about \$10 million will be aimed at the education sector annually, in addition to domestic resources and in addition to targeted infrastructure spending on education facilities. The Federal programs are identified to provide critical programs and services for which the RMI does not have the funding or capabilities, on its own, to provide. Thus, if the RMI loses its eligibility for the education program funding, the Compact funding will merely replace funding and programs once provided by the Federal education programs. These programs are in crucial areas, such as Elementary and Secondary Education, Head Start, Special Education, Bilingual Education, and Vocational Education. The elimination of the Pell Grant program would have more catastrophic impacts such as critically destabilizing the College of the Marshall Islands (a U.S. land grant institution) as well as closing higher education opportunities in the United States.

Mr. Chairman, we have sought support from the U.S. Compact Negotiator on this issue. He has kindly informed us, through a letter to the Senate Energy Committee of the Administration's position: the Compact's Title Two grant assistance was not negotiated on the basis of replacing funding for U.S. Federal programs and services.

I kindly request that we work with your committee and other related committees to continue RMI eligibility for these crucial education programs and services. If we do not have the U.S. Government's support on this issue, I believe that the Compact's emphasis placed on education by the Administration during negotiations will be lost during the new term of the Compact, as amended. We simply cannot replace what would be lost from these programs and services.

Federal Emergency Management Assistance (FEMA) Eligibility

The current Compact provides for RMI eligibility for FEMA's disaster rehabilitation and hazard mitigation assistance as well as a disaster preparedness annual grant. Under the Compact, as amended, FEMA will provide the disaster preparedness annual grant but the U.S. Agency for International Development's Office of

Foreign Disaster Assistance will provide the disaster relief assistance. No hazard mitigation or rehabilitation services will be available. The U.S. will provide \$200,000 annually for a disaster relief fund under the Compact, which will assist our capacity to deal with small-scale disasters, but will certainly not help in the case of a catastrophic disaster.

FEMA program eligibility is critical for the RMI given the vulnerability of the RMI to high impact natural disasters, such as typhoons, tropical storms, wave action and drought. The RMI's natural environment is characterized by low lying atolls scattered throughout the Western Pacific ocean with an average of 6 feet above sea level, a total land area of 71 square miles, limited fresh water supplies, and remoteness from major metropolitan centers with the closest being Hawaii at 2,500 miles away.

FEMA has provided significant disaster rehabilitation and hazard mitigation assistance during the Compact's current term. Without FEMA, the RMI would be in a precarious position financially and more susceptible to natural disasters. The OFDA program is provided to all foreign countries but does not have FEMA's disaster relief and hazard mitigation programs.

Finally, we note that most of the RMI's essential infrastructure has been built with the use of U.S. grant assistance and this will continue to be the case under the new Title Two Compact provisions for public infrastructure. Given the large U.S. investment in the public infrastructure of the RMI, it follows that measures should be taken to protect these investments.

Mr. Chairman, we ask that the RMI continue to be eligible for FEMA's disaster rehabilitation and hazard mitigation assistance. There is no question that these programs have proven most critical for our country.

Majuro International Airport Repaving

The RMI has an urgent infrastructure need to repave the Majuro international airport. The U.S. Federal Aviation Administration identified this urgent need in early 2002. Since that time, the RMI has performed an engineering feasibility study and attempted to find project funding sources. The cost is estimated at \$10–12 million.

My government did look at using Compact "bump-up" funds in Fiscal Year 2002 and Fiscal Year 2003 to fund the project. However, given our commitment for the Compact trust fund's start-up amount of \$30 million, we had to set aside most Compact Fiscal Year 2002 and Fiscal Year 2003 infrastructure and "bump-up" funding for this Trust Fund contribution. Finding an extra \$10–12 million in a total budget of about \$100 million was not possible.

We have run out of financing options and the airport is now in danger of being shut down. Two U.S. carriers service the airport: Continental and Aloha airlines. It is also the home for Air Marshall Islands- the only airline that provides intra-RMI services. If Continental and Aloha must stop services, the RMI will be physically cut off from Hawaii and Guam and will disrupt service throughout Micronesia as well as prevent commercial flights to the Ronald Reagan Missile Test Site at Kwajalein Atoll. In addition to commercial flights, U.S. military flights land, transit and refuel in Majuro for flights to/from Kwajalein as well as for trans-Pacific flights.

Mr. Chairman, we would like to work with you and the Committee to address this immediate need. If we are not successful in finding a funding source, we will have to dip into our trust fund set-aside and, thus, we will not meet our obligation under the Compact. We do want to meet this obligation since without the RMI initial contribution, the Compact trust fund will undoubtedly be inadequate.

Extension of the Military Use and Operating Rights Agreement for Kwajalein Atoll

The RMI Government and the Kwajalein landowners will be negotiating an amended Land Use Agreement to reflect the negotiated terms and conditions of the extended MUORA, which allows the U.S. access to Kwajalein to at least 2023 with the potential to remain until 2086. The U.S. can terminate use at any time after 2023 as long as it provides a 7-year notice. The Kwajalein landowner trust fund was a proposal by the landowners to help insure an income stream once the U.S. does terminate use, especially if termination occurs between the years 2023–2030.

The trust fund initiative for the Kwajalein landowners is consistent with the MUORA and is well supported by precedent and other aspects of the RMI–U.S. relationship. Trust funds for the atolls of Rongelap, Bikini, Enewatak, Utrik and the Nuclear Claims Trust Fund, under Section 177 of the Compact, have been established by the United States to provide for the long-term economic and social benefit of RMI citizens impacted by U.S. nuclear testing.

The requested funding for the initial capitalization of the Kwajalein landowner trust fund is \$20 million. The landowners have committed to additional self-financing of the trust fund on an annual basis if this one-time appropriation is provided. If early U.S. termination were to occur, projections indicate that with a \$20 million initial capitalization, plus the landowners' contributions in addition to early termination payments by the U.S. as agreed to in the negotiated MUORA, the Kwajalein landowner trust fund corpus would reach above \$150 million in 2023, the earliest the U.S. can vacate Kwajalein. With such a corpus, the landowners will be able to replace the annual rent payments for about 10 years, which would allow a reasonable timeframe for the landowners to transition into an alternative use and/or resettlement of their lands on Kwajalein.

If, however, such a request cannot be met by the U.S. Government at this time, the RMI Government requests that Congress, at the very least, allow for the extension of the MUORA early termination clause to 2030, thereby giving assurance that the U.S. will use Kwajalein for a sufficient length of time to achieve the long-term objectives of the RMI and the Kwajalein landowners.

Such an early termination clause will not only help Kwajalein landowners but also RMI and U.S. Army long-term initiatives. For instance, the RMI and the U.S. Army, with the Federated States of Micronesia (FSM), are currently preparing a project to extend a fiber optic cable from Guam to Pohnpei, Majuro and Kwajalein (to the Ronald Reagan Missile Test Site). The benefits for the U.S. Army's operations are obvious as well as the commercial opportunities for the RMI and FSM. Such a project will surely enhance and illustrate the cooperation between the U.S., RMI and FSM. The extension of the U.S. Army's definite presence until 2030 will make this project more commercially viable.

Nuclear Claims Issues Arising from the U.S. Nuclear Weapons Testing Program

One major issue of commitment in the Compact that was not addressed during our negotiations regarding amendments to the Compact is the U.S. nuclear testing legacy and those categories of claims that remain unresolved under the terms of Section 177 of the Compact, as amended, and the Section 177 Agreement. Although Section 177 of the Compact as amended and the Section 177 Agreement remain in full force and effect, we were informed early in our negotiations that the U.S. Compact negotiator lacked authority to deal with unresolved issues related to the effects of the U.S. nuclear testing program in the Northern Marshall Islands.

The reason given to us for this lack of authority was that the nuclear issues were under the jurisdiction of Congress by virtue of the "Changed Circumstances" provisions of Article IX of the Section 177 Agreement. The RMI Government filed a petition under this provision with the U.S. Congress in September 2000, and updated it in November, 2001.

The problem that has arisen, as the attached issue paper regarding the nuclear test legacy explains, is that the U.S. Congress has not responded to the RMI's petition for additional compensation to be provided through the political process contemplated by the settlement agreement.

Unfortunately, the issues involved are many and complex. They include government taking of private property without just compensation; important new information regarding the effects of radiation on human health; and the clean up and restoration of radiologically contaminated lands.

The RMI understands that responding to the RMI's petition for additional compensation in the political process may be difficult, which is why the RMI is proposing that the awards of the RMI Nuclear Claims Tribunal (NCT) be returned to the legal process on the basis of a limited grant of jurisdiction to review, and reject or certify the awards of the NCT, based on U.S. standards of adequate compensation.

In order to move forward, we would ask that this Committee schedule a hearing focusing on the nuclear claims issues as soon as possible. Congress had requested that the Administration review the RMI's petition over one year ago and we understand that there still is no definite date for its completion and release. Meanwhile, Marshallese who were directly exposed to the nuclear tests continue to die from serious cancers and leukemias without ever receiving full compensation for their injuries. Moreover, entire communities continue to live in exile from their homelands to this day. Confronting and resolving these issues should not be put off any longer.

Other Issues

The Administration provided my government with a copy of the amended Compact Act on June 20th, just before the amended Compact was sent to Congress. We were not provided the opportunity to address any of our concerns resulting from the Administration's unilateral changes.

In some instances, such as Section 104(b), these changes unilaterally amend the economic assistance and immigration provisions that we just concluded with the Administration. These issues have been difficult and contentious at times during our negotiations and to see the Administration making substantive changes to the Compact in this manner is wrong.

Moreover, in other instances, these changes affect the substance and intent of provisions inserted by Congress, in its wisdom, during the first Compact approval process. Below are several items we wish Congress to address by re-inserting its original Compact language.

Section 103(e)(3) makes reference to Articles X and XI of the Section 177 Agreement regarding claims, yet fails to point out actions taken by the RMI Government under Article IX of the same agreement to seek additional compensation, based on the U.S. commitment to provide adequate compensation under the terms of the claims settlement implemented pursuant to Section 177 of the Compact, as amended. Given that U.S. negotiators claimed a lack of authority to address unresolved nuclear-related concerns in Compact negotiations, the RMI Government believes it would be only fair to return to Congress's original language in this section. If the Administration wishes to advance a legal interpretation of Section 177 or provisions of the agreement implementing U.S. commitments to settle nuclear claims, the time and place to do that would be in a hearing and in legislation on the nuclear claims issue. The attempt to introduce this disputed legal interpretation into legislation approving agreements that do not address the nuclear claims issue, because the Administration refused to discuss the issues, is not a proper way to proceed.

Section 103(f)(2) should be clarified to provide that essential agricultural and food programs shall be continued to the affected atoll communities. While additional food supplement programs will be needed to support resettlement of contaminated islands once radiological clean up has progressed and safety standards have been satisfied, these nutritional programs are a moral obligation of the U.S. to ensure a minimum level of food assistance to both dislocated and resettling populations for the foreseeable future. We doubt that anyone familiar with the hardships and living conditions of the nuclear affected peoples would dispute the need for these programs to be extended as an on-going U.S. responsibility. This legislation presents the best opportunity that may arise before the current authorization for these programs expires for Congress to extend the USDA food program for at least another five years.

Under the current Compact and its Compact Act, Congress included Compensatory Adjustments (Section 108) that were provided for Congress's revision of the tax and trade provisions of Title Two, Economic Assistance. The Congress provided, under Section 108(a) that certain commercial U.S. programs "shall be made available." The Administration has now changed the RMI's eligibility for these programs to "are authorized to be made available." The programs include: the Small Business Administration, Economic Development Administration, Rural Utilities Service (formerly the Rural Electrification Administration); the programs and services of the Department of Labor under the Workforce Investment Act of 1998; the FDIC, and the programs and services of the Department of Commerce relating to tourism and to marine resources development.

The RMI sees this as a significant downgrade of eligibility and application of these programs. Your Committee should note that the trade provisions of the amended Compact are the same, restricting RMI exports in certain products. Congress should restore its original language in the new Section 108(a) (formerly Section 111(a)) to include all of the programs listed in Section 111(a) or their successors and to require that these programs "shall be made available" as provided by Congress in the original Compact Act.

This comment also relates to the amended Compact's Section 108(b). In the current Compact Act, the Congress allowed up to \$20 million to be authorized for compensation for any adverse impact of the Compact's tax and trade provisions. The RMI did apply for this compensation but the request did not pass the Administration's review. As you can imagine by reading the section, it is extremely difficult to prove such a negative impact. The result is that no funds have been disbursed to the RMI or FSM under this Compact provision.

The amended Compact Act sets a time limit to submit such an impact report or request by September 30, 2004 and for impacts only suffered from 1987–2003. We do not think this just. If the trade provisions were improved, we would understand, but, they are not.

Mr. Chairman, we ask that your committee review this provision so that: 1) impact can be claimed for the new Compact term, if appropriate; 2) that the deadline for submission for any such claim be submitted by September 30, 2023, the end of the amended Compact's Title Two; and 3) transparent guidelines and an evaluation

process and requirements are defined so that it is something practical, not a nebulous, subjective process.

Conclusion

Last, Mr. Chairman, I would like to comment on the accountability mechanisms negotiated for the amended Compact's term, and thereafter in regard to the Compact trust fund. We stand by and fully support the Fiscal Procedures and the Trust Fund Agreements. We firmly believe just as the U.S. government must be accountable to its taxpayers for Compact funds, my government must be accountable to its citizens for spending Compact funds and our own resources.

In fact, Mr. Chairman, we initiated steps on our own last year during our budget process and have begun allocating Compact assistance in the key sectors. The priorities are clear in our Medium Term Budget and Investment Framework. These are education, infrastructure development and maintenance, health and environment. We are currently working closely with the U.S. Department of Interior in applying the Fiscal Procedures Agreement and we welcome their support and cooperation.

My only word of caution is that what we are developing is a new budget and fiscal management system that resounds throughout our public service. As in the United States, applying performance-based budgeting and other requirements at a Federal, state or local level does not occur overnight. We are instituting a step-by-step process. I hope both sides have patience as well as perseverance. We need assistance and support to help us apply these new requirements, not people looking over our shoulder and pointing fingers. With the cooperation we have received so far, my government is encouraged, progress is being made, and we feel we are doing it right.

Mr. Chairman, I realize our issues, together, may sound overwhelming to you and other Committee members. I believe that, together, we can address these issues in a timely manner. As I have said early on in my statement, we have come a long way in our relationship. The issues identified are to move our relationship forward so we both step into the future together and that we have an enduring Compact that serves both our needs while giving us both the tools to meet our obligations.

Mr. Chairman, after departing Washington, I will return to Majuro where I look forward to presenting the Compact, as amended, to our legislature, the Nitijela. The sooner we can come to agreement on the above issues, the faster we can have the amended Compact passed through our legislative process.

I look forward to working with you and your staff so our common interests are achieved.

Kommol Tata.

[Attachments to Mr. Zackios' statement have been retained in the Committee's official files.]

Mr. CALVERT. I have had the pleasure of visiting both Micronesia and the Marshall Islands and certainly recognize the strategic importance of that certain part of the South Pacific, which is certainly a large area, and especially the importance of Kwajalein at this time, as we try and endeavor to move toward a workable strategic missile defense system for this country and our allies.

For the record, what is the population at this date of both your respective island states? I guess the gentleman from Micronesia first.

Mr. CHRISTIAN. The estimated current population of Micronesia is about 134,000 people.

Mr. CALVERT. A hundred-and-thirty-four-thousand people. And what is the rate of growth in Micronesia now, approximately?

Mr. CHRISTIAN. Mr. Chairman, I apologize. I am a Member of Congress. I don't know that answer.

[Laughter.]

Mr. CHRISTIAN. There are people back here who may be able to help. That is why, Mr. Chairman, I offered that after the—

Mr. CALVERT. The record will be open, so certainly that information will be—

Mr. CHRISTIAN. Thank you very much, sir.

Mr. CALVERT. The gentleman from the Marshall Islands?

Mr. ZACKIOS. Thank you, Mr. Chairman. In the Marshall Islands, there is over 50,000-plus people with an extra over 10,000 situated in the United States. The second question, Mr. Chairman?

Mr. CALVERT. The approximate rate of growth.

Mr. ZACKIOS. We have one of the highest growth rates around the world, but I think it is in the area of two or 3 percent.

Mr. CALVERT. Two to 3 percent. Obviously, when I visited the Marshall Islands and we spent some time discussing the impact of nuclear testing in that region over, as you mentioned, the period of 1946 to 1958, the incidence of cancer, leukemia, has that statistically obviously been followed over the last number of years, the last 50 years, and have you seen any noticeable decline in the younger populations or getting into more of the norm rate, or is it still above average?

Mr. ZACKIOS. Mr. Chairman, as I requested for a joint statement by the four atolls, I think they will be in a position to address that question much better. But I believe over the years, we have seen an increase in the rate of cancers among our population.

Mr. CALVERT. So you have seen an increase even with the younger population of cancer and leukemia, or—

Mr. ZACKIOS. Yes.

Mr. CALVERT. You submitted your report for the record. We will take a look at that.

The gentlelady from Guam?

Ms. BORDALLO. Thank you very much. First, I want to thank Senator Christian and Minister Zackios for being here with us today. Certainly, I agree with their statements that accountability is very important as we go forward.

I want to ask you both a question. Does the FSM and the RMI support compensation for Compact impact, for the affected U.S. State of Hawaii, Guam, and the CNMI?

Mr. ZACKIOS. Mr. Chairman, the Compact speaks to the issue itself. The Compact itself speaks to that issue, and certainly we from the FSM support the compensation to be made to any area affected by our current migration to those areas, particularly to the Territory of Guam, CNMI, and the State of Hawaii.

Ms. BORDALLO. Thank you.

Mr. CHRISTIAN. Thank you, Madam Congresswoman. I think I answered that question a year ago in a similar hearing. I stated that we do support the Compact impact provisions on the premise that such assistance is not taken from assistance as provided to the FAS states.

Ms. BORDALLO. Thank you. I also, Mr. Chairman, would like to welcome to the hearing from the FSM, Ambassador Jesse Marehalau, and from the RMI, Ambassador Banny de Brum, who are with us in the audience. I would like to welcome them, as well. Thank you, Mr. Chairman.

Mr. CALVERT. I thank the gentlelady.

Mrs. Christensen?

Mrs. CHRISTENSEN. Thank you, Mr. Chairman. I would like to welcome both of the panelists this morning also.

I think it was in the testimony of Senator Christian that he talked about a \$30 million contribution. Is that yours?

Mr. CHRISTIAN. I believe that is in our submitted testimony.

Mrs. CHRISTENSEN. How do you propose to raise that \$30 million and do you foresee any problems in meeting the level of contribution that you are required to make?

Mr. CHRISTIAN. I am informed by the Secretary of Finance and Administration, who is in the gallery this afternoon, that as of this date, we have \$26 million raised toward the trust fund.

Mrs. CHRISTENSEN. Thank you. Mr. Zackios, could you tell us a little—the question about the less-than-full adjustment for inflation came from reading your testimony. Could you just elaborate for us a bit on the impact that the less-than-full adjustment would have?

Mr. ZACKIOS. Thank you, Congresswoman. As you have already alluded to, I have addressed the issue of the inflation or the effect of a two-thirds inflation as opposed to a full inflation in our written testimony. As we see, we have made a conscious decision to agree to the amounts of decrements that will go into the establishment of the trust fund and we see that over a number of years, that this decrement does take place with a two-thirds inflation. It does certainly create a widening gap that would be too rapid for us to raise the new revenues or even with budget cuts to address.

