

**Interagency Group on Insular Areas
2005 Annual Report**

**Office of Insular Affairs
Department of the Interior**

1. Introduction

President George W. Bush established the Interagency Group on Insular Areas (IGIA) by signing Executive Order 13299 (Executive Order) at a White House ceremony on May 8, 2003. The IGIA was established to obtain information and provide advice regarding American Samoa, Guam, the Commonwealth of the Northern Mariana Islands (CNMI), and the U.S. Virgin Islands (Insular Areas).

Although each of the Insular Areas is unique, they have a number of important common characteristics. Each is an island community that is remote from mainland United States—Guam, known as “America in Asia,” is the westernmost place in the United States; American Samoa, in the Polynesian South Pacific, is the southernmost place in the United States; and the U.S. Virgin Islands, in the Caribbean, is the easternmost place in the United States. Each has very limited land resources, a small population, and a limited pool of expertise. Each is located in an area that is highly prone to destructive typhoons, cyclones, or hurricanes. Each is relatively new to self-government.

The foregoing factors, taken together, present the Insular Areas with unique challenges. Because of the remoteness and resource poverty of each Insular Area, each faces high transport costs to import basic necessities. Each of the Insular Areas is heavily reliant on air links to the outside world, but these links, especially in the Pacific, are often characterized by a lack of competition, high prices, and unreliable service. Each of the Insular Areas faces the challenge of providing a full range of government services that must cover, with the exception of Guam, multiple islands. These services must be provided with a very limited pool of experienced, trained personnel and no nearby communities from which to supplement the pool of talent and resources. Each of the Insular Areas has a fairly limited private sector that is dominated, in most cases, by one or two major industries. Each of the Insular Areas has a standard of living that is lower than most of the 50 States, yet minimum wages in each of the Insular Areas are at a level that can make it difficult for businesses to compete in the low-wage regions of the world in which they are located.

A number of important legal issues distinguish the Insular Areas from the 50 states and from one another. Two of the Insular Areas are subject to Federal immigration laws and to the standard Federal minimum wage; two are not. The U.S. Constitution does not fully apply in any of the Insular Areas, although most provisions do apply. All of the Insular Areas are outside of U.S. customs territory. All of the Insular Areas other than the CNMI have nonvoting delegates to the U.S. House of Representatives. Residents of the Insular Areas generally do not pay Federal income taxes, cannot vote for President, and do not have voting representation in the U.S. Congress. People born in American Samoa are U.S. nationals, not citizens, at birth.

All of the factors cited above indicate that there are important differences between the Insular Areas and the 50 States. It follows that often there may be unintended consequences when policies designed for the 50 States are applied to the Insular Areas. (An example was the Federal legislation that required all airport screeners to be U.S.

citizens, which prevented American Samoans from being screeners at their own airport; this has since been corrected.) Just as Federal policy can apply to the Insular Areas in an inappropriate manner, so too can the Insular Areas be inappropriately excluded from Federal policy, usually as an oversight. In addition, the special circumstances faced by the Insular Areas will sometimes merit policy initiatives designed especially for one or more Insular Area. It is also important that the various departments and agencies of the Federal Government properly coordinate their activities that affect the Insular Areas.

The IGIA consists of the heads of the executive departments and the heads of such agencies as the Secretary of the Interior may designate. A head of a department or agency may designate another official to carry out his or her functions with respect to the IGIA, but that designee must be a Presidential appointee or a member of the Senior Executive Service.

The Secretary of the Interior is tasked with convening and presiding over meetings of the IGIA, determining its agenda, directing its work and, as appropriate, establishing and directing subgroups.

The Executive Order directs the IGIA to provide to the President and the Secretary of the Interior advice on the establishment or implementation of policies concerning the Insular Areas. The IGIA is further directed to obtain information and advice concerning the Insular Areas from Insular Area governors, other elected officials, and other appropriate parties. The IGIA is required to hold a meeting at least once a year and meet with the governors of the Insular Areas once per year.

