

# Committee on Resources

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TESTIMONY OF  
THE HONORABLE SENATOR PETER CHRISTIAN  
SPEAKER OF THE CONGRESS OF THE FEDERATED STATES OF MICRONESIA  
AND CHIEF NEGOTIATOR OF THE  
JOINT COMMITTEE ON COMPACT ECONOMIC NEGOTIATIONS  
BEFORE THE  
COMMITTEE ON RESOURCES  
OF THE U.S. HOUSE OF REPRESENTATIVES  
HEARING ON THE COMPACTS OF FREE ASSOCIATION  
JULY 10, 2003

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 US 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 US 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 US and FSM, with a US 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 US proposal. However, there remain certain provisions of the Administration's proposal that cause the FSM serious concern. Unless addressed by the US 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 analysis 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 US 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 US 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 US assistance proposal was simply the maximum that the US 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 US 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 US 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 US 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 US negotiator has since clarified the Administration's position on the matter, stating that calculations of the US 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 US 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 US 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 US concerns over security, and we support the US 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 US 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 US 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 US 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 US 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 US 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 US 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.