In fact, we see the numbers for this period in terms of the grant assistance would be around \$57 million if we were—the difference between the two-thirds and the full inflation on grant assistance alone. For the Kwajalein payments, it would be around \$26 million and \$19 million for the trust fund.

Mrs. CHRISTENSEN. Thank you. I am going to ask this question to both of you. I had asked the question about the loss of FEMA and I would like you to tell me, how do you see its replacement with the disaster assistance under USAID? Is that—do you foresee that as being adequate and a suitable replacement for FEMA in light of—I know of the devastation and the issues around hurricanes and typhoons.

Mr. CHRISTIAN. Mr. Chairman, if I may, if we thought, Madam, that the substitution of that particular program would fully handle what we need to be handled under a FEMA program, we would not be asking for FEMA.

Mrs. CHRISTENSEN. Would you like to also respond on this, too?

Mr. ZACKIOS. I would like to say that we do welcome the Office of Foreign Disaster Assistance as being part of the Compact, as amended, but it does not seek to replace the very important programs, such as rehabilitation, that FEMA does provide. OFDA does not do rehabilitation programs in cases of disaster. Thank you.

Mrs. CHRISTENSEN. Thank you, Mr. Chairman.

Mr. CALVERT. The Chair now recognizes Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. I certainly want to commend both gentlemen for their fine statements, especially my good friend, Senator Peter Christian, whom I have not seen in years. I want to offer my personal welcome to him for being here, and the Foreign Minister of the Republic of the Marshall Islands, Mr. Zackios, and thank him, as well, for his statement.

I would like to also offer my congratulations to Senator Christian who I understand is going to be the new Speaker of the Parliament of the Federated States of Micronesia, and if I may, Speaker Christian, convey my personal regards. Believe it or not, I do have relatives in the FSM. Vice President Killion, Mr. Speaker, is Samoan.

He is not Micronesian. Please convey to him my personal regards and I hope some day that I will have an opportunity to meet with him and the members of the family.

Mr. Speaker, you mentioned that the Compact is a sound document but it could be more sound. In other words, it is not sound.

[Laughter.]

Mr. FALEOMAVAEGA. I am trying to follow up on your thought here that while I notice that both of you have advocated strongly that the Compacts be approved, that at the same time, you expressed some very serious concerns about some of these provisions. So it seems to me that we are not on equal terms here. I mean, do you think that if these are serious issues, they should continue to be under negotiations and not be what I sense is a rushed effort to get this thing done before the Fiscal Year 2004 starts this fall.

I just wanted to ask Speaker Christian, why are we in so much of a rush? I mean, are the people going to starve if we don't approve this thing by October of this year?

Mr. CHRISTIAN. Mr. Chairman, may I—I believe, gentlemen, ladies, that at one point in our discussions, we had suggested about the possibility of a continuing resolution or some kind of a carry-over funding by the United States so that we could continue to discuss, especially touch on those matters and close the cap on those particular points that I pointed out earlier. It was made clear to us that this would not be the case, that the United States wishes to submit this document to the U.S. Congress now, for its action now. So we did, along the lines of your own thoughts and concern, felt that it was important for us to continue discussing those issues that have not been fully covered.

Mr. FALEOMAVAEGA. Under the provisions, and I know that there are four states which make up the Federated States of Micronesia, specifically, what is the population of Chuuk, the State of Chuuk?

Mr. CHRISTIAN. Chuuk is about—since I am not from there, I will guess—

Mr. FALEOMAVAEGA. I am from Chuuk, but I forgot the population.

Mr. CHRISTIAN. —about 51,000 to 53,000.

Mr. FALEOMAVAEGA. It is the most populous of the states.

Mr. CHRISTIAN. Most populous.

Mr. FALEOMAVAEGA. And Pohnpei?

Mr. CHRISTIAN. Pohnpei is about 34,000, with the rest being spread over Yap and Kosrae. Kosrae has about 7,000 to 8,000. The Lieutenant Governor of Kosrae is in my back, so if he has a problem with that number, it could yell.

[Laughter.]

Mr. CHRISTIAN. But may I, Mr. Chairman—

Mr. FALEOMAVAEGA. Please.

Mr. CHRISTIAN. —touch on the reasons why we probably have the answers figured this way. You see, there are other people in our backs this afternoon, this morning, and it makes it difficult for us to completely tell us how we feel about the Compact. We don't want to chance losing another million dollars here or there because we have said something that some of the witnesses may not like.

Mr. FALEOMAVAEGA. Well, Mr. Speaker, I want to offer my fullest assurance to you that I don't believe that my good friends in the

administration are of the opinion that you have just expressed. In good faith, I would like to say that this is not the case. So please, if you do not express with total honesty and candor the situation as it will affect the lives of the future of the good people of the Federated States of Micronesia, then it is going to be difficult for us as members of this Committee to make the proper decisions that will be helpful not only to our government, but as well as to the people of FSM as well as RMI.

So please feel free to express yourself honestly. I don't think Mr. Short feels that way. So be honest and come forward, and if there were disagreements, we want to know about it. This is what democracy is all about. I am sure that this is not an issue of national security or discussions of negotiations that were top secret that members of this Committee could not be privy to, to have knowledge of. I would hope that, Mr. Speaker, that you don't feel that way. So be free and feel open to share with us your concerns and the problems.

Again, I have taken your statement, hopefully not out of context, but as I heard it clearly from what you said, it is a sound document, but it is not sound enough, or it needs to be more sound, which tells me that there are still a lot of serious issues that you have not completed in your negotiations with our government, or my government, if you will. So please, I want you to feel free to express your thoughts on this.

The State of Yap, there are how many people there, approximately?

Mr. CHRISTIAN. About 17 million.

Mr. FALEOMAVAEGA. Seventeen million?

[Laughter.]

Mr. CHRISTIAN. Oh, I am thinking—I am beginning to think in terms of how much money we need to ask of you.

[Laughter.]

Mr. CHRISTIAN. Seventeen thousand, sir.

Mr. FALEOMAVAEGA. Mr. Speaker, it is my understanding, among the four states, that the State of Yap is probably the prime example of what good management and administration. How they were able to develop their economy with the funding that they receive from the central government in such a way that it is an example not only to other states, but certainly to other—to the rest of the region in the Pacific. Here again, just in general understanding of this, what is the per capita income there in FSM, basically? On the average, how much does a person in FSM make a year?

Mr. CHRISTIAN. Could I turn around?

Mr. FALEOMAVAEGA. I think it is critical to know this, because we are talking about economic assistance. If you have your expert, if it is all right, Mr. Chairman—

Mr. CALVERT. Without objection.

Mr. FALEOMAVAEGA. Why don't you have our friend who is the expert there—

Mr. CHRISTIAN. About \$1,800, the young lady says.

Mr. FALEOMAVAEGA. It is \$1,800 per capita income at FSM?

Mr. CHRISTIAN. Yes.

Mr. FALEOMAVAEGA. OK. What about the standard of living?

Mr. CHRISTIAN. The standard of living, sir, I believe that that is the focal point of the whole Compact of Free Association as first envisioned by those who got together to create this document. This Compact of Free Association is supposed to be the instrument by which the standard of living is improved in the Micronesian Islands.

There was a question earlier on migration. Mr. Chairman, migration will continue to occur as long as the economic development of the islands are not raised to a level where people can return from overseas to find meaningful and gainful employment in Micronesia.

The statement that the reason why Micronesians or any Pacific Islander migrate to a metropolitan area is because of health and education may be true, but not totally true. The real root of this migration is to look for economic development for certain advancement. So even if we improve the health and education in Micronesia, in this regard, the improvement of the economic development, you will continue to see a migration of people who are smart and very healthy but could not find gainful employment in the islands.

Mr. FALEOMAVAEGA. To Foreign Minister Zackios, probably no other group in the Pacific, in my humble opinion, besides French Polynesia, the people, or those of us who have come from the Pacific region have experienced in a most unfortunate way the problems of how the superpowers and the more industrialized countries have exposed us to this whole problem of nuclear testing. To say that what the Marshallese people have had to endure for the past 50 years and what we have not done to not only compensate the Marshallese who were directly subjected to nuclear contamination, but the fact that also that the Marshall Islands Government, in association with the Kwajalein missile range, where our government to this day still operates a multi-, and I think the dollar value of the Federal Government's structural facility that we now have at the Kwajalein missile range, Mr. Chairman, I believe it is somewhere between \$4 to \$10 billion. And your willingness to, at least those who are landowners who are willing to put this forth to help provide the best possible security for the United States, that certainly needs to be brought not only for the record, but as a remembrance for the members of this Committee.

You mentioned that there are some serious issues that have not been resolved in this proposed Compact. As also Speaker Christian alluded to earlier, what do you suggest, given the fact that some of these issues are serious enough that have not yet been settled, do you consider that they should still be subject to formal negotiations with the United States or should we just kind of say we hold this as a subsidiary form of negotiation? I am concerned about this.

Mr. ZACKIOS. Thank you, Congressman. In light of the Compact as negotiated, we feel we have negotiated a document in good faith. However, there are, as I have raised in my testimony, issues that still remain unresolved and those take a twofold approach. One is with having negotiated and concluded a document, the administration then proceeds to unilaterally make changes to pertinent provisions that were negotiated by both parties.

The second is that there are those outstanding issues that we were unable to get conclusion in our negotiations with the adminis-

tration and I have listed those in my written testimony before the Committee.

I would like to go back a little bit and touch on the issue of the Compact and why you made reference to it is a sound document. But I would like to say that if this document is not resolved, I think it creates a position of difficulty for us in the Marshall Islands and in the approval process.

Having said that, I see that we, on these important issues, and I take it that you are making reference to Kwajalein and the changed circumstances petition that we have submitted. As I stated, we have submitted a changed circumstances petition to Congress in 2000 and updated it in 2001. We have not heard any reply on this changed circumstances petition, and, therefore, I have to ask that we make another hearing on specifically—

Mr. FALEOMAVAEGA. My time is really going and I appreciate the Chairman's patience. Here is my bottom-line question to both of you gentlemen. Are these issues serious enough that you honestly believe that the proposed Compact ought to be returned in a way that you need to continue to negotiate these aspects of the Compact that you feel very strongly about that is not in agreement with your government's position? It is like saying, well, we are getting a half-a-loaf of bread, at least better than nothing, but at the same time, it is so unfair.

It seems that the parties were not negotiating in good faith. It seems that you were suggesting that there was a lot of duress and undue influence in the way this whole thing has been negotiated. And if I am wrong in that observation to both of you gentlemen, please tell me that I am wrong.

Mr. ZACKIOS. I would answer that question in this way. If these issues are not resolved by the Congress, we would have great difficulty in passing this piece of legislation within our national parliament.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. Thank you to both gentlemen.

Mr. REHBERG. [Presiding.] Thank you. Are there additional questions from the Committee? Seeing none—

Mr. FALEOMAVAEGA. Mr. Chairman, I want to apologize. I forgot to ask unanimous consent that the statement of my good friend, Mr. Pallone, be made part of the record, unless if he does have some questions he may want to raise.

Mr. REHBERG. Without objection.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman.

[The prepared statement of Mr. Pallone follows:]

**Statement of the Honorable Frank Pallone, Jr., a Representative in
Congress from the State of New Jersey**

I am pleased that we are meeting today to hear about the Compacts of Free Association with the Federated States of Micronesia and the Republic of the Marshall Islands (RMI), and the effect of these Compacts upon Guam.

I understand that time is of the essence with respect to the reauthorization of the Compacts, due to their impending expiration. These Compacts have been very useful to both the island nations and to the United States, and I look forward to passage of the reauthorization.

While I realize that this is not a controversial document, I have been informed that there are several items that may need to be addressed in an amendment to the Compact after the negotiations have concluded. These include FEMA eligibility,

access to U.S. education programs such as Head Start, and the Nuclear Claims issue.

From 1946–1958, the Marshall Islands were the site of 67 atmospheric and atomic thermonuclear weapons tests. Of course these tests had an immediate and lasting effect upon the health of the Island citizens, as well as upon their environment. To address the need for “just and adequate” compensation for these effects upon RMI citizens, the original Compact established a Nuclear Claims Tribunal (NCT) as an adjudicative forum to ensure the adequacy of nuclear claim settlements.

The RMI submitted a “Changed Circumstances” petition to Congress in 2000, according to a provision in the original 1986 Compact, which alleges new information about the effects of nuclear testing on the Marshall Islands. The petition requests funding that would enable the NCT to fully pay all claims and to provide for medical infrastructure and services. Although House and Senate Members have requested a review of the petition from the State Department, that review has still not been provided.

Again, I hope that we can rapidly move HJ Res 63 out of committee so that we can continue our relationship with the RMI in a mutually beneficial manner. However, I hope that we can hold another hearing after the Compact negotiations to address this issue of the Changed Circumstances petition. Thank you.

Mr. REHBERG. Mr. Zackios, we are also hopeful that we will soon receive the report from the administration regarding the changed circumstances petition so that Congress can better decide how to progress.

I thank the witnesses for their valuable testimony and the members for their questions. The members of the Committee may have some additional questions for the witnesses and we will ask you to respond to those in writing. The hearing record will be open for these responses. H.R. 2522

Mr. REHBERG. Panel No. 4 is next, consisting of Nik Pula, the Director of the Office of Insular Affairs, who will testify on H.R. 2522.

Mr. Pula, before you sit down, we have a standard oath of office that I would like you to recite with me, as well, please. Please raise your right hand.

Do you solemnly swear or affirm under the penalty of perjury that the statements made and the responses given will be the whole truth and nothing but the truth, so help you, God?

Mr. PULA. I do.

Mr. REHBERG. Thank you very much.

The Chairman now recognizes Mr. Nik Pula.

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

Mr. PULA. Mr. Chairman, I will submit my full statement for the record—

Mr. REHBERG. Without objection.

Mr. PULA. —and I will summarize my remarks.

Mr. Chairman and members of the House Committee, I am pleased to appear before you today to discuss H.R. 2522. The economic and fiscal situation in Guam is dire. Entering office in January 2003, Governor Felix Camacho inherited a fiscal crisis that took root in the mid-1990's. Government of Guam revenue has shrunk from \$660 million in 1996 to \$340 million in 2003. Employment has shrunk by 5,000 since 1999, and annual deficits are ballooning to over \$200 million by the end of 2003.

Against this economic backdrop, the legislative intent of this bill would be to forgive debt as an offset against costs of migration from the Freely Associated States.

The impact of the Compact was included in Section 104 of the Compact Act in 1986. It states that, I quote, "The Congress will act sympathetically and expeditiously to redress those adverse consequences," and it also provides an authorization of funds. Representatives of Guam and other eligible jurisdictions often note that these appropriations have not fully compensated for amounts expended on behalf of FAS migrants.

The goal of Guam officials in H.R. 2522 is to offset accrued cost associated with the impact of the Compact against debts owed by Guam. Action to achieve this goal can be indirect, such as asking the Secretary of the Interior to intervene under authority proposed in H.R. 2522, or direct, such as dealing with individual agencies that hold debt or requesting appropriations.

We in the Department of the Interior sympathize with the leaders of Guam as they struggle to reconcile current needs with past policies and actions. The question is how to proceed in dealing with Guam's debt.

H.R. 2522 would give the Secretary of the Interior complete discretionary authority to abolish debt owed to another Department or agency. These Departments or agencies may have no parts in the decision. Such unprecedented authority would put the Secretary in an untenable position. Relations between Interior and other Federal Departments or agencies could be damaged to such an extent that other Interior missions could be significantly impaired. Such action could have a severe fiscal effect on an individual agency and have impacts on the overall Federal budget.

The only situation where the Secretary's authority would have any meaning would be where the affected agency was unwilling to forgive the debt. It is precisely in that situation where no Secretary of the Interior would likely be willing to exercise such authority that would be granted in this bill over the objections of another Department or agency. H.R. 2522 would, therefore, not have its intended effect because of the unlikelihood that authority granted would ever be exercised.

The mere fact that the authority exists could have a very harmful effect on Guam. Federal agencies might be extremely reluctant to extend essential credit to Guam, knowing that there was a possibility that the debt could be forgiven by the Secretary of the Interior without the creditor's consent. H.R. 2522 could thus result in Guam being denied access to credit in time of its most dire need.

While the funding suggests a connection between debts forgiven and cost of migration, the operative Subsection B of Section 2 does not limit the forgiving of Guam debt but is open-ended.

For these reasons, the Department of the Interior opposes the enactment of H.R. 2522. It is worth noting that Compact legislation H.J.Res. 63 would, for the first time, provide a mandatory annual appropriation to defray impact costs. This new program on the part of the administration will provide \$300 million over 20 years. The administration proposal would provide welcome relief for Guam, Hawaii, and the Northern Mariana Islands.

Guam might consider a more direct approach to these debt problems, such as approaching individual agencies for relief under the agency's authority. Another avenue could be the utilization of the Interagency Group on Insular Areas, which was created on May 8 when President Bush signed Executive Order 13299. Our first interagency organizational meeting is taking place today. We would be glad to place this issue of debt on the group's agenda.

We look forward to working with the leaders of Guam in an effort to help Guam address its financial challenges. Thank you.

Mr. REHBERG. Thank you.

[The prepared statement of Mr. Pula follows:]

**Statement of Nikolao Pula, Director, Office of Insular Affairs,
U.S. Department of the Interior**

Mr. Chairman and members of the House Committee on Resources, I am Nikolao Pula, Director of the Office of Insular Affairs in the Department of the Interior. I am pleased to appear before you today to discuss H.R. 2522, entitled "Compact Impact Reconciliation Act." While we understand the fiscal plight of the Government of Guam and want to assist, a more appropriate forum for addressing the issues raised in the bill may be the new Interagency Group on Insular Areas (IGIA), established by President Bush. The IGIA could consider in more depth the opinions and authorities of all agencies affected by the bill.

ECONOMIC BACKGROUND

The economic and fiscal situation on Guam is dire. Entering office in January 2003, Governor Felix Camacho inherited a fiscal crisis that took root in the mid 1990s. The Asian economic crisis struck hard at Guam's tourism industry, which is responsible for 60 percent of Guam's economy. At the same time, the Federal Government was closing or consolidating United States military bases, with direct effect on the Navy and Air Force bases on Guam. Government of Guam revenue shrunk from \$660 million in 1996 to \$340 million in 2003. Employment on the island has shrunk by 5,000 since 1999.

Spending reductions by the Government of Guam have not kept pace with revenue reductions. The result is that annual deficits are ballooning from \$74 million in 1996 to \$123.1 million in 2002 to over \$200 million by the end 2003.

Faced with the unenviable task of bringing government expenditures in line with severely reduced revenue, Governor Camacho is implementing an austerity program, including a cut in work hours for many government employees from 40 hours per week to 32 hours.

COSTS OF MIGRATION

Against this is the economic backdrop, the apparent legislative intent of H.R. 2522 would be to forgive debt owed by Guam to various Federal agencies as an offset against costs borne by Guam as a result of migration from the freely associated states (FAS).

One congressional initiative in 1986, the provision entitled "Impact of the Compact on U.S. areas," was included in subsection (c) of section 104 of Public Law 99-239.

Paragraph (4) of the subsection, entitled the "Commitment of Congress to redress adverse consequences," states that "...the Congress will act sympathetically and expeditiously to redress those adverse consequences." Paragraph (6) authorized the appropriation of funds "to cover costs, if any, incurred by the State of Hawaii, the territories of Guam and American Samoa, and the Commonwealth of the Northern Mariana Islands resulting from any increased demands placed on educational and social services by immigrants from the Marshall Islands and the Federated States of Micronesia."

