



Commonwealth of the Northern Mariana Islands

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Testimony of Governor Arnold I. Palacios
Commonwealth of the Northern Mariana Islands
Before the Subcommittee on Indian and Insular Affairs
U.S. House of Representatives
Committee on Natural Resources

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Chairman Hurd, Ranking Member Leger Fernández, I am Governor Arnold I. Palacios, and I proudly represent my constituents in Commonwealth of the Northern Mariana Islands. I appreciate the opportunity to provide written testimony concerning the oversight hearing titled *“Examining the Office of Insular Affairs’ Role in Fostering Prosperity in the Pacific Territories and Addressing External Threats to Peace and Security.”* I commend your timely leadership in calling for this hearing.

The Commonwealth of the Northern Mariana Islands is a byproduct of negotiations that led to a self-governing relationship in political union with United States established through our Covenant. I am committed to working with Congress, and with the Trump Administration’s Office of Insular Affairs (OIA), to realize the commitments to achieving a progressively higher standard of living as specified in the Covenant of the CNMI with the United States, and to simultaneously address threats to peace and security.

The OIA can help foster prosperity for the CNMI through working to conclude Covenant Section 902 negotiations. Despite good intentions and progress in 2024, 902 negotiations remain unfinished and long overdue. My team is ready to reach a satisfactory conclusion with representatives from the Trump Administration, that will allow for annual funding arrangements that will stimulate economic development and meet pressing needs and recognize inflationary adjustments. I remain hopeful that 902 negotiations can resume and soon conclude with the necessary results as called for in the Covenant.

The United States’ Department of Defense (DOD) is committed to significant investments in the CNMI. Tinian Island will be home to the resurrection of three North Field runways, a new Navy port facility, and the establishment of a Marine training base. As Governor, I remain steadfast in support of the Pacific Deterrence Initiative (PDI) and these important national security investments in DOD facilities on Tinian. But these investments must be met with balanced investment in our

communities outside of the DOD installations so the CNMI prospers, and we can accommodate very significant increases in personnel and resulting demands on our infrastructure.

Unfortunately, the economy of the CNMI has been drastically impacted by the drawdown of tourism from visitors from the People Republic of China (PRC). Before the pandemic hit five years ago, some 7 direct flights from PRC arrived in Saipan every week. Since then, we have lost upwards of 70% of our tourism, which has put incredible strain on our local economy. The Subcommittee needs to know that there are forces in play advocating against DOD-related investments and a turnback to PRC based tourism and investments. There are strong outside interests that are actively driving anti-US sentiments through funding of non-governmental organizations and other means to sow the seeds of distrust against the United States government, calling into question the commitment to economic development, environmental stewardship, and the protection of our local identity. In addition to these anti-us forces in play, there are pressures stemming from gang related black market activities that include illicit drugs and human trafficking operations that pray on the fragile economic circumstances.

And so, it is vitally important that the Committee on Natural Resources support the Trump Administration moving to resume and conclude the 902 process as well as working to dedicate covenant fund levels to the CNMI, and to end the practice of dividing up the Covenant Fund to support other territories. I support all of our island territories getting what we deserve, but we must honor commitments and no longer “rob Peter to pay Paul.”

Currently, my government is operating under financial support that is based off levels put into place over three decades ago. It is imperative that we resume the Section 902 process as soon as possible so that we can reach an agreement and provide financial assistance under Section 701 of the Covenant that meets current needs and considers inflationary costs of providing basic services and investments that will grow our economy.

As discussed, the Department of Defense (DOD) is making very significant investments in the CNMI, and on Tinian Island in particular, to meet the demands of the Pacific Deterrence Initiative and the Indo-Pacific Command to take on a critical set of defense priorities intended to support U.S. strategic goals in the region. The Government of the CNMI currently lacks the fiscal, workforce, and technical capacities to accommodate the influx of significant Pentagon-related investments.

As I work closely with DOD and the Office of Local Development and Community Cooperation, as Governor, I must also deliver what is owed the CNMI regarding commitments made under the Covenant. I need your support to ensure that the CNMI can progress on each side of the military fence as the DOD ramps up investments, and the CNMI once again takes on a crucial role in the defense of the U.S. as we face a growing threat from the Chinese Communist Party.

The Covenant has tools that we must utilize; unfortunately, these have underutilized over the years. The Covenant calls for a progressively higher standard of living, but in reality, per capita income has decreased by more than 30% relative to that of the U.S. mainland. If we can conclude the 902 negotiations, and identify an appropriate level of funding, I can do my part to help address shortfalls in socioeconomic development.

In addition to the 902 process, and relative funding commitments that are made under Sections 701 and 702 of the Covenant, I respectfully ask the Subcommittee to support a request being put forward for the Governmental Accountability Office (GAO) analysis and audit of cover-over payments that are authorized under Section 703(b) of the Covenant. This important provision has never been effectively utilized.

According to Section 703(b) of the Covenant, proceeds from customs duties, and federal income taxes, and from all taxes collected under the internal revenue laws of the United States on articles produced in the CNMI or transported to the U.S., or consumed in the CNMI, and the proceeds of any other taxes or fees levied by Congress on the inhabitants of the CNMI (less self-employment and FICA taxes), shall be paid into the Treasury of the CNMI to be expended to the benefit of the people of the CNMI as our government may prescribe.

I respectfully ask for your leadership in requesting through a letter to the GAO an audit of the cover over program, what has or has not been collected and covered over, and what the CNMI may be entitled to under the Covenant. Ideally, the Government of the CNMI could receive an amount owed under Section 703 (b) that I could leverage and create an infrastructure fund that will vastly improve the socioeconomic well-being of the CNMI, provide for a much better outside the fence environment for my constituents as well as for our service members, and reinvigorate our tourism sector that has been decimated by the draw down of aviation slots from the PRC. The Covenant and its oversight clearly fall under this committee's jurisdiction, and so a request for this analysis is relevant and therefore appropriate under GAO guidelines.

Finally, there is an opportunity to reverse the draw down of PRC based tourism, but to do so through flights from allied nations in the Indo-Pacific region. Congressman Moylan (R-GU) has led this effort, which would provide for an end to cabotage restrictions in between Guam and the CNMI. This would allow for low-cost carriers to better serve our islands from Japan, Taiwan, South Korea and India, and allow our tourism-based economy to flourish by welcoming citizens from allied countries and to provide our service members more efficient services amongst our Guam and the CNMI.

Thank you for your consideration today and I hope to work with the Subcommittee and the full committee's leadership to foster prosperity and security in the CNMI and the region.