Additionally, the Executive Order provides that the Secretary of the Interior may, as the Secretary deems appropriate, make recommendations to the President or to the heads of agencies, regarding policy or policy implementation actions of Federal agencies that affect the Insular Areas.

The Executive Order makes it clear that the IGIA is not to act as a decision-making body. The group is directed to obtain advice and information “in a manner that does not involve collective judgment or consensus advice or deliberation.” Furthermore, the Executive Order provides that “[n]othing in this order shall be construed to impair or otherwise affect the functions of the Director of the Office of Management and Budget relating to budget, administrative, or legislative proposals.” The IGIA does not, therefore, act as a deliberative body and does not make collective decisions. The IGIA does not take positions on legislation or policy matters on behalf of the Administration and cannot demand any member agency to take any action or adopt any position.

The purpose of the IGIA is to provide a mechanism for ensuring that the circumstances of the Insular Areas are taken into account in the formulation of Federal policy and that the various agencies of the Executive Branch work together to ensure that Federal policy towards the Insular Areas is properly coordinated.

From the perspective of officials from the Insular Areas, the IGIA can be a valuable tool for ensuring that their concerns are recognized. Insular Area officials have expressed frustration in getting the Federal bureaucracy to focus on situations in which the application of Federal policies to the Insular Areas has had unintended consequences, or in which the Insular Areas have been inadvertently excluded from Federal programs.

The IGIA is intended to help to ensure that the Insular Areas' concerns are brought to the attention of the appropriate parties in policymaking positions.

Set forth below is a discussion of major issues that affect the Insular Areas, as determined from extensive communications with Insular Area officials. A recommended course of action is included for each issue.

2. Major Issues Affecting the Insular Areas

a. Economic Issues

i. Background

The Secretary of the Interior has stated that this Administration's top priority for the Insular Areas is to help them realize their economic potential through private sector growth. As noted above, the Insular Areas face certain special challenges in their private sector economic development efforts. Set forth below are certain major issues that Insular Area representatives have raised with the IGIA and efforts that IGIA members have undertaken to promote economic development in the Insular Areas.

ii. American Samoa Tuna Canneries

American Samoa's economy is excessively dependent on its two tuna canneries. The canneries employ approximately a third of the work force and are collectively the largest source of tax revenue for the local Government, which also employs approximately a third of the work force. The remaining share of the work force is employed in businesses that typically rely heavily on the canneries, the local Government, or both.

If the canneries were to leave American Samoa, an economic and fiscal crisis would likely result. American Samoa officials are concerned about recent events that may cause the canneries to relocate. One of the territory's principal competitive advantages, duty-free access to the U.S. market, could be eroded as other countries gain comparable access to the U.S. market through free trade agreements. More immediately, the possessions tax credit, which provided several million dollars in tax benefits each year to the canneries, expired at the end of 2005. American Samoa officials fear that recent developments, compounded by the significantly higher wages that the American Samoa canneries must pay as compared to prevailing wages in other tuna producing nations, will cause the canneries to relocate.

Because of concerns about the potential devastation of American Samoa's economy and the potential resulting impact on the U.S. taxpayer, Secretary of the Interior Gale Norton in November 2005 wrote to the chairmen and ranking members of the Senate Committee on Finance and the House Committee on Ways and Means, respectively, urging that the expiring possessions tax credit be continued for five more years.

Recommendation: Appropriate officials from the Department of the Treasury, the Office of the U.S. Trade Representative, the Department of the Interior, and other relevant agencies and offices should consult with one another to ensure that the potential impact on the economy of American Samoa and the other Insular Areas is taken into account in the development of tax and trade policy. Appropriate officials from the Department of the Treasury, the Department of the Interior and other relevant agencies and offices should discuss the desirability of providing tax incentives to help American Samoa and the other Insular Areas overcome their obstacles to private sector economic development and, if appropriate, develop proposals for such tax incentives.

iii. CNMI Garment Manufacturing

Garment manufacturing, along with tourism, is one of the twin pillars of the CNMI economy. In recent years, taxes and fees paid by the garment industry accounted for approximately 35 percent of the CNMI's public revenues. The CNMI garment industry came under severe threat, however, when quotas that limited garment exports to the United States from the People's Republic of China (PRC) expired on January 1, 2005. This led to concern in the CNMI that a rapid exodus of the garment industry would cause a fiscal and economic crisis in the CNMI.