Based on this congressional authorization, the Congress has followed-up with various appropriations over the years as contributions toward the costs, borne by Hawaii and the territories, of the migration of citizens of the freely associated states. Representatives of Guam and other eligible jurisdictions often note that these appropriations by the Congress have not fully compensated for amounts expended on behalf of FAS migrants.

INDIRECT VS. DIRECT ACTION

The goal of Guam officials in H.R. 2522 is to offset accrued cost associated with the impact of the Compact against debts owed by Guam. Action to achieve this goal can be indirect, such as asking the Secretary of the Interior to intervene under authority proposed in H.R. 2522, or direct, such as dealing with individual agencies that hold debt or requesting appropriations.

Indirect Action

Subsection (b) of section 2 of H.R. 2522 would authorize the Secretary of the Interior to "reduce, release, or waive all or part of any amounts owed by the Government of Guam (or its autonomous agencies or instrumentalities) to any department, agency, independent agency, office, or instrumentality of the United States." Among other debts that would be eligible for action by the Secretary, the bill specifically identifies \$9 million owed to the Department of the Navy, \$3 million owed to the Department of Education, \$40 million owed to the Department of Homeland Security, and \$105 million owed to the Department of Agriculture.

We in the Department of the Interior fully understand the difficult financial choices that Guam faces. We sympathize with the leaders of Guam as they struggle to reconcile current needs with past policies and actions. The question is how to proceed in dealing with Guam's debt.

H.R. 2522 would give the Secretary of the Interior complete discretionary authority to abolish debt owed to another department or agency. These departments or agencies may have no part in the decision. Such unprecedented authority would put the Secretary in an untenable position. Relations between Interior and other Federal departments or agencies could be damaged to such an extent that other Interior missions, outside the realm of the territories, could be significantly impaired. Such action could have a severe fiscal effect on an individual agency or an unacceptable effect on the overall Federal budget.

As a practical matter, there would be no need for the Secretary to exercise such authority, given that the debt could be dealt with directly by the affected agency to the extent of its legal authority. The only situation where the Secretary's authority would have any meaning would be where the affected agency was unwilling to forgive the debt. It is precisely in that situation where no Secretary of the Interior would likely be willing to exercise the authority that would be granted in this bill over the objections of another department or agency. H.R. 2522 would therefore not have its intended effect, because of the very remote possibility that the authority granted therein would be exercised in any situation where such exercise would matter.

Although the Secretary of the Interior would be unlikely to exercise the authority granted in H.R. 2522 in a meaningful fashion, the mere fact that the authority exists could have a very harmful effect on Guam. Federal agencies might be extremely reluctant to extend essential credit to Guam, knowing that there was a possibility that the debt could be forgiven by the Secretary of the Interior without the creditor's consent. H.R. 2522 could thus result in Guam being denied access to credit in time of its most dire need.

The title of the bill and a number of the findings suggest a connection between debts forgiven and costs associated with the migration by citizens of the freely associated states to Guam. However, the operative subsection (b) of section 2 does not limit the forgiving of Guam debt to some determinable amount of impact on from migration. The authorization is open ended, with no reference to the impact of migration.

For these reasons, the Department of the Interior opposes enactment of H.R. 2522.

It is worth noting that Compact legislation (H. J. Res. 63) currently before the Congress would, for the first time, provide a mandatory annual appropriation of \$15 million to defray costs associated with the migration of individuals from the freely associated states to Hawaii, Guam, the Northern Mariana Islands and American Samoa. This new program effort on the part of the Administration would provide more than \$300 million over 20 years to address the effects of Compact migration. This is a significant departure from unreliable ad hoc appropriations of past years. The Administration's proposal would provide welcome relief for the jurisdictions most heavily affected by the migration of Micronesians—Guam, Hawaii and the Northern Mariana Islands.

Direct Action

Guam might consider a more direct approach to these debt problems. Guam could approach the agencies listed in paragraph (7) of the findings. Given its severe financial crisis, Guam might qualify for relief under the authority of an individual

agency. The Office of Insular Affairs would be glad to assist Guam in exploring the possibility for debt relief with the relevant agencies.

On May 8, President Bush signed Executive Order 13299 creating the Interagency Group on Insular Areas. Our first interagency organizational meeting is taking place today. We would be glad to place the issue of debt on the group's agenda. We look forward to working with the leaders of Guam in an effort to help Guam address its financial challenges.

Mr. REHBERG. The Chair will now recognize Ms. Bordallo for an opening statement.

**STATEMENT OF HON. MADELEINE Z. BORDALLO, A DELEGATE
TO CONGRESS FROM GUAM, ON H.R. 2522**

Ms. BORDALLO. Thank you very much, Mr. Chairman and members of the Committee. I thank you for being here for such a long morning. I want to thank you and, of course, Chairman Pombo and Ranking Member Rahall for holding this hearing today on H.R. 2522 and for their gracious invitation to Governor Felix Camacho and Speaker Ben Pangelinan to testify.

I would like to first say Hafa Adai to the Governor and the Speaker and to our guests from Guam who have traveled 10,000 miles to be here for this important hearing. We welcome them and we look forward to hearing their views.

I also want to acknowledge former Congressman Ben Blaz, my good friend, who honored us with his presence and who was instrumental in working with the first Compact of Free Association back in 1986.

I am also pleased that the Governor of the Commonwealth of the Northern Mariana Islands, the Honorable Juan Babauta, had attended this hearing earlier and he has expressed to me his interest in the Committee's work on the Compact.

Today, Mr. Chairman, is a remarkable day for the Committee because we had the rare privilege earlier of receiving testimony on the renegotiated Compacts of Free Association and now we are considering my bill, H.R. 2522, that addresses Compact impact issues for Guam. I am very grateful for the support for H.R. 2522 from its original cosponsors, Mr. Rahall, Mr. Gallegly, Mr. Faleomavaega, Mr. Rehberg, Mr. Abercrombie, and Mr. Case. Si Yu'os Ma'ase and thanks to all of you for helping Guam with this issue by lending your early support to the bill.

I would also like to acknowledge the testimonies and the statements that the Chair has placed into the record from the interested parties on Guam, notably from the Senators of the Guam legislature, the Mayors Council of Guam, the Guam Waterworks Authority, the Guam Recovery Coordination Office, the Guam Telephone Authority, the Guam Chamber of Commerce, and interested citizens.

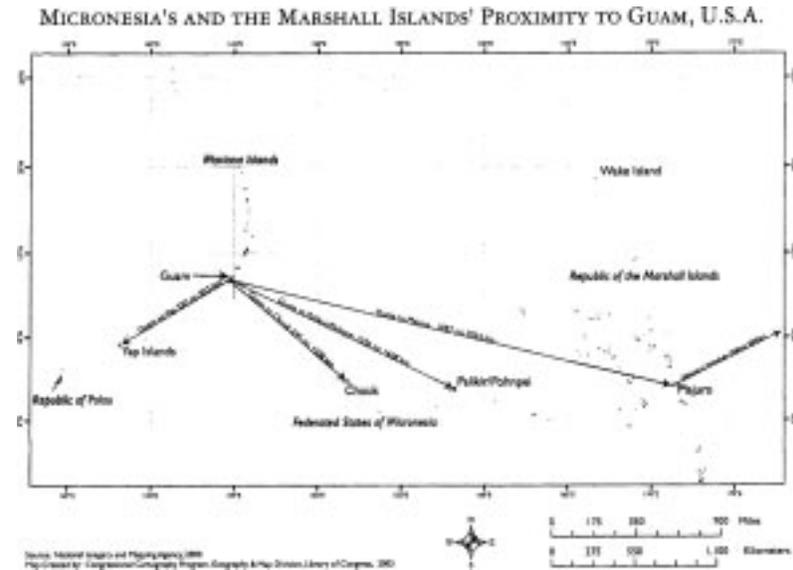
H.R. 2522, the Compact Impact Reconciliation Act, is informally referred to as a debt relief bill for Guam. That may be a matter of perspective, and perspective is what separates Guam from the Federal Government on many issues. From our viewpoint, H.R. 2522 is debt relief for the Federal Government for a debt owed to Guam from an unfulfilled promise, and that is why the words "reconciliation act" were carefully chosen for the title of this bill. In common usage here in Congress, we understand what budget reconciliation means, and I am confident that Governor

Camacho and Speaker Pangelinan will make the compelling case for us regarding Guam's economic situation and the reasons why this bill would be enormously helpful to Guam.

The time to resolve the Compact impact issue is upon us. We are at the end of the first 17-year authorization for the Compacts, and with the amendments that have been suggested, we are looking to a new 20-year authorization. In order to go forward, we should address the remaining issues surrounding the adverse impact of the Compact on Guam and other affected jurisdictions.

Guam has been impacted, Mr. Chairman, more significantly than any other jurisdiction. Our geography places us closest to the islands in the Freely Associated States, and I do have a handout here of a map showing our close proximity to the other islands. All members should have this map. I think it was distributed.

[The map submitted by Ms. Bordallo follows:]



Ms. BORDALLO. In 1986, Congress stated that these adverse consequences would be reimbursed by Compact impact assistance, and as we now know, the full reimbursement has never been realized, and we assert with some assurance from the General Accounting Office and a previous report by Ernst and Young that the unreimbursed costs are approximately \$187 million. Again, I have a chart showing the monies that had been spent by the Government of Guam and what has been the Federal reimbursement.

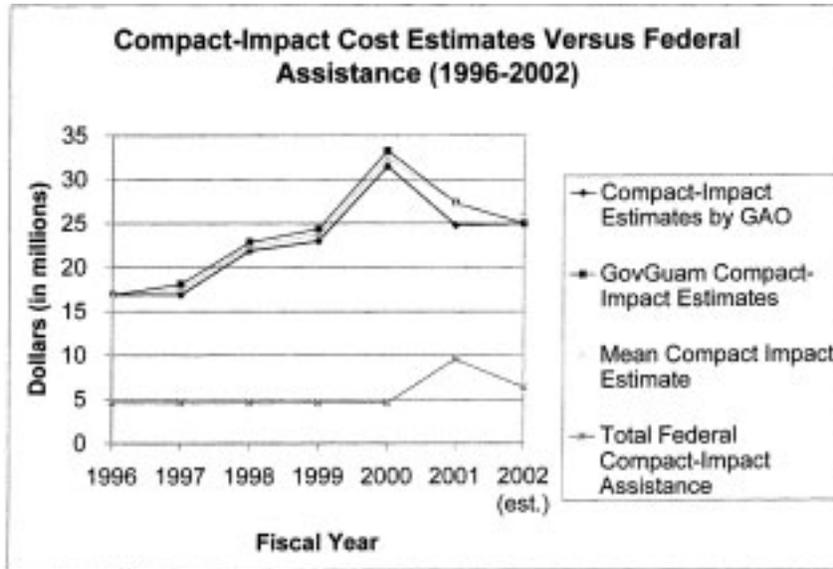
[The chart submitted by Ms. Bordallo follows:]

**Guam Compact-Impact Cost Estimates Versus Federal Assistance
Data Table**

	FY'86-'95	FY'96	FY'97	FY'98	FY'99	FY'00	FY'01	FY'02
GAO Compact-Impact Estimates*	\$69.80 M	\$16.90 M	\$16.90 M	\$21.90 M	\$23.00 M	\$31.50 M	\$24.80 M	\$25.00 M (est.)
GovGuam Compact-Impact Estimates	\$97.48 M	\$16.90 M	\$18.10 M	\$22.90 M	\$24.40 M	\$33.30 M	\$27.33 M	\$25.00 M (est.)
Mean Estimate	\$83.43 M	\$16.90 M	\$17.5 M	\$22.40 M	\$23.70 M	\$32.40 M	\$26.07 M	\$25.00 M (est.)
Total Federal Compact-Impact Reimbursement	\$3.00 M	\$4.58 M	\$4.58 M	\$4.58 M	\$4.58 M	\$4.58 M	\$9.37 M	\$6.38 M
Amount Owed - GAO (Cumulative)	\$66.80 M	\$79.12 M	\$91.44 M	\$108.75 M	\$127.18 M	\$154.08 M	\$189.23 M	\$187.95 M (est.)
Amount Owed - GovGuam (Cum.)	\$94.48 M	\$106.80 M	\$120.32 M	\$138.64 M	\$158.46 M	\$187.18 M	\$204.94 M	\$223.36 M (est.)
Amount Owed - Mean (Cum.)	\$80.43 M	\$92.75 M	\$105.67 M	\$125.49 M	\$142.61 M	\$170.43 M	\$186.93 M	\$205.25 M (est.)

Compact-Impact Totals	GAO Estimates	GovGuam Estimates	Federal Reimbursement
	\$229.8 M	\$265.41 M	\$41.83 M

*GAO Report #GAO-02-40 Micronesian Migration (October 2001)



Ms. BORDALLO. H.R. 2522 is a means to resolving this debt, to starting fresh, and to giving Guam a much needed economic boost. We are also introducing a bill later today that would address the Compact impact reimbursement mechanism for the next 20 years so that we avoid the great disparity between costs and reimbursement. Together, these proposals will set us on the right course for the next 20 years.

Mr. Chairman, the U.S. Government made a promise to Guam 17 years ago that the adverse consequences of the Compacts which the Federal Government negotiated would not be left to Guam to

shoulder alone. Guam simply does not have the resources to bear the costs of the impact of immigration to Guam.

In our island communities, honor is an important virtue and one's word, one's commitment to do something, is a matter of honor. The United States has kept its word to the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau, by providing the assistance that was promised to them in the Compacts. Are we no less worthy of honor? Are commitments made to us meaningless? Let us move forward together with a united purpose in renewing the Compacts and let us reconcile this debt. Let us put to rest this issue that causes great hardship on Guam and that causes us to view the Compact renewal with some skepticism and suspicion.

As we close out the first 17 years of the Compact, Guam is here today to say, wait a minute. There is a debt to reconcile and will the United States honor its commitment to the Territory of Guam?

Thank you, Mr. Chairman.

[The prepared statement of Ms. Bordallo on H.R. 2522 follows:]

Statement of Hon. Madeleine Z. Bordallo, a Delegate to Congress from Guam, on H.R. 2522

Chairman Pombo, Ranking Member Rahall, and Members of the Committee:

Thank you for holding this hearing today on H.R. 2522 and for your gracious invitation to Governor Felix Camacho and Speaker Ben Pangelinan to testify. I would like to first say Hafa Adai to the Governor and Speaker and to our guests from Guam who have traveled 10,000 miles to be here today for this important hearing—we welcome them and we look forward to hearing their views.

I also want to acknowledge former Congressman Ben Blaz, my good friend, who has honored us with his presence and who was instrumental in working to implement the first Compact of Free Association back in 1986 when he served on this Committee.

I am pleased that the Governor of the Commonwealth of the Northern Mariana Islands, the Honorable Juan Babauta, had attended this hearing earlier on the compact legislation, and he has expressed to me his interest in the Committee's work on the Compact and the changes to Compact-impact provisions which also affects the Northern Marianas.

Today is a remarkable day for the Committee because we had the rare privilege earlier of receiving testimony on the re-negotiated Compacts of Free Association and now we are considering my bill, H.R. 2522, that addresses Compact-impact issues for Guam. I am very grateful for the support for H.R. 2522 from its original co-sponsors, Mr. Rahall, Mr. Gallegly, Mr. Faleomavaega, Mr. Rehberg, Mr. Abercrombie, and Mr. Case. Si Yu os Ma ase (thank you) to all of you for helping Guam with this issue by lending your early support to the bill.

I would also like to acknowledge the testimonies and statements that the Chair has placed into the record from interested parties on Guam, notably from Senators of the Guam Legislature, the Mayors Council of Guam, the Guam Waterworks Authority, the Guam Recovery Coordination Office, the Guam Telephone Authority, the Guam Chamber of Commerce, and interested citizens.

H.R. 2522, the Compact-Impact Reconciliation Act, is informally referred to as a debt relief bill for Guam. That may be a matter of perspective, and perspective is what separates Guam from the Federal Government on many issues. From our viewpoint, H.R. 2522 is debt relief for the Federal Government, for a debt owed to Guam from an unfulfilled promise. That is why the words "Reconciliation Act" were carefully chosen in the title of this bill—in common usage here in Congress, we understand what budget reconciliation means.

I am confident that Governor Camacho and Speaker Pangelinan will make the compelling case for us regarding Guam's economic situation and the reasons why this bill would be enormously helpful to Guam. The time to resolve the Compact-impact issue is upon us. We are at the end of the first seventeen year authorization for the Compacts, and with the amendments that have been suggested, we are looking to a new twenty year authorization. In order to go forward, we should address the remaining issues surrounding the adverse impact of the Compact on Guam and other affected jurisdictions.

Guam has been impacted more significantly than any other jurisdiction. Our geography places us closest to most of the islands in the Freely Associated States. All Members should have a map before them that illustrates this point. In 1986, Congress stated that these adverse consequences would be reimbursed by Compact-impact assistance. As we now know, the full reimbursement has never been realized, and we assert, with some assurance from the General Accounting Office and a previous report by Ernst and Young, that the unreimbursed costs are approximately \$187 million. All Members should also have a chart before them that reports the impact estimates over the years, as well as the reimbursement figures that Congress has provided from time to time in appropriations, and finally, in red figures, the outstanding discrepancies between the two.

H.R. 2522 is a means to resolving this debt, to starting fresh, and to giving Guam a much needed economic boost. We are also introducing a bill later today that would address the Compact-impact reimbursement mechanism for the next twenty years so that we avoid the great disparity between costs and reimbursement. Together, these proposals would set us on the right course for the next twenty years.

Mr. Chairman, the United States Government made a promise to Guam seventeen years ago that the adverse consequences of the Compacts which the Federal Government negotiated would not be left to Guam to shoulder alone. Guam simply does not have the resources to bear the costs of the impact of immigration to Guam. In our island communities, honor is an important virtue—and one's word, one's commitment to do something, is a matter of honor. The United States has kept its word to the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau by providing the assistance that was promised to them in the Compacts. Are we no less worthy of honor? Are commitments made to us meaningless?

Let us move forward together with a united purpose in renewing the Compacts, and let's reconcile the debt. Let's put to rest this issue that causes great hardship on Guam and that causes us to view the Compact renewal with some skepticism and suspicion. As we close out the first seventeen years of the Compact, Guam is here today to say, "Wait a minute...there is a debt to reconcile. Will the United States honor its commitment to Guam?"

Mr. REHBERG. Thank you.

Questions from the Committee? The Chair recognizes Mr. Abercrombie.

Mr. ABERCROMBIE. Thank you, Mr. Chairman.

Mr. Pula, aloha.

Mr. PULA. Aloha.

Mr. ABERCROMBIE. Going to your testimony, this is about money. The bottom line, this is about money. You were here before when I said before, it is all well and good to talk about intentions, but it comes down to money. Is it your testimony—does your testimony represent the position of the Bush administration that the appropriate forum for addressing this issue is this Interagency Group in Insular Areas?

Mr. PULA. In my testimony, I say that is one of the avenues, Congressman. I think—

Mr. ABERCROMBIE. Do they have any authority to make recommendations to this Committee with regard to money?

Mr. PULA. The—

Mr. ABERCROMBIE. That you do not have?

Mr. PULA. I think the idea there, Congressman, is for the Federal agencies to come together and the administration and have a forum where they can discuss some of the issues that are related to the insular areas. I was referring in my testimony back to the H.J.Res., the bill that we had discussed earlier where the Compact impact funds of \$300 million for the next 20 years is addressed, and—

Mr. ABERCROMBIE. I know. That is just before your testimony on page three of direct action. But surely you would not contend to the

Committee that the \$15 million even remotely approaches the existing impact, let alone that which might come at a future time should some of these payments from some of these agencies not be forthcoming if the bill passed in its present form.

