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The Compacts of Free Association

Overview

The Compacts of Free Association (also referred to as COFA) govern the relationships between the United States and the Republic of the Marshall Islands (RMI), Federated States of Micronesia (FSM), and Republic of Palau, collectively known as the Freely Associated States (FAS). Located roughly 2,500 miles southwest of Hawaii, the FAS play a role in supporting the U.S. security presence in the Pacific Islands region at a time of increasing strategic competition between the United States and its allies, on the one hand, and the People's Republic of China (PRC, or China), on the other (for further information, see CRS Report R46573, *The Freely Associated States and Issues for Congress*). During the Trump Administration, the U.S. Department of the Interior (DOI) stated that the Compacts “advance[] economic growth, promote[] self-sufficiency in the freely associated states, and reinforce[] alliances that support a free and open Indo-Pacific.”

Prior to the Compacts, RMI, FSM, and Palau were districts of the former U.S.-administered United Nations Trust Territory of the Pacific Islands, established after World War II. In pursuit of sovereign independence, the Marshall Islands, Micronesia, and Palau rejected the option of U.S. territorial or commonwealth status and instead the governments of the Marshall Islands and Micronesia signed Compacts of Free Association with the United States in 1982. The Compacts were approved by plebiscites in both Pacific Islands countries and by the U.S. Congress in 1985 (P.L. 99-239), becoming effective in 1986 (with economic assistance beginning in FY1987). The U.S.-Palau Compact of Free Association was approved by Congress in 1986 and 1989 (P.L. 99-658 and P.L. 101-219, respectively) and ratified in Palau in 1993 (entering into force in 1994, with economic assistance beginning in FY1995).

The Compacts

The Compacts and their related agreements are a collection of international pacts between the United States and the FAS that initially provided for economic assistance for 15 years. The first term of economic assistance under the RMI and FSM Compacts formally expired in FY2001. In 2003, the United States signed agreements with both RMI and FSM to renew Compact assistance, and Congress passed legislation (P.L. 108-188) amending the Compacts and extending economic assistance for 20 years (FY2004-FY2023). New features of the assistance included trust funds, joint oversight committees, and sector grants targeting education, health, the environment, public sector capacity building, private sector development, and infrastructure. In 2010, the United States and Palau concluded the U.S.-Palau Compact Review Agreement (CRA) to extend economic assistance and trust fund contributions through FY2024. Although the U.S.

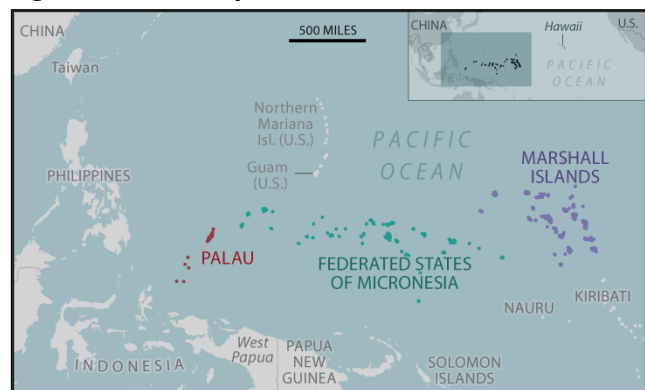
government continued to make annual assistance available to Palau after 2009, Congress did not authorize full funding pursuant to the CRA until FY2018 (P.L. 115-91 and P.L. 115-141). In March 2024, a new CRA came into force providing Palau \$889 million in grant assistance and trust fund contributions for another 20 years.

Additionally, under the Compacts, FAS citizens have the right to reside and work in the United States and its territories as lawful nonimmigrants or “habitual residents.” More than 94,000 FAS citizens live in the United States, including children under age 18 who were born in the United States and hold dual citizenship. The FAS do not have their own militaries, and FAS citizens are eligible to join the U.S. military; over 1,000 FAS citizens serve in the U.S. Armed Forces.

2024 Compacts Renewal

Economic assistance pursuant to Title II of the Compacts of Free Association expired at the end of FY2023 for RMI and FSM and expired at the end of FY2024 for Palau. Compact provisions related to defense, security, migration, and other areas continued unchanged. DOI has funded and administered this assistance, also referred to as “grant assistance,” through mandatory or permanent appropriations since the Compacts’ inception.

Figure 1. The Freely Associated States



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

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

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

The Consolidated Appropriations Act, 2024 (P.L. 118-42, Division G, Title II, §201, the “Compact of Free Association Amendments Act of 2024”), approved Compact economic packages for the FAS. President Joe Biden signed the bill into law on March 9, 2024. Between October 1, 2023, and March 9, 2024, three successive continuing resolutions provided some continued U.S. funding to FSM and RMI (P.L. 118-15, P.L. 118-22, and P.L. 118-35). The Compact amendments establish an Interagency Group on Freely Associated States (P.L. 118-42, §208(d)(1)), authorize expanded access to Department of Veterans Affairs health care services to FAS veterans who served in the U.S. Armed Forces (§209(a)), and make FAS migrants in the United States eligible for U.S. federal programs (§209(f)). Previously, there had been congressional attempts to include the Compact’s economic packages through the National Defense Authorization Act for FY2024, but the provisions were dropped due to spending disagreements.

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

Since the Compacts were renewed, there has been congressional interest in the timely implementation of the agreements by executive departments and agencies. In a September 2024 hearing memo, a subcommittee of the House Foreign Affairs Committee expressed concern with the Biden Administration’s lack of progress in implementing the Compacts.

Compact Assistance Numbers

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

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

Oversight of Compact assistance is led by the Joint Economic Management Committee (JEMCO) with FSM and the Joint Economic Management and Financial Accountability Committee (JEMFAC) with members from both the United States and FAS countries. The United States and Palau conduct oversight through an Economic Advisory Group. Membership consists of U.S. and FAS nationals.

Strategic Value of the Compacts

The FAS cover a maritime area larger than the continental United States, govern over 1,000 islands and atolls, and have a combined population of approximately 200,000. The United States maintains a dominant security presence in the Micronesian subregion of the Southwest Pacific, which includes the FAS, Guam (a U.S. Pacific territory), and the Commonwealth of the Northern Mariana Islands. In addition to maintaining air and naval bases on Guam, the U.S. military operates the Ronald Reagan Ballistic Missile Defense Test Site at U.S. Army Garrison-Kwajalein Atoll in RMI. The amended Compact of 2003 extended U.S. base rights on Kwajalein Atoll through 2066, with a U.S. option to continue the arrangement for an additional 20 years. The U.S. military is building a high-frequency radar system in Palau with an expected completion date in June 2026. In March 2025, U.S. Secretary of Defense Pete Hegseth met with FSM President Wesley Simina and reached “a mutual understanding” to begin planning and construction of U.S. Department of Defense (DOD)—which is “using a secondary Department of War designation” under Executive Order 14347 dated September 5, 2025—infrastructure projects on Yap Island in FSM, reportedly worth over \$2 billion.

DOD established Joint Task Force-Micronesia (JTF-M) in June 2024 to coordinate defense operations and military engagements in the Southwest Pacific, including Compact states. JTF-M is based in Guam.

As passed by the Senate, the National Defense Authorization Act for FY2026 (S. 2296) states, “It is the sense of Congress that the Secretary of Defense should continue efforts that strengthen United States defense alliances and partnerships in the Indo-Pacific region ... including by ... engaging with the Federated States of Micronesia, the Republic of the Marshall Islands, [and] the Republic of Palau.” Section 4601 of the same bill would allocate \$160,000 for airfield apron and taxiway repairs on U.S. Army Garrison-Kwajalein Atoll.

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