Later in 2005, the United States and the PRC negotiated an agreement that limits PRC garment exports to the United States through 2008. This agreement appears to have provided some breathing room for the CNMI garment industry, but concerns remain about the industry's ability to survive.

CNMI officials have proposed amendments to U.S. tariff law in an effort to protect the viability of the CNMI's garment industry. The CNMI is outside the customs territory of the United States, but General Note 3(a) of the Harmonized Tariff Schedule of the United States generally allows products from the CNMI to be imported duty-free into the United States, as long as no more than 70 percent of the value of the product arises from outside of the CNMI. For certain products, however, including garments, the maximum foreign content is 50 percent. The Governor of the CNMI has proposed that the foreign content limit for garments be raised to 70 percent. According to CNMI officials, this change would provide sufficient flexibility to enable the CNMI to retain a smaller, relatively high-end garment industry. These officials believe that low-skill tasks in the garment manufacturing process, such as cutting, will inevitably migrate to low-wage countries such as the PRC, but the proposed amendment to General Note 3(a) would protect the CNMI's duty-free access to the United States, notwithstanding such a migration.

Recommendation: Appropriate officials from the Department of Commerce, the Office of the U.S. Trade Representative, the Department of the Interior, and other relevant agencies and offices should consult regularly with one another to evaluate the CNMI's proposed amendments to General Note 3(a) of the Harmonized Tariff Schedule of the United States. Such officials should take into account the impact of any proposed Administration policy on the CNMI, as well as the impact on other U.S. stakeholders that may be affected.

iv. American Jobs Creation Act

There is a potentially serious short-term challenge to the fiscal and economic health of the U.S. Virgin Islands, the magnitude of which is difficult to predict.

In 2001, the U.S. Virgin Islands expanded its tax incentive program for attracting new businesses to the U.S. Virgin Islands. In particular, the program was expanded to include service businesses, such as financial services providers, which were being sought to help diversify the economy. This incentive program, as enhanced in 2001, is operated by the territory's Economic Development Commission (EDC) and is commonly referred to as the EDC program.

The EDC program attracted many businesses to the U.S. Virgin Islands, which in turn resulted in increases in employment, tax revenue, construction activity (for both business and residential purposes) and other economic activity. The Government of the U.S. Virgin Islands credits the EDC businesses with bringing approximately \$100–120 million annually to the Virgin Islands treasury. This is a significant portion of its approximately \$600 million in total annual revenue. These figures do not include taxes paid by employees of these companies or by other businesses and employees that rely upon the economic activity generated by the EDC businesses.

When Congress enacted the American Jobs Creation Act of 2004, however, it cast into doubt the future of the EDC program. The statute appeared to disqualify many EDC beneficiaries, especially those that had relocated to the Virgin Islands after the program was expanded in 2001, from receiving the benefits of the program. The U.S. Department of the Treasury and the Internal Revenue Service recently issued regulations to provide guidance on certain provisions of the statute, but did not offer specific protection to the businesses already established and contributing to the economy. Regulations on other important provisions of the statute are still being prepared. U.S. Virgin Islands officials are concerned that a significant number of EDC beneficiaries may close their U.S. Virgin Islands operations as a result of the statute and regulations. The result of such closure would be a corresponding loss of tax revenues, jobs, construction activity, other economic activity, and charitable giving, the magnitude of which is unknown at this stage.

The American Jobs Creation Act and the regulations there under also apply to the other Insular Areas. The potential impact of the statute and regulations on the other Insular Areas also merits study.