Mr. PULA. No, I am not saying that, Congressman.

Mr. ABERCROMBIE. So, I mean, aside from being exercise—wouldn't it be an exercise in futility?

Mr. PULA. To respond—

Mr. ABERCROMBIE. In other words, Mr. Pula, I guess what I am asking you, if you are opposed to this, if the administration is opposed to it, they should just say so and let it go and not throw out something, \$15 million over the next 20 years, \$300 million. Three-hundred-million dollars, maybe that would take care of 10 years of what is being spent in Hawaii right now, let alone the rest of it. I mean, if you folks are opposed to it, I understand that. I might not like it or agree with it, but just say so.

Mr. PULA. I believe I said so—

Mr. ABERCROMBIE. I know, but your point, though, is that there are all these other things to take into consideration as if that is resolving the issue. That doesn't do us any good. It really doesn't. It pushes me toward the idea that we simply have to get to the money part of it and resolve that one way or the other.

The reason I asked this about the position, is the Secretary, or is the present administration opposed to an authorization number in excess of \$15 million?

Mr. PULA. Is the administration opposed to a number—

Mr. ABERCROMBIE. Yes. In other words, what has been negotiated is \$15 million. If this Committee sets the figure at \$30 or \$40 or \$115 million, is the administration opposed to that?

Mr. PULA. I am not at liberty to say that we are not—

Mr. ABERCROMBIE. Could you inquire?

Mr. PULA. We could inquire.

Mr. ABERCROMBIE. And could you make the answer to that available, because that is what this is going to come down to. I am just trying—

Mr. PULA. I understand.

Mr. ABERCROMBIE. I am not trying to waste your time. I am not trying to trick you or give you a bad time, because believe me, that is what this is going to come down to. The discussion in this Committee—and we are not going to try to rewrite negotiations or anything of that nature. We are not going to try and second-guess all the work that has been done here. On the contrary, I think I know the Chairman as well as anybody on the Committee. I expect what he is going to do is make a recommendation that if we accept the terms and conditions of this negotiation as manifest in the Compact proposal, then we must finance it accordingly. As sure as I am talking to you now, I know that that is what he is going to take into account.

Now, whether we can do it or not, I don't know. That remains a point. So my question to you, as the representative of the administration, and my sincere solicitation of you is that if the Committee determines that another number should be used in furtherance of the terms and conditions of the Compact proposal, would the administration find that acceptable?

Mr. PULA. I can respond by saying that the administration will probably have to consider it based on its budget constraints and, you know—

Mr. ABERCROMBIE. Well, so do we.

Mr. PULA. —that would be as the blessing. But at this time, I am not at liberty to say.

Mr. ABERCROMBIE. OK.

Mr. REHBERG. The gentleman's time has expired. If somebody else would like—Mr. Pallone?

Mr. PALLONE. Thank you. First of all, let me say that I agree with Mr. Abercrombie and I don't really understand the opposition to the legislation. But it seems to me that the problem that Guam faces and that, you know, I guess Hawaii and other places face is the fact that you have people immigrating from some of the other nations, Micronesia, whatever, and when they immigrate and they become—there is a certain cost to either the State of Hawaii or the Government of Guam when they use services, and increasingly, that is a problem in terms of the amount because there are more people coming and it is more and more difficult for Guam and Hawaii to bear the expenses, particularly with the economy being the way it is.

Now, a big part of that is health care related and using, I guess, the public hospital in Guam or similar facilities in Hawaii, and I just wanted to ask, and we have this problem in other areas, as well. We had a hearing yesterday, Mr. Faleomavaega was the Ranking Member, on Native American issues. I have seen the same thing with some of the Indian nations where there has been immigration from Mexico and people use the hospital on the Indian reservations and there is no reimbursement from the Federal Government.

The suggestion has been made that the Federal Government should simply provide coverage through Medicaid and Medicaid reimbursement to Guam or to the State of Hawaii when these individuals come there and use the health facilities. Has the administration taken a position on that, simply covering these people through Medicaid and providing funding through Medicaid?

Mr. PULA. I would have to say, I don't speak for the other agencies. That deals more directly, like HHS. So just a short answer, I don't think we have considered that.

Mr. PALLONE. Well, could we get a written response, perhaps, through the Chairman? It would seem to me that one way of alleviating the burden is to have these people covered by Medicaid and have either Guam or Hawaii or both reimbursed in that fashion. And if you could get, through the Chairman, if I could ask that there be a written response to that from the Department—

Mr. REHBERG. Yes, you may.

Mr. PALLONE. —I would appreciate it. Thank you.

Mr. PULA. We will do so.

Mr. PALLONE. Thank you. Then I wondered, obviously, the administration is opposed to the bill to utilize the debt reconciliation as a means to address the issue of Compact impact. What do you then propose and support in terms of addressing this issue that my colleagues are bringing up with this legislation?

Mr. PULA. I would just like to clarify something, sir, and I appreciate the question. The administration is opposing to the authorities that would be given to the Secretary of Interior to forgive debts of other agencies that the Secretary of Interior doesn't have jurisdiction over. But we are not—I understand that Compact impact is a longstanding issue, and I don't speak for previous administrations or my predecessors.

However, I said this administration, this is the first time that they have put down mandatory funding of \$15 million. Granted, it is way below the sums and amounts of reports that are presented to the administration and to Congress by the three jurisdictions, but I can honestly say that we are not objecting to that.

Mr. PALLONE. Well, what are you proposing to do for the difference? I mean, you said there is 15, but also you also acknowledge that there is a lot more out there that has to be dealt with. What are you proposing to do for the rest?

Mr. PULA. I think that is something that we want to work with Congress. Originally, the law in 1986—

Mr. PALLONE. No, I understand, but, I mean, you are saying you don't like this bill. You have got to give us some idea about what you do like or what you want to do to address the problem.

Mr. PULA. Well, I would go back to what Congressman Abercrombie said. It boils down to resources. With the limited constraints and budgets—

Mr. PALLONE. So essentially, you are saying you are not going to do anything beyond the 15.

Mr. PULA. Well, that is something that Congress can do something about.

Mr. PALLONE. So you want us to appropriate the difference?

Mr. PULA. Well, we certainly can't appropriate.

Mr. PALLONE. But the Department doesn't have any suggestions itself, in other words?

Mr. PULA. I am only authorized to say that we already have—this administration has \$15 million for the next 20 years.

Mr. PALLONE. OK. Thank you.

Mr. REHBERG. Mrs. Christensen?

Mrs. CHRISTENSEN. Thank you, Mr. Chairman. I, too, want to take this opportunity before I ask my question to welcome Mr. Pula, but also to welcome Governor Camacho and to congratulate my colleague from Guam, Congresswoman Bordallo, for her hard work and dedication in sponsoring H.R. 2522, which would create a framework for addressing the long-existing problem of inadequate reimbursement to the Government of Guam for Compact migration impact expenses. And so I look forward to working with my colleague and you, Mr. Chairman, to move this legislation through the House.

I guess I have one question. You talk about the indirect way of dealing with the debt and the direct way. You know that we had a Hurricane Hugo debt that was forgiven through a process that was developed with FEMA. But this is different. In our case, the Office of Insular Affairs was very supportive and worked with us with FEMA to develop a formula whereby we could forgive that debt. But this is different.

This is a situation where Congress said that we will compensate Guam for the adverse impact of the Compact and migration, and don't you see this as a different situation, and looking at the huge discrepancy between what Guam has expended, the debt that they have gotten into and the paltry reimbursement that they have received, don't you see this as being different?

I would just add that when the territories owe any agency of the Federal Government, it doesn't make any difference which one, say we owe Treasury some money—I will just say that one—money going from EPA to our EPA would be taken, no question, no notification. It doesn't matter that it was a different agency that that money was coming from and going to. It is taken.

So let me go back to the question. This is different. Don't you see this as being different? This is Congress said, we are going to compensate Guam. There is a huge discrepancy here, and shouldn't we treat this differently than, for example, the way that we would classify Hurricane Hugo?

Mr. PULA. I understand the question. I think Congress said that they provide authorization. It didn't say it will provide appropriation. Therefore, there is no appropriation.

Now, just to go back to your question with the comparison of the Virgin Islands FEMA situation, of the forgiveness of their loan versus Guam's situation, I don't see any difference in terms of FEMA's program. I see the difference in the content of this bill, trying to forgive the debts of Guam based on the migration of Freely Associated States. And I think I don't want to mix apples and oranges and say—I definitely don't have FEMA's authorization to say, OK, we will go ahead and forgive Guam of that loan. I guess we will have to deal with FEMA and their authorizations and their regulations or whatever they have.

Mrs. CHRISTENSEN. But that is what I was saying. Ours is different and we dealt with it in the direct way with the agency to which we had owed the money and you were very supportive and we relied on your support to find the correct formula and get that done. This is different.

Mr. PULA. Yes, we are supportive of all the insular areas when they come to the Secretary and we, on their behalf, we wear the hat of advocating to other Federal agencies—

Mrs. CHRISTENSEN. This bill asks Congress to grant the authority to the Secretary of Interior to waive, and I see this as being a completely different process because of the commitment that we made to Guam. Well, I guess I was trying to get you to agree that it should take a different process and the indirect way that is suggested in this bill is appropriate given the fact that money is owed. I mean, this is a reconciliation of debt.

Mr. PULA. I understand.

Mrs. CHRISTENSEN. The Federal Government owes Guam. Guam owes the Federal Government a lot less. This is a reconciliation. Wouldn't you agree that this is a different approach to what we have had to go through?

Mr. PULA. I can say that Congress can do whatever Congress wants to do and we will try to execute the law that Congress passes.

Mrs. CHRISTENSEN. Thank you. My time is up, Mr. Chairman.

Mr. REHBERG. Thank you. I'd like to point out to the Committee members that there will be an opportunity for a round two.

Ms. Bordallo?

Ms. BORDALLO. Thank you, Mr. Chairman. I just have one short question to Mr. Pula. I want to thank you for coming here to testify. I realize that Section 2(b) of the bill dictates pretty much what you have to say here today, but you have left the door open and have agreed that there should be some debt relief, isn't that correct in assuming that?

Mr. PULA. I guess that is my personal opinion.

Ms. BORDALLO. That is right. And I want to say, we are focusing on Guam here, but my colleague, Mr. Abercrombie, too, Hawaii is owed millions of dollars, as well as the CNMI. So we are all pretty much in the same situation.

But you have said here emphatically that you don't have any plan to reconcile the U.S. debt to Guam and Hawaii and CNMI, isn't that correct?

Mr. PULA. We work cooperatively, as you know, with the territories when they come to our office and we try to do everything in our power within the constraints of the administration to assist our insular areas. So I don't want to be on the record saying that we don't have any plans. As a matter of fact, the Governor will meet with our office, Deputy Assistant David Cohen, today to discuss some of the things that could help Guam and provide some technical assistance with the situation that is—

Ms. BORDALLO. Let me ask you this. You do agree, then, that this debt exists?

Mr. PULA. Oh, the debt exists on the authorization, not on the appropriation.

Ms. BORDALLO. All right. I just want to thank you. I realize it is a difficult position to be in, but, you know, it has come to the point now where the Federal Government has promised us over the years. I was a member, five-term Senator in the Guam legislature, and I remember at the time going through the same dialog. Promises were made and the debt is mounting and mounting. Certainly, during these times, economic times on Guam, we could surely try to relieve some of our debts to the Federal Government. We thought this was a good idea.

I just want to thank you again. Thank you very much for appearing.

Mr. PULA. You're welcome.

Mr. REHBERG. Thank you. Mr. Faleomavaega?

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. I want to initially offer my apologies for not taking the initiative to introduce our witness before the Committee who happens not only to be my constituent, and I say is a relative, but I certainly want to commend him for—

Mr. ABERCROMBIE. Mr. Chairman, I think for purposes of disclosure, the delegate should indicate that from what I have been able to gather, everybody is his cousin.

[Laughter.]

Mr. REHBERG. Mr. Abercrombie, I was going to say exactly the same thing.

[Laughter.]

Mr. REHBERG. I traveled with him to Samoa and I have never met so many cousins in my life.

[Laughter.]

Mr. FALEOMAVAEGA. Well, I do want to personally welcome Mr. Pula this morning, or this afternoon, in our Committee.

Mr. PULA. Thank you.

Mr. FALEOMAVAEGA. I know he is doing a tough job here in answering some very excellent questions from my colleagues.

Initially, I want to say also, if Mr. Abercrombie needs some additional time, I would be more than happy to yield.

We have got a problem. I believe it was two or 3 years ago that we forgave the country of Jordan \$500 million in debts owed to our government. We did the same thing for several other foreign nations. We are doing it to this day.

Mr. PULA. I just want to remind the Congressman that the State Department was here before, on the bill before. Maybe these questions should have been asked then. They were the ones negotiating the Compact impact.

Mr. FALEOMAVAEGA. But Mr. Pula, we are all Americans.

Mr. PULA. OK.

Mr. FALEOMAVAEGA. See, this is my point. People or countries who will spit in our face, we were willing to give \$500 million in debt forgiveness to these foreign countries. And here, we are talking about true blue Americans.

The problem here is not even a debt. We are just simply discussing the fact that the good lady from Guam is saying, our Federal Government owes the Territory of Guam some \$187 million since the implementation of this Compact on Compact impact aid, and I can't find a more reasonable way of saying that I think the Federal Government owes the Territory of Guam. In other words, what would they have done with the \$187 million? They would not be in a deficit, in the serious financial situation as they are now.

I cannot help but to commend the gentlelady from Guam for bringing this to the attention not only of the Committee, but certainly to the Members of Congress in realizing that it is such a reasonable proposed legislation and I totally approve the proposed legislation, by the way.

You mentioned, Nik, that you don't have the authority to say otherwise in terms of the questions that we raised here, but do you agree that the concept is quite firm. These are not some figures that the good lady from Guam has just picked out of thin air. This is proven by way of record and audits or whatever financial research, the study that was done of this since 1986, that Guam has had to expend over \$187 million to provide for the needs of our Micronesian brothers and sisters who have had to migrate to Guam for educational, health, and whatever reasons.

Can't we see some sense to this? Because the Department of the Interior is the lead agency for the insular areas, would it be unreasonable to suggest that the Secretary of the Interior should have first shot or the primary person in the President's cabinet saying, all of you other agencies, the Department of the Navy, the Department of Agriculture, the Homeland Security, this is my turf. Our government owes Guam \$187 million and they should be forgiven this debt.

Mr. PULA. Thank you, Congressman, for the question. As of right now, I had mentioned, alluded in my testimony that that is what the Secretary of the Interior is actually at right now, having this interagency group, a first organizational meeting with the Federal agencies over at the White House, to kind of tell the agencies why the President signed this Executive Order. We hope that we will bring some of these issues before our sister agencies in the administration and address it there.

Mr. FALEOMAVAEGA. In reference to what you said earlier about the interagency group, and I want to publicly express my appreciation for the President and the White House for inviting me and the good ladies from the Virgin Islands and Guam to witness this historical signing ceremony at the White House. I certainly appreciate the President's consideration that this is not a partisan issue.

But as you had mentioned about the interagency group, and following up on what Congressman Abercrombie had alluded to earlier, procedurally, and this is certainly within the prerogative of the President to organize and to do this interagency group, as you may, does this mean that before anything is done in reference to the insular areas, it has to go through this interagency group before we get some answers from the administration? Can you help us exactly how the interagency is going to function with reference to what Congressman Abercrombie was concerned about?

Mr. PULA. OK, and I want to go back—

Mr. FALEOMAVAEGA. Because it seems that we are putting another layer of bureaucracy again and not going right to the meat of things and saying this is either it or no or what.

Mr. PULA. OK. I would be happy to respond. The notion and the idea behind the interagency group is for the administration, with all the Federal agencies, to come together and discuss issues regarding the insular areas. I don't think it is in any way everything has to funnel through that interagency. It is another forum where we can present the issues of the areas to our sister agencies so that we can better coordinate, communicate, and have a comprehensive idea to attack some of the problems.

Mr. FALEOMAVAEGA. My time is running, Mr. Pula. Would you say that right now, at this moment, if the good Governor of Guam is conducting consultations with the Secretary of the Interior to seriously consider the proposed legislation that we are very hopeful that at some point in time later the administration will be supportive of this—this is not as if Guam is asking for additional funding. This is just simply to reimburse or to give us the money back so that we can pay some of the debts and obligations that we currently have. I can't see this to be so unreasonable.

I really would plead with you to please take the message back to Secretary Norton and to the administration, this bill is absolutely sound. There is no reason why we cannot do this for the government of Guam.

And again, my good friend, the gentlelady from Guam, I thank her for her initiative in proposing this legislation and I sincerely hope that there will be a change of heart on the part of the administration to support this bill.

Thank you, Mr. Chairman.

Mr. REHBERG. Mr. Abercrombie?

Mr. ABERCROMBIE. Just one last point. Mr. Pula, the interagency group is under the jurisdiction of the Department of the Interior, right?

Mr. PULA. It has the authorization of the White House.

Mr. ABERCROMBIE. I beg your pardon?

Mr. PULA. The Secretary of the Interior is the chairperson of the—

Mr. ABERCROMBIE. Of the group. So it still comes back to the Department of the Interior. The bill speaks about the Secretary of the Interior making these decisions. So you say the more appropriate forum for discussion of this is the Interagency Council, but the interagency group still is under the Secretary of the Interior.

Mr. PULA. Thank you. Well, I would like to kind of follow up on that Congressman. Let us take an example. Let us say Guam owes FEMA, you know, X amount of dollars and the Secretary of Interior could not just forgive the debt from FEMA.

Mr. ABERCROMBIE. I understand that is what you are maintaining, but you are suggesting to us, the Department is suggesting to us the more appropriate forum, and, in fact, that is your exact word, if I am not mistaken, a more appropriate forum for addressing the issues raised is the interagency group, but the interagency group is under the jurisdiction of the Secretary of the Interior. So it is going to go back to the Secretary of the Interior anyway, and if the Secretary's position is that they are opposed to this bill, then to go through the interagency discussion, I am not sure advances anything other than to retard the Committee's ability to come to a swift conclusion.

Mr. PULA. Well—

Mr. ABERCROMBIE. That is all. I appreciate the suggestion, but I am not sure it is efficacious for the business of the Committee. What I would hope is that you would keep in mind as you go back to discuss this, whether with the interagency group or not, and with the Secretary, that the delegates' position with respect to debt relief is something that is well established with other countries and areas, Africa. I think we will be able to provide for the Chairman very quickly the amount of debt relief that has taken place in other areas.

And the reason I would hope, again, that the Secretary might reconsider and the Bush administration might reconsider whether this is an appropriate way of dealing with it where Guam is concerned or other insular areas, should a similar situation take place, as opposed to Hawaii, is because Hawaii, after all, is a State, and I recognize that the same kind of consideration couldn't be given to another State. Even though the problems may be the same, the solution for them has to take a different context. I understand that.

But where insular areas are concerned, maybe this debt relief thing is a kind of unique, or shows an initiative that has some particular insight that maybe has escaped some of us before. Just because it is unique doesn't mean that it needs to be resisted. It may provide a way of dealing with it for the administration that simply hasn't been thought of before and might be appropriate in the Guam instance and, perhaps, the Northern Marianas and so on, and might be appropriate only in those circumstances. I don't think it is being put forward as a universal solution, but it might provide

some relief upon reconsideration by the administration that hadn't really been taken into account before, given the context of debt relief in other situations.

Mr. FALEOMAVAEGA. Will the gentleman yield?

Mr. ABERCROMBIE. Yes, of course.

Mr. FALEOMAVAEGA. Just for the benefit of my colleagues, because I serve on the International Relations Committee, the administration has announced a \$3 billion aid package to Pakistan. In addition to that, Pakistan owes our government \$2.3 billion. The administration plans to cancel \$379 million of debt. Why is it that we seem to be harder on ourselves in trying to correct some of these inequities than we are with foreign countries that would spit in our face or other areas where there was never any real sense of continued support with some of the policies of what we stand for in other parts?

And I realize, Mr. Pula, maybe I should have directed this question to Mr. Short while he was here, but I hope that you understand the concerns that we face here.

Mr. PULA. Yes, sir.

Mr. FALEOMAVAEGA. This is an American territory. American citizens bleed and die in the wars that we fight. And here, the fact of this \$187 million debt that our government owes to the Territory of Guam, and yet we are unwilling to find a solution and to see that there is a reconciliation that be taken in place in the proposed bill.

Mr. REHBERG. The gentleman's time has expired.

Mr. FALEOMAVAEGA. But anyway, I want to thank the gentleman for yielding and thank you, Mr. Chairman, and I want to thank Mr. Pula for his testimony.

Mr. PULA. Thank you.

Mr. REHBERG. Mrs. Christensen?

Mrs. CHRISTENSEN. Thank you. Just one follow-up to my previous question, and I, too, want to thank Mr. Pula for having us invited to the White House and for really reviving the IGIA. But that is not to say that I agree with the approach, either.

Guam is looking at a very severe financial crisis right now and I don't see, while they themselves would agree that management of money has a role, it is not entirely of their own fault. They had to deal with the Japan economic crisis, SARS war, and a lot, and typhoons. So this crisis is not entirely of their own making. I am assuming that the Office of Insular Affairs is seeking ways to support Guam addressing the crisis.

Mr. PULA. You assume correctly.

Mrs. CHRISTENSEN. OK. Now, in that context, looking at that, don't you see this in the context of their need to resolve their financial crisis, and doesn't that put this H.R. 2522 in another light, as a way that the office would assist them in this, and if not, what specifically is the Office of Insular Affairs proposing for Guam in terms of help?

Mr. PULA. Just a quick answer. The Office of Insular Affairs, like I mentioned earlier, we will be meeting with the Governor and discuss the concerns with Guam and will do what we can within our power to assist. Should the Congress pass this resolution, the administration will deal with it accordingly.

Mrs. CHRISTENSEN. Thank you.

Mr. REHBERG. Ms. Bordallo? Seeing no other questions from the Committee members, I thank the panelist.

Again, as I mentioned, the members of the Committee may have some additional questions for you and we will ask that you respond in writing. The hearing record will be held open for these responses.

Mr. PULA. Thank you.

Mr. REHBERG. Thank you.

Mr. PULA. Thank you, Mr. Chairman.

Mr. REHBERG. Panel No. 5, which consists of two witnesses. If you would please come up, and before you sit down, I will administer the oath. Please raise your right hand and repeat after me.

Do you solemnly swear or affirm under the penalty of perjury that the statements made and the responses given will be the whole truth and nothing but the truth, so help you, God?

Mr. CAMACHO. I do.

Mr. PANGELINAN. I do.

Mr. REHBERG. Note that the witnesses answered in the affirmative.

The Chairman now recognizes the Governor of Guam, Mr. Felix Camacho, and Mr. Vicente Pangelinan. Mr. Camacho, welcome.

**STATEMENT OF HON. FELIX P. CAMACHO,
GOVERNOR OF GUAM**

Mr. CAMACHO. Good morning, Mr. Chairman and members of the House Committee on Resources. I am Felix Camacho, Governor of Guam. It is a great pleasure and distinct honor to make my first appearance before Congress today to testify on H.R. 2522, introduced by Guam's delegate to Congress, Congresswoman Madeleine Bordallo, on behalf of the people of Guam.

As fellow Americans and America's Westernmost gateway, the people of Guam have proven their patriotism and loyalty to the principles of democracy that make this nation great. Ours is a long history of defending those principles. Our sons and daughters have consistently boasted the highest per capita enlistment into our Armed Forces.

Ours was the only piece of American soil occupied during World War II, for two-and-a-half years, from December 8, 1941, to July 21, 1944. As bombs fell on Pearl Harbor, they fell on Guam, followed by invasion and occupation. Battles for Guam and other parts of the Northern Marianas were among the bloodiest of the war. Our parents and grandparents fought gallantly to defend our piece of America against invasion, and during untold atrocities, starvation, and death. Concentration camps at Manengon and other interior sites were established by the 29th Division of Japan's army. Six-hundred Chamorus were officially executed. Some were beheaded due to the local people's 3-year patriotic efforts to successfully feed and hide the last remaining U.S. Navy radioman, George Tweed, from capture during occupation. In defiance of their occupiers, our people coined a song so telling of our deep patriotism, "Uncle Sam, Won't You Please Come Back to Guam?"

A simple visit to the War in the Pacific National Memorial Park tells the tale of the true cost of the war on our people. Upon a

haunting crescent-shaped wall, you can see the thousands of names of Americans and our Chamorro people who lost their lives and those who survived, standing up in the face of tyranny for the democracy and the country that they so loved. You will see the names of men like Pedro Cruz, Vicente Chargualaf, Ramon Camacho, who defended their island and their nation and mounted a brave but futile defense of Government House against overwhelming Japanese forces. You will find the name of Beatrice Emsley, a woman who was nearly beheaded by Japanese troops during the occupation. She survived and lived to testify before this great Congress about the atrocities of war on Guam. She recently passed away.

Our people have sacrificed for many years, including the Vietnam War, where our young Chamorro soldiers had one of the highest per capita death rates in that conflict. My father, the late Governor Carlos Camacho, was the only Governor in the United States to visit our soldiers in Vietnam during two successive Christmases to ensure that the sons of Guam knew that their people supported their efforts during that conflict.

More recently, Guam played a major role as a refueling point for bombers flying to the Gulf War and as the first staging area for Kurdish refugees, and we stand ready to serve our nation as she needs us. Time and again, Guam has borne the great responsibility of being American, proudly and with unwavering patriotism.

Today, I come before you representing the people of Guam in support of H.R. 2522, or similar legislation, to bring balance to a commitment that our nation made to the Freely Associated States and to your fellow Americans on Guam. While we recognize our responsibilities as Americans to provide a beacon of freedom and hope for those who seek to participate in our great democracy, Guam is, unfortunately, not in the financial position to carry out this duty without further assistance.

I wish I could appear before you to deliver the message that Guam can carry this burden alone. I cannot. I wish I could tell you that the Government of Guam stands ready to fulfill its commitment on behalf of our great nation, but we cannot do so without your assistance.

Like every State and territory in this nation, Guam has been affected by a changing world economy, one that has caused a serious contraction in our local economy and has left us with the enormous responsibility of providing for our citizenry with ever-dwindling resources. Guam's unemployment rate prior to the devastation of super-typhoon Pongsona on December 8 of 2002 was at 11.4 percent. Our government revenues have decreased by more than 40 percent in the last 2 years.

As we stand at our airport welcoming Compact citizens, we watch as our own local residents leave our island to pursue better opportunities in the mainland. Guam is—we are experiencing a "brain drain" similar to that of the 1970's, which severely limited our intellectual and technical ability to support economic diversity.

We have an economy in the midst of its longest and deepest recession, and recovering from that destruction of Guam's most damaging super-typhoon in 26 years. Super-typhoon Pongsona caused nearly one-quarter of a billion dollars in damage, more than seven times as much per capita as any in our nation, a national record

we would rather not have. Our per capita costs for recovery from these storms is \$1,599. To put this in perspective, the nation's highest per capita cost for a disaster prior to Pongsona on Guam was the Northridge earthquake in California. The per capita cost for that disaster was \$211.

It damaged every one of Guam's 35 public schools. It crippled our utilities. It caused mandatory gas rationing. Two-thousand-two was indeed a disastrous year for our island. Several months before the super-typhoon, we were hit by Typhoon Chata'an, which caused massive damage. We were finally on a road to recovery when Pongsona came around. We must not forget the earthquake that year, which knocked out power lines, bridges, and other critical infrastructure.

These natural disasters, coupled with an economic recession mirroring the Asian economic crisis that has been with us for 10 years, has unfortunately led our people into the worst economic times in the history of our island. Despite our hardships, the people of Guam continue to do our part to uphold our nation's Compact with the Freely Associated States. But given our dire situation, we are less and less capable of doing so without causing great harm to our local community.

While Guam, the CNMI, and even Hawaii have been active participants in the Compact negotiations from its initial negotiations in 1969, or at any time since, we have all accepted our roles in its implementation. Upon enactment of U.S. Public Law 99-239, the people of Guam have embraced residents of FSM and the Republic of the Marshalls and the Republic of Palau who have migrated to our island, providing them with essential services, from education and health care to public assistance and economic support, and we have done so with limited support from the Federal Government.

Guam continues to provide the children from the FAS with public education, even though we lost some \$10 million annually with the opening of the Department of Defense schools on Guam. We continue to assist their underprivileged, even though we are limited by a funding cap of \$4.86 million placed on Guam's Federal public assistance programs, while the impact of Compact residents in 2002 alone was \$12.1 million. We continue to care for their sick and elderly through Guam's local medically indigent program, as they do not qualify for Federal Medicaid. Our only public hospital continues to bear the cost, which last year eclipsed \$7.8 million, to care for 6,729 of their sick, even though they could not afford the cost of health care.

All three branches of Guam's government fulfill their collective responsibility to uphold the Compact our nation negotiated. We do so not so much because we are legally required to do so, but because it is the very American ideal of equality that we embrace.

In the past, other Guam leaders have appeared before this Committee, taking the position that more must be done to properly compensate the impact of the Compact of Free Association on our island. The basis of that claim was Section 104 of Public Law 99-239, which states, "In approving the Compact, it is not the intent of Congress to cause any adverse consequences for the United States territories and commonwealths or State of Hawaii." Further, as stated in H.R. 2522, Congress provided that if any adverse

consequences to Guam resulted from the implementation of the Compact, Congress would act sympathetically and expeditiously to redress those adverse consequences, and every leader who has appeared before this body has asked for that compensation.

This lack of Federal funding has always placed us in an awkwardly adversarial relationship, forcing the Federal Government to defend its own position, just as Guam has been forced to speak to the realities of the Compact's impact on our people.

Today, in the spirit of unity and bipartisanship, Congresswoman Bordallo and I offer a different approach, a commitment to work with the Federal Government to bring balance to our desire to uphold the ideals of our great democracy and to do so within the bounds of our local economic realities.

Since assuming office in January of this year, my administration has worked closely with the Department of Interior, more specifically with the Office of Insular Affairs. We have developed a strong cooperative relationship that reflects a mutual respect for the duties of each. I personally met with Secretary Norton and have spent a significant amount of time with the Deputy Assistant Secretary for Insular Affairs, David Cohen, on many outstanding issues on Guam. We are coming to a resolution on many of those, including prior inefficiencies of the Government of Guam, to correct concerns raised by the DOI Inspector General's audits.

And at home, my administration has taken major steps, unprecedented, strides at controlling the cost of government and bringing it back in line with the meager revenues that we have. We have acted decisively to avoid payless paydays and a governmentwide shutdown. We have been forced to make the difficult choice to reduce hours and consolidate services and outsource to lower the costs of government. We have reduced the work week to 32 hours, implemented governmentwide furloughs, reduced benefits packages, eliminated the practice of double-dipping, those who work in government and collecting GovGuam retirement pensions, as well.

We have restricted overtime, implemented a plan to outsource government services, and expedited the construction of CIP projects to inject millions into our shrinking economy. We are in the process of reducing the number of government agencies from 52 down to only 12, which will reduce our payroll by more than 1,000 government employees by the end of the fiscal year. We have begun aggressive tax collections and audits and we are now working with the Department of Interior to bring Federal agents to assist in these efforts.

I believe that my administration has shown our commitment to work with the Department of Interior to resolve many issues that have in the past been ignored or inadequately addressed. I am confident that we can build on the respect and cooperation we have forged over the past 7 months to bring mutually beneficial resolution to the issues addressed in H.R. 2522, or similar legislation. Measures like these will assist our island and our government in staying afloat during these difficult times. Through measures like H.R. 2522, we will be able to work directly with the Department of Interior on an issue that they know better than any Federal entity, the effect of Compact migration on the insular areas.

I could sit before you and cite various provisions of the Compact of Free Association Act of 1985 and the General Accounting Office's findings that support Guam's case on the need for additional funding. However, your Committee has more intimate knowledge of those provisions and findings than I could ever expect to enhance.

What I will offer through my testimony today is a commitment of the government and the people of Guam to work through the enactment of measures like H.R. 2522 with the Department of Interior to bring much needed balance to the level of impact the Compact has had on our people, through a balancing of the books, a reconciliation of debt between the Government of Guam and the Federal Government, debts we owe and are owed. H.R. 2522, or similar legislation, would allow us the opportunity to honor both debts in a just and fair manner.

My commitment is, with Congress's blessings, to offer my full support to the Department of Interior to provide timely and accurate reporting on the Compact's impact and progress, with the ultimate goal of ensuring that all participants, the U.S. Government, the people of the Freely Associated States, and the people of Guam all benefit from this relationship.

We simply ask that the people of Guam have fulfilled their commitment to the Compact, that the Federal Government do its part in ensuring that the people, the faithful U.S. citizens, are fully protected from the impact of the Federal Government's agreement with the Freely Associated States.

The people of the Freely Associated States will continue to be welcomed members of our democratic society. We will continue to encourage their participation in our community and we will provide, as we are capable, the full extent of our social services to them as full-fledged members of Guam's community. We simply ask for your support in providing a mechanism for our people to bring about equity and balance to the process.

As proud Americans, the people of Guam continue to support our nation's mandates. As proud Americans, we embrace our responsibilities of freedom and democracy. However, we ask for greater latitude to adjust to the complexities of this unique and very American relationship with the people of the Freely Associated States.

I thank Madam Bordallo, Congresswoman, for her work in drafting H.R. 2522. I thank the good Chairman and members of this Committee for providing a venue for voicing our support for this bill. And I hope that the members of this Congress will allow the people of Guam the opportunity to work with the Department of Interior to rectify imbalances that were created long before either of us assumed our roles of leadership.

I thank you, si yu'os ma'ase, and God bless America.

Mrs. CUBIN. [Presiding.] Thank you, Governor. I would like to apologize for the confusion in the beginning of your testimony when I came in. As you know, we have a lot of business on the floor and that is where other members are. I thank you very much for your testimony.

[The prepared statement of Mr. Camacho follows:]

Statement of Hon. Felix P. Camacho, Governor of Guam

Good morning and Hafa adai Chairman Pombo and members of the House Committee on Resources. I am Felix Camacho, Governor of Guam. It is a great pleasure and distinct honor to make my first appearance before Congress today, to testify on H.R. 2522, introduced by Guam's own Delegate to Congress, Ms. Madeleine Bordallo, on behalf of the people of Guam.

As fellow Americans and America's westernmost gateway, the people of Guam have proven their patriotism and loyalty to the principles of democracy that make this nation great. Ours is a long history of defending those principles.

Our sons and daughters have consistently boasted the highest per capita enlistment into our armed forces. Ours was the only piece of American soil occupied during World War II for two and a half years, from December 8, 1941 to July 21, 1944. As bombs fell on Pearl Harbor, they fell on Guam—followed by invasion and occupation. Battles for Guam and other parts of the Northern Marianas were among the bloodiest of the war. Our parents and grandparents fought gallantly to defend our piece of America against invasion—enduring untold atrocities, starvation and death. Concentration camps at Manengon and other interior sites were established by the 29th Division of Japan's Army. Six hundred Chamorus were officially executed. Some were beheaded due to the local people's 3-year patriotic efforts to successfully feed and hide the last remaining U.S. Navy radioman, George Tweed, from capture during occupation. In defiance of their occupiers, our people coined a song so telling of our deep patriotism... Uncle Sam, Won't You Please Come Back to Guam.

A simple visit to War in the Pacific National Memorial Park tells the tale of the true cost of the war on our people. Upon a haunting crescent-shaped wall, you can see the thousands of names of Americans and our Chamorro people who lost their lives and those who survived standing up in the face of tyranny for the democracy and the country that they so loved. You will see the names of men like Pedro Cruz, Vicente Chargualaf and Ramon Camacho who defended their island and their Nation and mounted a brave but futile defense of Government House against overwhelming Japanese forces. You will find the name of Beatrice Emsley, a woman who was nearly beheaded by Japanese troops during the occupation. She survived, and lived to testify before this great Congress about the atrocities of war on Guam. She recently passed away.

Our people have sacrificed for many wars... including the Vietnam War, where our young Chamorro soldiers had one of the highest per capita death rates in that conflict.

My father, the late Governor Carlos G. Camacho was the only Governor in the United States to visit our soldiers in Vietnam during two consecutive Christmases, to ensure that the sons of Guam knew that their people supported their efforts during that conflict.

More recently, Guam played a major role as a refueling point for bombers flying to the Gulf War and as the first staging area for Kurdish refugees. And we stand ready to serve our Nation, as she needs us.

Time and again, Guam has borne the great responsibility of being American, proudly and with unwavering patriotism.

Today, I come before you, representing the people of Guam, in support of H.R. 2522, or similar legislation, to bring balance to a commitment that our nation made to the Freely Associated States and to your fellow Americans on Guam. While we recognize our responsibilities as Americans to provide a beacon of freedom and hope for those who seek to participate in our great democracy, Guam is, unfortunately, not in the financial position to carry out this duty without further assistance.

I wish I could appear before you to deliver the message that Guam can carry this burden alone... I cannot. I wish I could tell you that the government of Guam stands ready to fulfill this commitment on behalf of our great nation... but we cannot do so without your assistance.

Like every state and territory in this nation, Guam has been affected by a changing world economy, one that has caused a serious contraction in our local economy and has left us with the enormous responsibility of providing for our citizenry with ever dwindling resources. Guam's unemployment rate prior to the devastation of Super Typhoon Pongsonga on December 8, 2002, was at 11.4 percent. Our Government revenues have decreased by more than 40% in the last two years.

As we stand at our airport welcoming compact citizens, we watch as our own local residents leave our island to pursue better opportunities here in the mainland. Guam is experiencing a "brain drain" similar to that of the 1970s, which severely limited our intellectual and technical ability to support economic diversity.

We have an economy in the midst of its longest and deepest recession—and recovering from the destruction of Guam’s most damaging super typhoon in 26 years.

Super Typhoon Pongsona caused nearly one-quarter of a billion dollars in damage—more than seven times as much per capita as any in our nation—a national record we would rather not have. Our per capita cost for recovery from these storms is \$1,599.03. To put this in perspective, the Nation’s highest per capita cost for a disaster, prior to Pongsona on Guam, was the Northridge Earthquake in California. The per capita cost for that disaster was \$211.

It damaged every one of Guam’s 35 public schools. It crippled our utilities. It caused mandatory gas rationing. 2002 was indeed a disastrous year for our island—several months before the super typhoon we were hit by Typhoon Chata an—which caused massive damage. We were finally on our road to recovery when Pongsonga came around. We must not forget the earthquake that year” which knocked down power lines, bridges and other critical infrastructure. These natural disasters—coupled with an economic recession mirroring the Asian economic crisis that has been with us for 10 years—has unfortunately led our people into the worst economic times in the history of our island.