Recommendation: Appropriate officials from the Department of the Treasury and the Internal Revenue Service should continue to consult regularly with appropriate officials from the Department of the Interior and the Insular Areas in an effort to ensure that tax policy towards the Insular Areas achieves important objectives, such as preventing tax avoidance and fraud, without inflicting unnecessary damage on the fiscal and economic health of the Insular Areas.

v. Transportation Issues

As geographically isolated, resource-poor islands, the Insular Areas are extremely dependent upon air and sea transportation links. As small markets that are remote from major markets, the transportation links that the Insular Areas rely upon to connect themselves to the outside world are often characterized by high cost and, in some cases, low reliability. The Insular Areas are highly vulnerable to events beyond their control, such as dock strikes, that could interrupt the shipment of basic necessities to the islands. The CNMI recently was dealt a major blow when Japan Airlines, which carried approximately 29 percent of the tourists to the CNMI, ceased scheduled service to the CNMI in October 2005.

Insular Area officials have long complained that U.S. cabotage rules, which generally require that air or sea transport between U.S. destinations be handled by U.S. carriers only, are protectionist and exacerbate the situation by increasing costs and restricting options for transportation.

Governor Togiola of American Samoa has raised concerns about the consequences of air cabotage. The Governor claims that cabotage rules, which limit air transport options for the people of American Samoa, have increased the cost of travel, caused inadequate postal and cargo service, and limited the capacity to transport patients to Honolulu for medical emergencies. Currently, only one U.S.-flag carrier, Hawaiian Airlines, connects American Samoa to the United States. American Samoa also faces the challenge of connecting the isolated Manu'a islands to the main island of Tutuila as well as to the outside world. The Governor has proposed revising cabotage rules to provide American Samoa with exemptions similar to those applicable to Alaska.¹ Guam has also applied to the Department of Transportation for a similar exemption.

U.S. carriers typically oppose air cabotage exemptions for the Insular Areas, citing the unfairness of having to compete with carriers from foreign nations that do not permit U.S. carriers to service their domestic routes. In general, defenders of cabotage contend that becoming dependent upon foreign carriers for our domestic transportation needs could leave us vulnerable in times of war.

¹ Foreign carriers generally are exempt from cabotage restrictions for service to Alaska as long as all stopover passengers are ticketed and carried by the foreign carrier on a through movement into and out of the United States.

The Government of Guam has often raised concerns arising from the adverse effects of the Jones Act, which prevents foreign ships from taking cargo to and from Guam. The Jones Act generally restricts sea cargo movements between any two points in the United States for domestic carriers. The U.S. Virgin Islands, American Samoa, and the CNMI all benefit from Jones Act exemptions, while Guam generally is subject to Jones Act restrictions.

Recommendation: Appropriate officials from the Insular Areas, the Department of the Interior, and the Department of Transportation should consult regularly to develop policies that might enable the Insular Areas to lower the cost and improve the reliability of their vital transportation links to the outside world.

vi. Energy Issues

Recent increases in world oil prices have had a serious negative effect on operating costs for Insular Area utilities, all of which depend on imported fossil fuels. Most of the generation and distribution systems in the Insular Areas are obsolete, inefficient and vulnerable to tropical cyclones that regularly sweep the Caribbean and the Western Pacific. Problems with maintenance and finances have led to rolling blackouts on Saipan in the CNMI.

In order to ensure more reliable and economical service, Guam has privatized the management of all of its base load electrical generating facilities. Privatization has been considered in the CNMI and the U.S. Virgin Islands as well.

The Energy Policy Act of 2005 directed the Department of the Interior, in consultation with the Department of Energy and other agencies, to update existing long-term energy plans for the Insular Areas, recommend ways that would increase energy efficiency and reduce dependence on imported fossil fuels, and recommend options that would strengthen and otherwise reduce the vulnerability of key components of the local power generation and distribution systems to tropical cyclones.