Despite our hardships, the people of Guam continue to do our part to uphold our Nation’s Compact with the Freely Associated States—but given our dire situation we are less and less capable of doing so without causing greater harm to our local community.

While Guam, the CNMI and even Hawaii have not been active participants in the Compact negotiations, from its initial negotiations in 1969 or at any time since, we have all accepted our roles in its implementation. Upon the enactment of U.S. Public Law 99–239, the people of Guam have embraced residents of the Federated States of Micronesia and the Republic of the Marshall Islands who have migrated to our island, providing them with essential services, from education and healthcare to public assistance and economic support. And we have done so with limited support from the Federal Government.

Guam continues to provide children from the FAS with public education even though we lost some \$10 million annually with the opening of DODEA schools on Guam. We continue to assist their underprivileged even though we are limited by a funding cap of \$4.86 million placed on Guam’s Federal public assistance programs, while the impact of Compact residents in 2002 alone was \$12.1 million. We continue to care for their sick and elderly through Guam’s local medically indigent program, as they do not qualify for Federal Medicaid. Our only public hospital continues to bear the costs, which last year eclipsed \$7.8 million, to care for 6,729 of their sick, even when they could not afford the cost of healthcare.

All three branches of Guam’s government fulfill their collective responsibility to uphold the Compact our nation negotiated. We do so—not so much because we are legally required to do so—but because it is the very American ideal of equality that we embrace.

In the past, other Guam leaders have appeared before this Committee taking the position that more must be done to properly compensate the impact of the Compact of Free Association on our island. The basis of that claim was Section 104 of Public Law 99–239, which states “In approving the Compact, it is not the intent of Congress to cause any adverse consequences for the United States territories and commonwealths or the State of Hawaii.” Further, as stated in H.R. 2522, “Congress provided that if any adverse consequences to Guam resulted from the implementation of the Compact, Congress would act sympathetically and expeditiously to redress those adverse consequences.” And every leader who has appeared before this body has asked for that compensation.

This lack of Federal funding has always placed us in an awkwardly adversarial relationship, forcing the Federal Government to defend its own position, just as Guam has been forced to speak to the realities of the Compact’s impact on our people.

Today, in the spirit of unity and bipartisanship, Congresswoman Bordallo and I offer a different approach: a commitment to work with the Federal Government to bring balance to our desire to uphold the ideals of our great democracy and to do so within the bounds of our local economic realities.

Since assuming office on January 6th of this year, my Administration has been working closely with the Department of Interior and more specifically with the Office of Insular Affairs. We have developed a strong, cooperative relationship that reflects a mutual respect for the duties of each. I have personally met with Secretary Norton and spent a significant amount of time with Deputy Assistant Secretary for Insular Affairs, David Cohen, on many outstanding issues on Guam. We are coming to resolution on many of those, including prior inefficiencies of the government of Guam to correct concerns raised by the DOI Inspector General’s audits.

Back at home, my Administration has taken major—unprecedented—strides at controlling the cost of government and bringing it back in line with the meager revenues we have. We have acted decisively to avoid payless paydays and a government-wide shutdown. We have been forced to make the difficult choice to reduce hours... consolidate services... and outsource... to lower the cost of government. We have reduced the workweek to 32-hours, implemented government-wide furloughs, reduced benefit packages, eliminated the practice of double-dippers—those working in government and collecting GovGuam Retirement pensions as well.

We've restricted overtime, implemented a plan to outsource government services and expedited the construction of CIP projects to inject millions into our shrinking economy. We are in the process of reducing the number of government agencies from 52 down to only 12, which will reduce our payroll by more than 1,000 government employees by the end of this fiscal year. We have begun aggressive tax collections and audits... and we are now working with the Department of Interior to bring Federal agents to assist in these efforts.

I believe that my Administration has shown our commitment to work with the Department of Interior to resolve many issues that have, in the past, been ignored or inadequately addressed. I am confident that we can build on the respect and cooperation we have forged over the past seven months to bring mutually beneficial resolution to the issues addressed in H.R. 2522, or similar legislation. Measures like these will assist our island and our government in staying afloat during these difficult times.

Through measures like H.R. 2522, we will be able to work directly with the Department of Interior on an issue that they know better than any other Federal entity" the affect of Compact migration on the insular areas.

I could sit before you and cite the various provisions of the Compact of Free Association Act of 1985 and the General Accounting Office's findings that support Guam's case on the need for additional funding. However, your Committee has more intimate knowledge of those provisions and findings than I could ever expect to enhance.

What I will offer through my testimony today is a commitment of the government and people of Guam to work, through the enactment of measures like H.R. 2522, with the Department of Interior to bring much needed balance to the level of impact the Compact has had on our people, through a balancing of the books... a reconciliation of debt between the government of Guam and the Federal Government. Debts we owe and are owed. H.R. 2522, or similar legislation, would allow us the opportunity to honor both debts in a just and fair manner.

My commitment is—with Congress's blessing—to offer my full support to the Department of Interior to provide timely and accurate reporting on the Compact's impact and progress, with the ultimate goal of ensuring that all participants—the United States government, the people of the Freely Associated States and the people of Guam—all benefit from this relationship.

We simply ask that as the people of Guam have fulfilled their commitment to the Compact, that the Federal Government do its part in ensuring that the people—faithful U.S. citizens—are fully protected from the impact of the Federal Government's agreement with the Freely Associated States.

The people of the Freely Associated States will continue to be welcomed members of our democratic society. We will continue to encourage their participation in our community and we will provide, as we are capable, the full extent of our social services to them as full-fledged members of Guam's community. We simply ask for your support in providing a mechanism for our people to bring about equity and balance to the process.

As proud Americans, the people of Guam continue to support our nation's mandates. As proud Americans, we embrace our responsibilities of freedom and democracy. However,

we ask for greater latitude to adjust to the complexities of this unique and very American relationship with the people of the Freely Associated States.

I thank Ms. Bordallo for her work in drafting H.R. 2522. I thank the good Chairman and the members of this committee for providing a venue for voicing our support for this bill. And I hope that the members of this Congress will allow the people of Guam the opportunity to work with the Department of Interior to rectify imbalances that were created long before either of us assumed our roles of leadership.

Thank you. Si Yu'os Ma'ase. And God bless America.

Mrs. CUBIN. At this time, I would like to recognize the Honorable Vicente Pangelinan and welcome your testimony.

**STATEMENT OF HON. VICENTE (BEN) C. PANGELINAN,
SPEAKER, LEGISLATURE OF GUAM**

Mr. PANGELINAN. Thank you very much. Hafa adai, Madam Chairman and members of the Committee. It is with great esteem and highest honor and six plane changes and four time zones later that I appear before you and the Committee to present my strong support for H.R. 2522.

For the record, I would also wish to present the 27th Guam Legislature's Resolution 52, unanimously supporting H.R. 2522.

Mrs. CUBIN. With unanimous consent, that will be entered in the record. Hearing no objection, so ordered.

Mr. PANGELINAN. Thank you.

[The resolution of the Legislature of Guam follows:]

Resolution No. 52 (LS)

As substituted by the Author and amended on the Floor.

Introduced by:

L. A. Leon Guerrero
Mark Forbes
v. c. pangelinan

R. J. Respicio	J. M. Quinata
T. R. Muña-Barnes	L. F. Kasperbauer
F. B. Aguon, Jr.	F. R. Cunliffe
Toni Sanford	Ray Tenorio
J. M.S. Brown	R. Klitzkie
C. Fernandez	J. A. Lujan



Relative to expressing the support of *I Liheslaturan Guåhan* and the people of Guam, for H. R. 2522, "The Compact Impact Reconciliation Act", which seeks to **amend** the Organic Act of Guam; to authorize the Secretary of the Interior to **reduce, release, or waive** amounts owed by the Government of Guam to the United States to offset unreimbursed Compact Impact expenses; and to request the United States Congress to address the adverse impact on Guam as a result of the Compacts of Free Association.

BE IT RESOLVED BY I MINA'BENTE SIETE NA LIHESLATURAN GUÅHAN:

WHEREAS, on January 14, 1986, the President of the United States signed into law, "The Compact of Free Association Act of 1985," which became United States Public Law 99-239, establishing the political relationship between the United States and the Pacific Island nations of the Republic of the Marshall Islands (RMI) and the Federated States of Micronesia (FSM), and later establishing a similar political relationship with the Republic of Palau by signing into law "The Palau Compact of Free Association Act," on November 14, 1986, which became United States Public Law 99-658, and after the signing of the Compacts of Free Association, these island nations have come to be known as "The Freely Associated States (FAS) of Micronesia"; and

WHEREAS, the Compacts of Free Association between the United States and the Freely Associated States of Micronesia have been advantageous for the signatories by setting forth provisions for mutual assistance in the economic development of the Freely Associated States; healthcare and education assistance programs; technical assistance by the United States Forest Service, United States Coast Guard, United States Fish and Wildlife Service and other United States agencies; provisions relating to Department of Defense medical facilities, disease control, agricultural and food programs; provisions that require the President of the United States to seek the cooperation of the FAS in the development of international and regional fishery management policy, to include jurisdiction over highly migratory species of fish found outside the territorial sea of the Compact states; military security and defense by the United States; provisions that allowed the use of military areas and facilities in Palau by Armed Forces of other nations; provisions regarding the continuance of democracy and respect for human rights; established United States Development funds to further close the economic and commercial relations between the FSM and the RMI and authorized its appropriations; and further established provisions that allowed for the free and unrestricted migration of citizens from the Freely Associated States to the United States and its Territories; and

WHEREAS, while *I Liheslaturan Guåhan* and the people of Guam appreciate and recognize the regional importance of the provisions of the Compacts of Free Association, and would like to see their Pacific Island neighbors grow and prosper, and strengthen in their political and personal relationship with the United States and with their neighbor, Guam, it must be stated that the provisions set forth in the Compacts of Free Association, and specifically, the immigration provision that allows for the unrestricted migration of FAS citizens, has had adverse economic and social impacts on the Island of Guam, affecting our limited resources and placing unanticipated demands on budgets already affected by various economic pressures including the ongoing Asian Economic Crisis, the implementation of new United States tax cut and credit policies, a decline in Guam's tourism industry, and an increase in Federal mandates on an already overburdened and decreased General Fund; and

WHEREAS, since the implementation of the Compact agreements, it has been well documented through reports from the Government of Guam and the United States General Accounting Office, that the Compacts of Free Association have had a significant impact on Guam, and that reimbursements to defray the costs of providing healthcare, education, public safety, and other services afforded to FAS citizens have been insufficient and the expenses for providing these services has exacerbated the severe economic crisis that Guam has experienced in recent years; and

WHEREAS, in the 2001 Government of Guam annual report to the Secretary of the Department of the Interior on the Compact Impact, the cost for providing education and social services to the citizens of the FAS amounted to Two Hundred Fifty-Two Million Dollars (\$252,000,000), of which Two Hundred Three Million Twenty-Eight Thousand Dollars (\$203,028,000) was reimbursable under federal guidelines; however, only Thirty-Eight Million Seven Hundred Thousand Dollars (\$38,700,000) in reimbursements were received as of that year leaving an unfunded federal reimbursement due of



One Hundred Sixty-Four Million Fifty-Seven Thousand Dollars (\$164,057,000); in addition, it has been estimated that since the signing of the Compacts, the Government of Guam has spent Fifty-Nine Million Dollars (\$59,000,000) in healthcare services alone and the costs continue to increase with the FAS citizens frequenting the Guam Memorial Hospital (GMH), the only hospital servicing the needs of the local and the regional community; furthermore, the Government of Guam has, and continues to provide these services in good faith with the understanding that such incurred costs would be reimbursed by the United States, and

WHEREAS, in its wisdom, the Congress of the United States anticipated the possible adverse consequences of the Compact agreements upon the United States insular areas located closest to the Freely Associated States, and stated that these agreements are not intended to, nor shall cause undue hardship upon these United States insular areas, and, if by enacting and implementing these Compact agreements, should these insular areas experience adverse consequences, then the United States Congress shall act sympathetically and expeditiously to redress these adverse consequences; and

WHEREAS, on June 19, 2003, the Honorable Madeleine Z. Bordallo, the Delegate from Guam to the 108th United States House of Representatives, introduced H. R. 2522, "The Compact Impact Reconciliation Act," legislation which seeks to amend the Organic Act of Guam to authorize the Secretary of the United States Department of the Interior to reduce, release, or waive amounts owed by the Government of Guam to the United States to offset unreimbursed Compact impact expenses and address the under-funded Federal mandate and adverse financial consequences resulting from the Compacts of Free Association, specifically in the critical areas of healthcare, education, and public safety, and if implemented and acted upon expeditiously, H. R. 2522 would assist the Government of Guam address its current dire economic situation, now therefore, be it

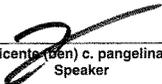
RESOLVED, that *I Mina/Bente Siete Na Liheslaturan Guåhan*, does hereby convey, on behalf of the people of Guam, its unified support of H. R. 2522, and because of the measure's significant potential to assist with the economic welfare of our island, respectfully urges Congress to expeditiously deliberate and move H. R. 2522 toward enactment; and does further resolve that the urgency and importance of this measure be conveyed to the Chairman of the House Committee on Resources, the Honorable Richard Pombo; and to the Ranking Democratic Member of the House Committee on Resources, the Honorable Nick J. Rahall, II; and be it further

RESOLVED, that Congress has the authority to reconcile the amounts owed to Guam for Compact impact assistance with obligations owed by the Government of Guam to the United States, and that reconciliation is vitally important to the economic recovery of Guam; and be it further

RESOLVED, that *I Mina/Bente Siete Na Liheslaturan Guåhan* does hereby, on behalf of the people of Guam, duly support H. R. 2522, and does request that the 108th Congress of the United States acts expeditiously to pass H. R. 2522; and be it further

RESOLVED, that the Speaker certify, and the Legislative Secretary attests to, the adoption hereof and that copies of the same be thereafter transmitted to the Honorable George W. Bush, President of the United States; to the Honorable Gale Norton, Secretary of the Department of the Interior; to the Honorable David Cohen, Deputy Assistant Secretary, Department of the Interior; to the Honorable Richard Pombo, Chairman, House Committee on Resources, United States House of Representatives; to the Honorable Nick J. Rahall, II, Ranking Democratic Member, House Committee on Resources, United States House of Representatives; to the Honorable Madeleine Z. Bordallo, Member of Congress, United States House of Representatives; and to the Honorable Felix P. Camacho, *I Maga'lahen Guåhan*.

DULY AND REGULARLY ADOPTED BY I MINA/BENTE SIETE NA LIHESLATURAN GUÅHAN ON THE 1ST DAY OF JULY, 2003.


VICENTE (BEN) C. PANGELINAN
Speaker


TINA ROSE MUÑA-BARNES
Senator and Legislative Secretary

Mr. PANGELINAN. H.R. 2522 is an act to amend the Organic Act of Guam to authorize the Secretary of Interior to reduce, release, or waive amounts owed by the Government of Guam to the Federal Government to offset unreimbursed Compact impact expenses.

Since the passage of the Compact of Free Association 17 years ago, Guam has fulfilled a promise made by the United States to the Freely Associated States of Micronesia. The United States opened the doors to America to their citizens, and they came to Guam searching for better health, education, and economic opportunities. They came and stayed, availing themselves of the services and resources that we provided for all. We knew that it was costing us to provide and take care of our own neighbors and America's newest partners in the Pacific, but we, as good neighbors, welcomed them, and we were assured and reassured by the provisions of the Compact, U.S. Public Law 99-239, that the United States knew this and provided for the mitigation of the effects.

Congress, with great foresight, foresaw the consequences migration would have on our small island. Congress clearly stated that in approving the Compact, it is not the intent of Congress to cause any adverse consequences for the United States territories and commonwealths or the State of Hawaii. In clearly stating its intent, I commend Congress for being able to see around the corners and include provisions to address the integration of these FAS citizens into our communities and the strain it places on our limited resources. It tasked the President to report to Congress with respect to the impact of the Compact of the United States territories, and then later, it allowed the Governors to submit these reports directly to Congress for its consideration and action.

We are not coming to Congress with empty pockets and open hands, asking for Congress to fill them, without justification or authority. We have fulfilled Congress's promise to our newest Pacific partners and we appear here today asking that Congress fulfill its commitment to its territories, and in this specific instance, our home, Guam.

In Public Law 99-239, the Compact of Free Association, Congress was declaratory in its commitment to redress adverse consequences. It stated, "If any adverse consequences to the United States territories and commonwealths and the State of Hawaii result from the implementation of the Compact of Free Association, the Congress will act sympathetically and expeditiously to redress these adverse consequences."

We appear here today without shame, not seeking charity, but seeking the grace of Congress and its honorable members. With H.R. 2522, Guam is not asking for special treatment with regards to repayment of Federal funds. In this case, Guam is both a lender and a borrower. We only seek an equitable repayment plan. It is estimated that the Federal Government has yet to reimburse Guam more than \$150 million in Compact impact expenses through Fiscal Year 2003, which is about 80 percent of the total impact costs.

Guam has met the commitment the United States made in the Compacts of Free Association and we will continue to honor them as long as they are in effect and as long as our resources permit. This is our duty as Americans and our sincere desire to continually

advance our nation's interests in the Western Pacific. Guam has honored these pledges in good faith, despite our absence from direct participation in Compact negotiations regarding migration and despite the stress the migration places on our finances.

Years of increasing Compact immigration have contributed to the debilitation of our local government service upon which all of our people rely. Among the many systems operated by the Government of Guam, public education and the public health care system, cornerstones of any government, have absorbed the hardest impact. Our public schools are overcrowded and linger in disrepair. Our only civilian hospital as of Fiscal Year 2001 was owed \$21 million by FAS citizens. Many of our public services are already spread thin by other factors and they are spread even more thinly by the effects and demands placed upon them by Compact migration.

H.R. 2522 should not be seen as an indicator that Guam cannot properly manage our responsibilities. On the contrary, we have been vigilantly mindful of our obligations. It is precisely this mindfulness that has brought us here today. We have been fulfilling our obligations to the U.S. Government and we expect nothing less than likewise from the U.S. Government.

The financial considerations that bring us before this Committee today are largely due to circumstances that have not befallen other communities. In the past decade, Guam has been subjected to several highly destructive typhoons and earthquakes. Furthermore, because our small economy is highly dependent on tourism, the effects of the Asian economic crisis, September 11, and the recent SARS scares have drastically affected island business. Compact migration is only one of a list of factors beyond Guam's control that adversely impact our economy and ability to pay our debt to the Federal Government. In short, the money that we could have used to repay these debts to the Federal Government have been used for disaster recovery, economic recovery, and Compact impact.

As we struggle to repay our Federal obligations, we have no choice but to burden our citizens. This comes in the form of increased costs for services and higher taxes on our local population in order to continue essential services to everyone living on Guam. If we were to receive full reimbursement for Compact impact as foreseen by Congress in 1986 when it passed the Compacts, we can reduce this burden to our people.

H.R. 2522 is not a way for Guam to wash its hands of the spirit of the Compact of Free Association. Rather, Guam, in every way an integral member of its Western Pacific neighborhood, and the success of our island neighbors represents the success of the region as a whole. Compact migration does have some positive effects on Guam's economy. Citizens of Freely Associated States who reside on Guam contribute to the island's economy in terms of employment and taxes. Still, many migrants from the FAS who live on Guam continue to live under poverty level, though. Moreover, additional population did not bring a corresponding expansion to our economy. As a result, more people have had to share the same level of services.

Guam recognizes that as the hub of Micronesia, it must take the lead in promoting greater economic prosperity for the region. However, this cannot occur if Guam is hindered by the diversion

of limited resources to Compact obligations without prompt and proper compensation.