Recommendation: Appropriate officials from the Insular Areas, the Department of Energy, the Environmental Protection Agency, the Department of the Interior, and other relevant agencies should develop alternatives for the Insular Areas to make their energy systems more cost-effective and reliable. The parties should consider, among other things, whether alternative, sustainable energy solutions might be appropriate for the Insular Areas; whether privatization of electrical utility systems could improve management, reduce costs and improve access to capital; and whether new financing mechanisms, such as a bond bank, could enable the Insular Areas to raise capital for infrastructure needs more cost-effectively.

vii. Infrastructure Financing

Adequate critical infrastructure generally is necessary for proper economic development, and each of the Insular Areas face serious challenges in this regard. Guam and the U.S.

Virgin Islands are both subject to consent decrees that require improvements in their water and wastewater systems. Saipan, the largest island in the CNMI and its civic, business and government center, does not have 24-hour access to potable water. All four Insular Areas face serious solid waste disposal issues. Guam, in particular, is under a Federal consent decree to shut down its current landfill and build a replacement.

As noted above, power systems in the Insular Areas are plagued by, among other things, outdated equipment and high fuel costs.

The territories are exploring alternative methods to improve and augment sources of power and water service. The U.S. Virgin Islands recently issued a request for proposals for both power and water production on St. Croix. Guam has made some preliminary efforts towards privatizing its water system, and the CNMI has also explored public-private partnership options to reduce its energy costs.

Federal assistance is expected to address a small part of this list of projects. While the Insular Areas are currently eligible for some \$80 million per year from various Federal agencies for funding environmental infrastructure, this amount includes funds that are available for other critical needs as well. Realistically, about \$20 million can be expected annually to go to environmental infrastructure in the Insular Areas under Federal programs as they are currently in place.

The Insular Areas have often turned to the financial markets, especially the bond markets, to borrow money for portions of their environmental infrastructure projects, but they face various obstacles. Their ability to absorb debt service cost is constrained by their limited financial resources and, in the case of the U.S. Virgin Islands and Guam particularly, their credit histories are considered unfavorable and their borrowing excessive.

The IGIA formed a working group to explore ways for the Insular Areas to expand their options to finance their environmental infrastructure needs, particularly from non-Governmental sources. Participants in the group include the Environmental Protection Agency, the Department of Agriculture, the Department of Defense, the Department of Homeland Security, and the Department of the Interior. The group is also exploring whether it is possible for Federal agencies to better coordinate their environmental infrastructure assistance to the Insular Areas, both as an end in itself and as a means of improving the Insular Areas' access to non-Governmental financing.

A private firm, Northbridge Environmental Management Consultants, was retained to study the issues and make recommendations for financing options. Northbridge initially conducted a survey of existing needs and funds available and has done research on infrastructure financing. After studying various alternatives and after extensive consultations with Insular Area representatives, the participants decided to study the option of creating a "bond bank" through which the Insular Areas would possibly reduce borrowing costs by pooling their borrowings.

A bond bank for the Insular Areas would probably need to be established through Federal legislation, but would not necessarily require significant financial assistance from the Federal Government.

The participating Federal agencies, the consultants, and the Insular Area representatives have devoted several months of study and discussion to flesh out and evaluate the bond bank proposal. The consultant is currently developing a final outline that will include data on potential savings to the Insular Areas based on methodologies used by credit rating agencies. This will include a discussion of a mechanism to allow Federal grant funds to be intercepted in the event of a default. By providing additional security to bondholders, this type of mechanism can enable the Insular Areas to borrow at lower cost. The final outline will be circulated among the participating agencies, the Office of Management and Budget, and the governors of the Insular Areas for review and comment.

Recommendation: The relevant Federal agencies should finish refining the bond bank proposal and determine the level of support for the final proposal from the appropriate Insular Area officials. If the proposal has sufficient support from the Insular Areas, the Administration should explore the possibility of proposing legislation to establish the bond bank.

viii. **Private Sector Development Efforts**

It is clear that the Insular Areas will not be able to address the significant economic and financial challenges they face unless they significantly strengthen their economies. This can occur only if the private sector in each of the Insular Areas is strengthened sufficiently to wean the economy from unsustainable reliance on the public sector. That is why the Department of the Interior's top priority for the Insular Areas is to promote private sector growth. The Department of the Interior has been implementing a comprehensive program to advance this priority.

Despite their many challenges, the Insular Areas have competitive advantages in certain areas. The right companies can prosper in the Insular Areas. The Office of Insular Affairs has devoted significant effort to finding these companies and to facilitating interaction between these companies and the Insular Areas' relevant private sector and Government representatives. The Office of Insular Affairs has conducted extensive research through the Island Fellows Program, in which M.B.A. students from prestigious institutions such as Wharton and Harvard have identified industries and companies that fit the unique needs and competitive advantages of the Insular Areas. The Department of the Interior has hosted two conferences at which these companies have met with potential local business partners and government officials from the Insular Areas. A third conference is scheduled for November 2006.

The Department of the Interior is committed to facilitating "win-win opportunities" that benefit both the Insular Areas and the 50 States. For example, the Department of the Interior would not encourage ventures that would benefit the Insular Areas at the expense

of any of the States, as might occur if a company relocated from a State to one of the Insular Areas. The Department of the Interior would, however, encourage businesses based in the 50 States to explore opportunities to expand into the Insular Areas, creating jobs and economic activity in the Insular Areas and additional income (and hopefully additional jobs) in the States where these businesses are based.

The Office of Insular Affairs has also organized Business Opportunities Missions, taking business people to the Insular Areas to conduct on-site due diligence of their own. The first Business Opportunities Mission, to Guam, Saipan, and Palau, was led by Deputy Secretary of the Interior Lynn Scarlett in May 2005. In March 2006, Deputy Secretary Scarlett led a group of companies on a Business Opportunities Mission to the U.S. Virgin Islands. A Business Opportunities Mission to American Samoa is planned for May.

In 2006, the Island Fellows will prepare private sector assessment reports for each of the Insular Areas. These reports will evaluate the business climate in each of the Insular Areas, including permitting and licensing, regulation, taxation, access to capital, incentives, restrictions on outside investment, legal protections and other factors that would affect the ability of the Insular Areas to attract and retain good businesses. The Island Fellows will be trained by a consultant who performs private sector assessment reports for sovereign nations in the Pacific on behalf of the Asian Development Bank. It is hoped that the private sector assessment reports will provide Insular Area leaders with ideas for reforms that might improve their economies.

A number of agencies have assisted the Office of Insular Affairs in its private sector development efforts, including the Department of Commerce, the U.S. Department of Agriculture (especially the Rural Utilities Service), the Overseas Private Investment Corporation, the Export-Import Bank, and the Small Business Administration.

As a result of the facilitation efforts of the Office of Insular Affairs, a number of business opportunities in the Insular Areas have either been consummated or are being actively pursued. The most important result of our program, however, is the realization by leaders of the Insular Areas that there is no alternative to this type of effort to strengthen the private sector, and that they need to be leading it themselves.

Because of the special fiscal and economic challenges faced by the Insular Areas, several successive administrations, like this Administration, have supported tax and trade provisions that help the Insular Areas generate sufficient economic activity and tax revenue to meet the most basic needs of their people. Notwithstanding these incentives, each of the Insular Areas continues to experience economic and fiscal difficulties.

Longstanding special tax provisions for the Insular Areas manifest an important underlying principle of Federal territorial policy, namely, the Federal Government does not treat its territories as sources of revenue. The Federal Government has a strong interest in maintaining and enhancing the economic and fiscal well-being of the Insular Areas.