In reports submitted to the Federal Government in the area of education, an area specifically identified qualifying for compensation, we find over 3,500 students of FAS citizens enrolled in Guam's public schools during Fiscal Year 2000-2001.

Once upon a time, the Federal Government paid the local school system the cost of educating military and other Federal dependents attending schools. It calculated and paid a per pupil cost of approximately \$4,000 per pupil. This is the cost that the Federal Government accepted and remitted to the local government as the cost impact for providing education to each child. If we are to use this Federally accepted cost to calculate the impact on our educational system on FAS children, Guam should have received over \$14 million in that year alone for education alone.

The costs are just as extraordinary for the other areas, public health and other social services. Our prison impact is over \$5 million. Police services are over \$11 million. And health and welfare totals over \$64 million over the life of the Compact.

We ask that Congress recognize the increased demands on the limited resources that we have shared with Freely Associated citizens on behalf of the United States. As Congress so righteously embedded in Public Law 99-239, providing for Compact impact costs, it stated, "There are hereby authorized to be appropriated for fiscal years beginning after September 30, 1985, such sums as may be necessary to cover the costs, if any, incurred by the State of Hawaii, the Territories of Guam and American Samoa, and the Commonwealth of the Northern Mariana Islands resulting from increased demand placed on educational and social services by immigrants from the Marshall Islands and the Federated States of Micronesia."

We are now at a time when the United States and the Freely Associated States are reauthorizing the Compact and it is our fortune to avail ourselves of a path not taken in H.R. 2522.

One of my favorite poems is "The Road Not Taken," by Robert Frost, the nation's Poet Laureate, bestowed that title by President John F. Kennedy. It speaks about coming upon a fork in the road and deciding to take one road over the other, and how once we set upon one path, time and circumstances prevent us from ever having the opportunity to return to that fork and change paths.

In addressing the Compact impact reimbursement, Congress has set upon a path over the last 17 years. Today, H.R. 2522 gives us an opportunity to set upon a different path, for we know the path we have traveled over the last 17 years has not done right for the United States territories and commonwealths and the State of Hawaii. Seldom is one presented such an opportunity, and when fortune embraces one with such, he must take what he has learned from his first choice when returning to that fork in the road and setting upon the road not taken. Today, let us at this fork in the road embark upon the road not taken, take on H.R. 2522, and we will all be better for it.

Once again, on behalf of the 27th Guam Legislature, I am in full support of H.R. 2522 and I thank you again for the opportunity to present our position.

[The prepared statement of Mr. Pangelinan follows:]

**Statement of The Honorable Vicente Pangelinan, Speaker,
Legislature of Guam**

Hafa adai, Mr. Chairman. It is with great esteem and high regard that I appear before you and the Committee to present my strong support for H.R. 2522.

H.R. 2522 is an act to amend the Organic Act of Guam to authorize the Secretary of the Interior to reduce, release, or waive amounts owed by the Government of Guam to the Federal Government to offset un-reimbursed Compact impact expenses.

I want to present to the Committee Legislative Resolution 52 unanimously passed by the 27th Guam Legislature in full support of H.R. 2522.

For the past 17 years, Guam has fulfilled a promise made by the United States to the Freely Associated States of Micronesia, by providing health, educational and economic opportunities to its citizens.

With the provision for open immigration and habitual residency granted to FAS citizens in the United States, Congress with its foresight recognized that the choice most attractive to these new members of the American umbrella in the Pacific was the migration to the closest American community, such as Guam. It also foresaw the consequences migration would have on our small island. Congress clearly stated that "in approving the compact, it is not the intent of Congress to cause any adverse consequences for the United States territories and Commonwealths or the State of Hawaii."

In clearly stating its intent, I commend Congress for being able to "see around corners" and include provisions to address the integration of these FAS citizens into our communities and strain it places on our limited resources. It tasked the President to report to Congress with respect to the impact of the Compact on the United States territories and Commonwealths and on the State of Hawaii. It later allowed the Governors to submit these reports directly to the Congress for its consideration and action.

It has been 17 years since we since we have walked the path of political and economic development with our neighboring freely associated states. While progress has come slowly in the development of local opportunities in these states, Guam and our sister Pacific American communities, the Commonwealth of the Northern Marianas and Hawaii, have attracted the migrating citizens seeking education, health and economic advancement for themselves and their families. And we have supported and paid for their opportunities, paid for them with our limited resources.

We are not coming to Congress with empty pockets and open hands asking for Congress to fill them without justification or authority. As we have fulfilled Congress' promise to its newest Pacific partners, we appear here today to ask that Congress fulfill its commitment to its territories, and in this specific instance, our home, Guam.

In U.S. P.L. 99-239, the Compact of Free Association, Congress was declaratory in its commitment to redress adverse consequences. It stated "...if any adverse consequences to the United States territories and commonwealth and the State of Hawaii result from the implementation of the Compact of Free Association, the Congress will act sympathetically and expeditiously to redress those adverse consequences."

We appear here today, without shame, not seeking charity but seeking the grace of Congress and its honorable members. With H.R. 2522, Guam is not asking for special treatment with regard to repayment of Federal funds. In this case, Guam is both a lender and a borrower; we only seek an equitable repayment plan. It is estimated that the Federal Government has yet to reimburse Guam for more than \$150,000,000.00 in Compact impact expenses through Fiscal Year 2003, which is about 80% of the total impact costs.

Guam has implemented the commitment of the United States in the Compacts of Free Association, and we will continue to honor them as long as they are in effect and as long as our resources permit. This is our duty as Americans and our sincere desire to continually advance our nation's interests in the Western Pacific. Guam has honored these pledges in good faith, despite our absence from direct participation in Compact negotiations regarding migration and despite the stress this migration places on our finances.

H.R. 2522 will help Guam recover the costs that have accumulated since the implementation of the Compacts of Free Association, which allowed unrestricted migration to the United States from the Federated States of Micronesia and the Republic of the Marshall Islands. Guam has been disproportionately impacted by the influx of immigrants resulting from the Compact of Free Association, due to its physical proximity to those newly-established sovereignties.

Years of increasing Compact immigration have contributed to the debilitation of our local government services upon which all of our people rely. Among the many systems operated by the government of Guam, public education and the public health care system—cornerstones of any government—have absorbed the hardest impact. Our public schools are overcrowded and linger in disrepair. Our only civilian hospital as of Fiscal Year 2001 was owed \$21 million by FAS citizens. Many of our public services are already spread thin by other factors and they are spread even more thinly by the effects of demands placed upon them by the compact migration.

At this point, the offsetting of costs, instead of direct reimbursement, appears to be a more realistic and immediate Compact impact relief for Guam. Guam has not received the entire amounts it has been submitting to the Federal Government for Compact impact reimbursement for 17 years, and likely will not be receiving those amounts in the near future. Guam, like the rest of the United States and the Federal Government itself, in recent years has had to operate with decreased revenues. Indeed, Interior officials have indicated in the past that budgetary pressures have been one of the reasons that Compact impact funding for Guam has remained inadequate. Consequently, Guam may not be able to expect a full reimbursement of Compact impact costs. At the same time, Guam will encounter challenges in finding a way to repay its obligations to the Federal Government. From our cash-strapped standpoint, this indirect approach is more attractive than receiving a partial reimbursement or no reimbursement at all.

H.R. 2522 should not be seen as an indicator that Guam cannot properly manage our responsibilities. On the contrary, we have been vigilantly mindful of our obligations—it is precisely this mindfulness that brought us here today. We have been fulfilling our obligations to the United States government, and we expect nothing less than likewise from the United States government.

The financial conditions that bring us before this Committee today were largely due to circumstances that befall other communities. In the past decade, Guam has been subjected to several highly destructive typhoons and earthquakes. Furthermore, because our small economy is highly dependent upon tourism, the effects of the Asian economic crisis, September 11, and the recent SARS scare have drastically affected the island's businesses. Compact migration is only one of a list of factors beyond Guam's control that adversely impact our economy and ability to pay our debt to the Federal Government. In short, the money that could have been used to repay these debts to the Federal Government have had to be used for disaster recovery, economic recovery, and Compact impact.

As we seek to meet to repay our Federal obligations, we have no choice but to burden our citizens. These come in the form of increased cost for services and higher taxes on our local population in order to continue essential services to everyone living on Guam. If we were to receive full reimbursement for compact impact as foreseen by Congress in 1986, when it passed the compacts, we can reduce this burden to our people.

H.R. 2522 is not a way for Guam to wash its hands clean of the spirit of the Compacts of Free Association. Rather, Guam is in every way an integral member of its Western Pacific neighborhood, and the success of our island neighbors represents the success of the region as whole. Compact migration does have some positive effects on Guam's economy. Citizens of the freely associated states who reside on Guam contribute to the island's economy in terms of employment and taxes. Still, many migrants from the FAS who live on Guam continue to live under the poverty level. Moreover, the additional population did not bring with it a corresponding expansion in our economy. As a result, more people have had to share the same level of services. Guam recognizes that as the hub of Micronesia, it must take the lead in promoting greater economic prosperity for the region. However, this cannot occur if Guam is hindered by the diversion of its limited resources to Compact obligations without proper and prompt compensation.

In reports submitted to the Federal Government in the area of education, specifically identified as an area of impact that qualifies for compensation, we find 3,530 children of FAS citizens enrolled in the local public schools during school year 2000–2001.

Once upon a time, the Federal Government paid the local school system the cost of educating military and other Federal dependents attending the local schools. It calculated and paid a per pupil cost of approximately \$4,017.00. This is the cost that the Federal Government accepted and remitted to the local government as the cost impact for providing education to each child. If we are to use this Federally accepted cost to calculate the impact on our education system of FAS children, Guam should have received \$14,180,010.00 in that year in compact impact for education alone.

The costs are just as extraordinary for the areas of public health and other social services. Our prison impact is over \$5,000,000.00. Police services are over

\$11,000,000.00, and health and welfare totals over \$64,000,000.00 over the current life of the compact.

We ask that Congress recognize the increased demands on the limited resources that we have shared with freely associated citizens on behalf of the United States. As Congress so righteously embedded in U.S. P.L.99-239, providing for the impact costs, "there are hereby authorized to be appropriated for fiscal years beginning after September 30, 1985 such sums as may be necessary to cover the costs, if any incurred by the State of Hawaii, the territories of Guam and American Samoa, and the Commonwealth of the Northern Mariana Islands resulting from increased demands placed on educational and social services by immigrants from the Marshall Islands and the Federated States of Micronesia."

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One of my favorite poems is "The Road Not Taken", by Robert Frost, the nation's poet laureate bestowed the title by President John F. Kennedy. It speaks about coming upon a fork in the road and deciding to take one road over the other and how once we set upon one path, time and circumstances prevent us from ever having the opportunity to return to the fork and change paths.

In addressing the compact impact reimbursement, Congress had set us upon a path over the last 17 years. Today H.R. 2522 gives us an opportunity to set upon a different path. Seldom is one presented such an opportunity and when fortune graces one with such, he must take what he has learned from his first choice, when returning to the fork in the road and setting anew upon the road not taken. Today, let us at this fork in the road, embark upon the road not taken and we will all be better for it.

Once again, on behalf of the 27th Guam Legislature, I am in full support of H.R. 2522, and I thank you once again for this opportunity to present our position.

Mrs. CUBIN. Thank you, Mr. Speaker and Governor for coming four time zones, did you say?

Mr. CAMACHO. Yes, ma'am.

Mrs. CUBIN. I know that is a hard thing to do.

We will start our questioning. I would like to recognize Mr. Faleomavaega to begin questioning.

Mr. FALEOMAVAEGA. Madam Chairman, I appreciate the courtesy, but I would like to defer to my good friend, the good lady from Guam, the chief sponsor of this legislation. I would certainly like to give her the opportunity to ask questions at this time. Thank you.

Ms. BORDALLO. Thank you very much to my colleague for extending that courtesy to me.

I would like to direct a question to the Governor. The Department of Interior suggested an alternative direct approach. Guam recently tried this direct approach in resolving a \$9 million debt to the U.S. Navy for the use of water. Could you enlighten the Committee on how the Navy responded to debt relief and how the \$9 million debt has now come for us to raise water rates. Could you explain that?

Mr. CAMACHO. From what I understand, the Combined Commission on Utilities had worked with the Department of the Navy in settlement. There is a long-term commitment to pay this over the period of, I believe, the next 10 years, and that would be paid by increasing the water rates that our residents would have to bear again. So it would be basically a rate increase to be spread out over a number of years and then payment of this debt. So I do know that this amount is one of the items that you have listed in your bill here, and so—

Ms. BORDALLO. Governor, let me also add to that, did the Secretary of Interior ever intervene to try to assist us with this?

Mr. CAMACHO. Directly, no.

Ms. BORDALLO. I just bring this up to the Committee because this is one of the debt reliefs we are asking for in this bill, and that is the monies owed for the use of water, monies owed to the U.S. Navy. So I just wanted to clarify that.

Again, here we are, now committed to pay this, and we, in turn, will have to raise the water rates, another tremendous problem for the people of our community. So I just wanted to point that out.

Thank you, Madam Chairwoman.

Mr. CAMACHO. If I may add, Congresswoman—

Ms. BORDALLO. Yes.

Mr. CAMACHO. —what makes it such an interesting twist, again, is that this is, of course, a resource. Water, which is collected from the only surface lake on Guam, which is administered or controlled by the government and distributed to our local population. So it is a resource from Guam which is then distributed to our people, and yet we have to pay for it.

Ms. BORDALLO. Thank you, Governor.

Mrs. CUBIN. I would like to just ask a few questions. It doesn't seem like too much that when two parties enter a contract that both parties keep their commitments to that contract. Certainly, I think that the government ought to do what it says for Guam and I would like to see this legislation move forward.

I would like to ask you, Mr. Speaker, how much money does Guam currently owe the Federal Government in general?

Mr. PANGELINAN. In general, if you take a look at what is outlined in the bill, those are both from the general fund and the different Departments and agencies. In addition, there is a debt owing to the Bureau of Prisons for housing our prisoners of about \$3.5 million. In addition to that, a new loan was signed by the University of Guam for the construction of a new College of Business and Public Administration amounting to about \$13.5 million.

If you take that plus what is outlined in the bill, you are looking at about \$180 million, maybe somewhere in that neighborhood, of debt that is owed, the majority and the bulk of that being our U.S. loans to the Guam Telephone Authority in the early years of upgrading our telephone system.

Mrs. CUBIN. Thank you. If we should be able to waive the debt as would be made possible by H.R. 2522, how can Guam work with the FAS to ensure that debts of these amounts don't continue?

Mr. PANGELINAN. I think that is something that the Department of Interior is going to be challenged to do. They have developed this new scheme, I understand, with regards to trying to target the grants of the Compact into targeted areas that they think has lured these FAS citizens to the islands.

I tell you, the quickest way to keep them home is develop an economy there that pays a living wage in a Western economy. The imposition of the Compact into Micronesia has resulted in the change in the lifestyle of the countries, and they have moved from a subsistence economy to a Western economy over the last years and this has placed some demands on them with regards to a money economy.

To support that, you have to have livable, wage-paying jobs, and absent the development of economic opportunities and that, we will continue to have migration of these Compact citizens, looking for economic opportunities so that they can provide better health care and better education for their children.

Mrs. CUBIN. So, Governor, do you think the amended Compact will have the strong effect in the future in lessening the influx of migrants if Guam sees the economic development, that they will seek to—

Mr. CAMACHO. Most definitely. I echo the comments made by the good speaker. If I may liken Guam to a big city in America, the only difference is that here, if there is a need for any opportunities, let us say from a rural area, you hop in your car and go across the State and into the city and look for job opportunities. Well, in Micronesia, you hop on a plane and you come to Guam and that is where you look for opportunities in health and education and welfare and improvement of your lifestyle.

In answer to your earlier question about what can be done to provide some kind of relief, there are, for example, caps that are placed on our Medicaid or Medicare systems of roughly below \$5 million. We obviously service a lot of—provide medical care to many of the FAS residents that are on Guam. If for some reason or other we could lift the caps that are there and maybe not have these residents apply toward our limited resources or the caps available, that is one way of doing it.

But I think a very comprehensive approach would also be to work with the respective governments of FAS and their island governments in the way of preventative health care, for example, in the way of strengthening, also, their education system. We have spent tremendous amounts of resource on Guam with the children that come with English language speaking courses, just the very basic courses to get them started in our school system.

But I would like to take an approach in working with the leadership of FAS as we come together as brothers and sisters to find ways to work together, and in the way of education, in health and education and also public safety and indoctrination or ways of working with them, we can find some relief. But it is going to be with a cooperative effort as we approach things, moving down the line, that the impact could be lessened. But ultimately, just as it would apply on Guam, if we can provide for economic stimulus, if we can provide for opportunities for the residents to stay on their respective islands, because that is where the opportunities are, that can lessen the amount of immigration outside into areas like Guam and Hawaii.

Mrs. CUBIN. Thank you. The Chair now recognizes Mrs. Christensen for questioning.

Mrs. CHRISTENSEN. Thank you. I guess I would ask just one question. Governor, I want to commend you on what you reported in your testimony on the measures that you have taken so far to deal with the economic situation in Guam. I am going to send a copy, if you don't mind, home to my Governor with some suggestions.

[Laughter.]

Mr. CAMACHO. We have a cooperative legislature, too.

Mrs. CHRISTENSEN. Yes. That is very helpful. Maybe I will send a copy to our legislature, too.

[Laughter.]

Mrs. CHRISTENSEN. But I am really concerned because I think you have done, as I said, you have done a lot. I wonder if this bill doesn't get passed and you receive the assistance that you would get through this, are there other sources of income, of revenue, that you can look to? I shudder to think what happens in the face of not having this bill pass, what happens in the case of the school system and health care delivery system that have been so impacted by the immigration. So do you have—what would happen if we are not able to pass this H.R. 2522?

Mr. CAMACHO. What happens is, as we are looking, there would probably have to be more managed care. In other words, the type of care we are providing right now to the medically indigent, the poor on island, both for local and non-residents, is pretty much an unlimited type of coverage. In fact, it provides more coverage than those who are on paid plans. So there would have to be some control on the level or type of service granted. But we have to be sensitive to the fact that many of these individuals or people do not have the capacity or can avail themselves to any type of insurance program.

We are going to have to focus more and more, again, on, as I have mentioned, preventative health care, but for the immediate financial needs, there really is no other source, other than to drive the economy even more so to the point where we can't afford to pay for more of these services. But we are in a real bind right now and it only means that more and more of our public assistance programs are strained and the ability to provide adequate health care and education and public safety are, again, strained and limited.

Mrs. CHRISTENSEN. And it will affect the entire Guamanian population. The strain on the services will cause problems for everyone on Guam.

Mr. CAMACHO. Absolutely. There is no way around the impact. It is there. Again, we continue to play our role and are supportive as we welcome all people into our island, but we are also sensitive to the fact that it does take away from providing for our own people.

We, by law, cannot turn anybody away in our hospitals, nor can we turn anyone away from our public health system. The greatest impact, of course, are from those that do not have the capacity or the ability to pay for such services. But we continue, again, with the policymaking body of the legislature and the leadership of the Speaker to do what we can in providing for our people.

Mrs. CHRISTENSEN. We commend both of you for the efforts that you have put forward to make sure that everyone living in Guam receives a basic level of services, whether they are natives of Guam or whether they have immigrated there. Thank you.

Mr. CAMACHO. Thank you.

Mrs. CHRISTENSEN. Thank you, Madam Chair.

Mrs. CUBIN. Thank you. I would now like to recognize Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Thank you, Madam Chairwoman. I first would like to thank you for extending the time allotted to the distinguished Governor and our Speaker for their statements. I cannot

agree with you more, given the fact that these gentleman have traveled such long distances. They at least should be given that courtesy of presenting their statements the way they did and I thank you for that.

Having lived and having visited Guam several times, I feel like I am at home and I want to offer my personal welcome to the good Governor Camacho and my good friend Ben Pangelinan for being here this afternoon and for their testimony. And I want to say, Governor Camacho, that was a very moving and most profound statement that I have ever heard as a member of this Committee in expressing the serious needs that are confronted now by the Government of Guam and the good people of Guam and I just want to say that.

And my friend Ben, I am so happy to see you. You haven't lost much weight, but that is all right.

[Laughter.]

Mr. FALEOMAVAEGA. You must have good—

Mrs. CUBIN. Neither have I.

[Laughter.]

Mr. FALEOMAVAEGA. I want to ask Governor Camacho and also Speaker Pangelinan, the proposed Compact, there is a provision in there that directs the Governors of Guam and Hawaii, NMI, to submit a report to the President with reference to the effect of immigration to these localities. Apparently, there are some serious problems in the way that this was done in this provision of the proposed Compact. Do you agree with this? Were you made aware that this was the proposal that was going to be put in the proposed Compact?

Mr. PANGELINAN. No, we were not. We passed a local law that would allow us observation status, self-appointed observation status of the Guam legislature. But, of course, the Federal Government did not respond positively to that. Really, since we were most impacted—

Mr. FALEOMAVAEGA. What I meant in my question is this provision which required the yearly reporting—

Mr. PANGELINAN. Right.

Mr. FALEOMAVAEGA. —on this impact has now been stricken. It is not in the proposed Compact. This provision or this requirement is no longer in the proposed Compact.

Mr. PANGELINAN. That is correct.

Mr. FALEOMAVAEGA. And I was wondering, were you made aware of this change?

Mr. PANGELINAN. No, not made aware.

Mr. FALEOMAVAEGA. And do you agree with this proposed change?

Mr. PANGELINAN. No. I think that there should be some methodology and mechanism for the territories to express and document the impact that migration has on the territories and the State of Hawaii.

Mr. CAMACHO. And I also believe that without information, without accurate data, then it would be difficult for the territories to make their case in requesting for additional funding. So it is absolutely interesting.

Congressman, may I just make one clarification and ask you a question. I know that when we were before the President, he couldn't pronounce your name, so you introduced yourself as John Wayne.

[Laughter.]

Mr. FALEOMAVAEGA. Madam Chair, I want to share this little experience.

[Laughter.]

Mr. FALEOMAVAEGA. The President was so kind to invite us to the signing of the founding of the interagency group at the White House, and as he did, he introduced the good Governor and introduced Congresswoman Bordallo and also Congresswoman Christensen. And when he came to my name, he stood there in total silence for about 10 seconds.

[Laughter.]

Mr. FALEOMAVAEGA. He looked at me and still was in silence.

[Laughter.]

Mr. FALEOMAVAEGA. So I just yelled out amidst some 200 Asian-Pacific Americans in that whole hall and I said, "Just call me John Wayne, Mr. President."

[Laughter.]

Mr. FALEOMAVAEGA. And for that, I said he owes me a round of golf for not being able to pronounce my name. Yes, I do remember that, Governor.

Mr. CAMACHO. And I want to thank you for continuing to fight for the territories.

Mr. FALEOMAVAEGA. You mentioned about this typhoon, and I also experienced what it means to go through a typhoon, Madam Chair, in Guam, believe it or not. The typhoon that I was exposed to was only 150 miles an hour. You talk about a whistling wind, Madam Chair. You will never experience such an awful experience of going through a typhoon.

I want to ask Governor Camacho, this Typhoon Pongsona, how many miles per hour was that typhoon?

Mr. CAMACHO. I believe it was recorded at up to 180 miles an hour.

Mr. FALEOMAVAEGA. Almost 200 miles an hour.

Mr. CAMACHO. Yes, and gusting up to almost 200, I believe.

Mr. FALEOMAVAEGA. See, west of the date line, it is called a hurricane, but when it comes to those of us in the Pacific, it is called a typhoon. It has the same effect. And also, the Chata'an typhoon, how many miles an hour was that typhoon?

Mr. CAMACHO. I think that was sustained about 150 miles an hour, sustained winds, but again, it may gust up to 180 or more.

Mr. FALEOMAVAEGA. I want to commend Speaker Pangelinan for being the senior poet here on the Committee. I also enjoy reading some of the poems by Robert Frost. You had mentioned about "The Road Not Taken." I want to share a little experience with my good friend Ben here that, actually, this road has been taken and has been taken several years, several times, as I had expressed earlier, Madam Chair.

A couple of years ago, I said I served on the International Relations Committee, our government by the stroke of the pen, the President forgave \$500 million in debt to Jordan. And now, as I

speak, Madam Chair, in our dealings with our good friends from Pakistan, we are offering a \$3 billion package aid to the Government of Pakistan. And in addition to that, Pakistan owes us some \$2.4 billion and we are forgiving Pakistan \$379 million.

So this is not a road as if we have never taken before, Mr. Speaker. We have taken the road before. Now, the entities may not be the same, but I would think, I would think that of all the people that we ought to be giving some sense of a priority, it should be our own people, our own government, our States, our territories.

And again, as both the Speaker and the Governor have eloquently stated, this is not something as if they are asking for hand-outs. This is an expenditure that the Guam government has simply taken and all they are simply saying, asking the Congress and the government, please, reimburse us for the expenditures that we have taken in taking care of our Micronesian brothers and sisters, and that is basically the situation.

I want to ask the Governor and Speaker Pangelinan, what is your opinion of the administration's position on this bill? Obviously, they are against it, but I would like to ask what your opinion is. Can you think of some other creative ways to convince my good friend Mr. Pula and Mr. Cohen and Secretary Norton that this issue should be taken to the cabinet meeting in such a way that the Department of the Interior, as the lead agency for the insular areas, that this reconciliation bill should have the administration's stamp of approval? Governor?

Mr. CAMACHO. Well, I certainly will be meeting with David Cohen and the group there. I understand they have taken a position, and basically, again, they feel that it is a matter of jurisdiction with them as to whether or not they can speak to the release of any obligation from any respective Department or agency to that of the Government of Guam. I can certainly respect that position.

But I believe there is still an avenue of negotiation, as they mentioned. Should this not prevail, then we could perhaps work directly with the respective agencies or Departments within the administration with the endorsement and support of Department of Interior as an alternative way of addressing each of the respective debts or obligations that we have.

But again, I think in so doing, we must continue to make the case that the reasoning behind this is, of course, to offset any debt or obligation that the United States may have in the way of living up to its obligation to the territory for the costs of Compact impact on Guam.

Mr. FALEOMAVAEGA. You know, President Truman had on his desk a little phrase saying, "The buck stops here." I can understand the agencies are constantly fighting among themselves, who has jurisdiction. This goes on all the time. But don't you think that this should have the President's personal attention? Wouldn't it be nice to see that the President directs these Federal agencies, this is the way it is going to go?

Mr. PANGELINAN. I agree and—

Mr. FALEOMAVAEGA. Do you think that this will be the solution to the problem that we are seeing here?

Mr. PANGELINAN. I agree. You know, if the Secretary of Interior feels that they don't have the jurisdictional authority to do so,

perhaps the bill should just be changed and say, the President shall direct the Secretary of Interior to offset these amounts.

And on the issue of the road not taken, I agree with you. It has just never been taken for loyal Americans. It has been taken for people who have opposed us in the international arena. It has been taken for people who charge us air landing rights when we have to prosecute a war for the protection of our country on terrorism and the abolishment of terrorism around the world. I remember reading where Turkey was negotiating with the United States \$200 million in aid in order to have their planes land, while they were taking off and landing every single day in Guam at Anderson Air Force Base.

Mr. FALEOMAVAEGA. Mr. Speaker, if I might interrupt you, the Turkish people got smart.

Mr. PANGELINAN. Yes.

Mr. FALEOMAVAEGA. You see, the last time, we made all promises to Turkey during the Gulf War—

Mr. PANGELINAN. I remember.

Mr. FALEOMAVAEGA. —we never—

Mr. PANGELINAN. Paid up.

Mr. FALEOMAVAEGA. —we never fulfilled our promises. So the Turkish people and the government said, hey, I want something in writing, and that is the problem that we face with Guam.

You made a very interesting statement, Mr. Speaker, about why not change the bill just to say that the President directs—

Mr. PANGELINAN. The Secretary of Interior.

Mr. FALEOMAVAEGA. No, not even the Secretary of Interior, the appropriate Federal agencies to forgive these debts.

Mr. PANGELINAN. I would be certainly pleased with that, I am sure as well as the good author of that change.

Mr. FALEOMAVAEGA. Again, I want to offer my fondest thoughts to the Governor and the Speaker and my good friend, the gentlelady from Guam, for proposing this legislation that I sincerely hope, Madam Chair, that it will pass the Committee and it will pass the House and it should pass the Congress. Thank you, Madam Chair.

Mrs. CUBIN. Ms. Bordallo?

Ms. BORDALLO. Thank you very much. It has been a long morning and now we are into the afternoon. I want to thank you, Madam Chairwoman Cubin, and, of course, our acting Ranking Member here, Eni Faleomavaega. And I want in particular to thank the Governor of Guam, the Honorable Felix Camacho, and our Speaker, the Honorable Ben Pangelinan, for traveling over 10,000 miles to be here. And certainly for our two top island leaders to come all of this way, and knowing the economic situation and the monies involved, to travel this distance to testify, you understand, Madam Chairwoman, the serious economic situation and the need for this legislation to go forward.

I want to point out, too, that I am so very proud to say this is truly a bipartisan effort. I feel that every citizen on Guam, if they could all travel here, would be here to testify on behalf of this particular bill, particularly when we are currently laying off people in our government, cutting their hours.

I will say that I took note of Governor Camacho's comments during his speech and he mentioned, while we are welcoming our Micronesian brothers and sisters, we are saying farewell to our own people because they cannot find work, the banks are taking over their homes, and it is a truly sad situation. So I just wanted to point that out and to extend a very warm thanks to both of you.

Madam Chairman, without objection, I would like to enter several testimonies for the record.

Mrs. CUBIN. Hearing none, so ordered.

[NOTE: The information submitted for the record by Ms. Bordallo has been retained in the Committee's official files.]

Ms. BORDALLO. Thank you very much.

Mrs. CUBIN. I would like to thank the witnesses for their valuable testimony and the members for their questions.

The members of the Committee may have some additional questions for the panel and we will ask that you respond to these in writing. The hearing record will be held open for these responses, and we thank you for that.

If there is no other business before the Committee, then the Committee is now adjourned.

Mr. CAMACHO. Thank you very much.

[Whereupon, at 1:57 p.m., the Committee was adjourned.]

[Additional material submitted for the record follows:]

[A letter submitted for the record by Hon. Linda Lingle, Governor, State of Hawaii, follows:]

EXECUTIVE CHAMBERS
HONOLULULINDA LINDLE
GOVERNOR

July 9, 2003

The Honorable Richard W. Pombo, Chairman
U.S. House of Representatives
Committee on Resources
1324 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Pombo:

Re: Statement Regarding the Reauthorization of the Compacts of Free Association with the Federated States of Micronesia and the Republic of the Marshall Islands

Thank you for the opportunity to provide my views on the impact of the Compacts of Free Association on the State of Hawai'i. In addition to the annual report provided recently to the Department of the Interior and the Hawai'i members of Congress, I would like to add the following observations and recommendations.

The single greatest expense to the State as a result of the Compacts is in the area of education. For the school year 2002-2003, there were 2,381 Compact migrant students enrolled in Hawai'i public schools, at a total cost of \$18,157,411. That figure is based on an average per pupil cost of \$7,626, and does not reflect the additional costs required to educate students from this population. These students often come into the Hawai'i school system without adequate and consistent prior education, and often without strong English language skills. This results in more expense for remedial classes and supplemental classes in English as a second language.

The next greatest expense is in the area of health care, with reported expenses totaling \$7,774,828. That figure includes \$6,746,008 for medical assistance payments by the Department of Human Services, and an additional \$1,028,820 in expenses for direct and contracted health care services provided to the Compact migrants by the Department of Health. Many of the migrants who come to Hawai'i as patients are here because their conditions are severe and the facilities closer to their homes are unable to meet their needs.

I understand the proposed plan from the Department of the Interior calls for providing \$15 million in reimbursement to be shared by Hawai'i, Guam, and the Commonwealth of the Northern Mariana Islands, from funds which would otherwise go to the Compact nations. Therefore the funds available to the Compact nations would be reduced at the same time that they are expected

The Honorable Richard W. Pembo
 July 9, 2003
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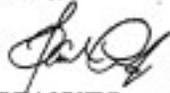
to spend more on development. Another problem I see with the proposal for reimbursement to the State is that it is inadequate to address the actual costs to the State, as well as future increases in these costs. Even if the entire \$15 million were to be allocated only to Hawai'i, rather than shared, it would not begin to cover the \$32 million reported by the State for this year alone, much less the over \$140 million in costs to date.

I believe there is a proposal that federal assistance to the Compact nations would include a requirement to develop infrastructure for education and health systems, and more oversight from the United States to ensure that requirement is being fulfilled. The hope is that by developing these systems locally, the impetus for migration based on those needs would be lessened. While I agree that building better schools and hospitals in the Compact nations is essential, I don't believe that will alleviate the burden on our State.

Obviously, new educational and health care systems in the Compact nations are not going to be built instantaneously. There will be a period of planning and development that could take years before any facilities are completed. Once the infrastructure is in place it might take many more years to develop the staffing and programs required to show any considerable increase in the quality of services provided. Even then, the population and economies of the Compact nations may not ever be able to sustain the programs at the level, which would completely satisfy the needs of the Compact nations' citizens. Therefore, I believe it is unrealistic to think that the future impact on Hawai'i will decrease simply by building up the infrastructure in those countries.

In closing I would like to add that while I support the proposal of the Department of the Interior to the extent it is an attempt to finally address an ongoing burden on our resources, clearly the proposed allocation at this point is inadequate. I would encourage this committee to please consider a figure which takes into account the past expenses of the State, and to more realistically account for the future impact this Compact will have on our State. Thank you again for the opportunity to address this committee.

Sincerely,


 For LINDA LINGLE
 JAMES R. AIONA JR.
 ACTING GOVERNOR

cc: Members of the Hawaii Congressional Delegation

[Responses to questions submitted for the record follow:]

Response by Senator Peter Christian, Federated States of Micronesia, to a Question Submitted for the Record

Question from Hon. Ken Calvert

What is the rate of population growth in the Federated States of Micronesia and what is the standard of living like throughout the four states?

The 2000 census indicated a population growth rate of 0.3 percent over the preceding census conducted in 1994. The growth rate has declined significantly since a peak in the mid-1980s, and today is the lowest in the region.

The standard of living varies widely from state-to-state, and between the main urban areas and the outer islands (where 20 percent of the total population resides). It is important to recognize that these were subsistence economies only slightly more than 50 years ago, and these traditional patterns continue to dominate in the outer islands.

Conditions in the main urban areas are comparable with mid-tier developing countries. However, there is a narrower gap between the rich and poor than one might expect to find in most developing countries due to the system of familial and community "safety nets" that provide a basic standard of living for nearly everyone.

The infrastructure is reasonably well developed. Most areas have good electricity and communications access. Access to clean water and sanitation is often a problem in many areas, particularly in the outlying villages and the outer islands. The greatest infrastructure challenges are in the areas of health and education. There is a severe shortage of adequate clinics and schools throughout the country. Many facilities date to the early days of the Trusteeship or even earlier. The harsh climate has taken its toll on these buildings, many of which were not constructed from appropriate materials. As a result services have suffered.

Like most small island developing countries, the FSM has few exploitable natural resources and suffers constraints due to factors such as distance from markets. Efforts to develop the FSM's tourism industry began to bear fruit in the late 1990s and early 2000s, but has suffered a severe setback in recent years due to September 11 and SARs-related reductions in travel.

For these reasons, the FSM remains heavily reliant on assistance from its primary development partner, the United States. Reductions in levels of financial and program assistance invariably manifest themselves in the standard of living, often immediately and dramatically. It is for this reason first and foremost that the FSM government has expressed its concern over the adequacy of financial assistance under the proposed Compact amendments.

Response by Susan Westin, U.S. General Accounting Office, to Questions Submitted for the Record

Question from Mr. Rahall

How will annual economic assistance under the new proposed Compact term maintain its real value with both an annual decrement and a partial inflation adjustment? How would the real value be affected if a full inflation adjustment is used? Has GAO examined this issue?

Through the amended Compacts, the United States provides the FSM and the RMI with annual grants targeted to priority areas (such as health, education, and infrastructure), audit assistance, and disaster assistance; contributions to a trust fund; and certain Federal services. Annual grant amounts to each country would be reduced each year as U.S. contributions to the trust funds increase each year by the grant reduction amount.

Under the amended Compacts, U.S. payments are adjusted for inflation at two-thirds of the percentage change in the U.S. gross domestic product implicit price deflator. With this adjustment and the Congressional Budget Office's forecasted inflation rate, grants for priority areas to the FSM increase from \$76.7 million in 2004 to \$82.8 million in 2023. The real value of the FSM grants falls over the time period, from \$76.7 million in 2004 to \$55 million in 2023, expressed in 2004 U.S. dollars. Grants for priority areas to the RMI increase from \$33.8 million in 2004 to \$36.5 million in 2023. The real value of the RMI grants falls over the time period, from \$33.8 million in 2004 to \$24.2 million in 2023, expressed in 2004 U.S. dollars.

If U.S. payments under the amended Compacts were fully adjusted for inflation the grant amounts increase more in current dollars and decline less in real, 2004 U.S. dollars. Grants for priority areas to the FSM increase from \$76.7 million in 2004 to \$94.7 million in 2023. The real value of the FSM grants falls over the time period, from \$76.7 million in 2004 to \$62.9 million in 2023, expressed in 2004 U.S. dollars. Grants for priority areas to the RMI increase from \$33.8 million in 2004 to \$41.5 million in 2023. The real value of the RMI grants falls over the time period, from \$33.8 million in 2004 to \$27.6 million in 2023, expressed in 2004 U.S. dollars.

Question from Ms. Bordallo

Other than U.S. assistance, what level of assistance does the FSM and the RMI receive from other governments? Has assistance from other governments increased or decreased in the recent past?

GAO conducted a review of donors' experiences in the Pacific region that was published in August 2001. The review used annual assistance development assistance statistics from 1987 through 1999 as reported by the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). For the FSM and the RMI, GAO also included data from annual financial audits to establish the level of U.S. assistance data. For the most recent 5-year period that we examined, 1995–1999, U.S. assistance accounted for 87 percent of total assistance from all OECD donors to the FSM and 78 percent of total assistance from all OECD donors to the RMI. Non–U.S. assistance over the 5 years amounted to \$81 million

to the FSM and \$72 million to the RMI. Key donors to the FSM and the RMI included the United States, the Asian Development Bank, and Japan. Over the 5-year period, non-U.S. assistance to both countries fluctuated. [The OECD database does not report assistance provided by China and Taiwan because they are not members of the OECD's Development Assistance Committee. Despite our attempts to collect data from China and Taiwan, these countries were unwilling to provide the information. Further, assistance from these nations may not be fully reflected in the FSM and RMI financial audits.]