A fiscal and economic crisis in any of the Insular Areas would weaken the effect of investments that United States taxpayers have already made in the areas of housing, education, health, social welfare, fiscal management, and other areas. For example, the U.S. taxpayer has already made sizeable investments in the Insular Areas to ensure that housing needs for the poor are addressed, that schools have the resources to retain accreditation, that minimum health and environmental standards are met, that critical infrastructure is constructed, and that basic standards of social welfare are satisfied. Federal agencies that have been active in these efforts include the Departments of the Interior, Housing and Urban Development, Education, Health and Human Services, Agriculture, Transportation and Homeland Security, and the Environmental Protection Agency.

Recommendation: The Department of the Interior should continue to make private sector economic development its top priority for the Insular Areas. The Office of Insular Affairs, in cooperation with other relevant agencies, should continue to promote private sector economic development in the Insular Areas through targeted outreach to companies that might consider doing business there. The program of economic and industry research, targeted marketing, conferences and business opportunities missions should continue. The Office of Insular Affairs should also continue to help Insular Areas political leaders to find ways to improve the business climates in their respective Insular Areas. Other Federal agencies, including the Department of the Treasury, the Department of Commerce, the Department of Commerce, and the Department of State, should work with the Department of the Interior to develop appropriate tax and trade incentives and other policies to help the Insular Areas overcome obstacles to economic development.

b. Health

The Insular Areas are confronted with important health challenges. One problem is the lack of good, current information. The last comprehensive study on health systems and services in the Insular Areas was published in the mid-1990s. In spite of the absence of a more recent study, it is widely known that the Insular Areas have high rates of diabetes, hypertension, obesity, many types of cancer, and other diseases.

The Insular Areas face a number of obstacles that hamper their ability to deal with health problems. These include poverty and insufficient funds to build and maintain adequate health care facilities. The problems, in turn, lead to difficulties meeting national health and medical services standards. Isolation exacerbates these problems by making medical supplies and equipment costly to ship in, by making it difficult to attract qualified health care personnel, and by making off-island referrals costly.

The GAO performed a study in 2005 on Federal spending on health care in the Insular Areas, comparing it to spending on the mainland. The findings of the report indicated that the per capita Federal health care spending in the Insular Areas was significantly below that for the States. For example, Federal Medicare spending per beneficiary in the

Insular Areas² is less than half the amount that it is in the States. Also, Federal Medicaid per capita spending in the poorest States is more than 12 times the amount received in any Insular Area, each of which has a lower average income than that of the poorest State.

The lower per-capita Medicaid spending for the Insular Areas is not surprising, given that the Insular Areas are subject to a 50-50 cost-share for Medicaid costs while the Federal Government assumes 77 percent of Medicaid costs for the poorest States. Furthermore, the annual amount of the Medicaid reimbursement to each Insular Area, unlike that for the States, is capped. All of the Governors and Congressional delegates from the Insular Areas have supported moving to a 77-23 cost-share formula and lifting the caps as a means to ease the strain on Insular Area budgets and improve the delivery of health care to the poor. Any changes to the cost-sharing arrangements or lifting of the caps would require Congressional action.

Under the auspices of the IGIA, the Department of Health and Human Services and the Department of the Interior have been working together to address health issues facing the Insular Areas. For example, the Department of Health and Human Services and the Department of the Interior have agreed to consolidate existing health data from the Insular Areas into a single, useable data set, taking steps to address any gaps identified in the data, and perform a baseline analysis. A full-time medical data specialist will be assigned to perform the collection and analysis. The Department of the Interior has agreed to provide funding for this project out of existing discretionary funds, and the Department of Health and Human Services will provide the staff and logistical support.

Also, the Department of the Interior's Office of Insular Affairs and the Department of Health and Human Services cosponsored a planning session for avian-flu pandemic preparedness for the U.S.-affiliated Pacific jurisdictions in Saipan in January 2006. Each of the Insular Areas' preparedness plans was reviewed at the meeting, and the Department of Health and Human Services announced at the meeting that it would award grants of approximately \$100,000 to each of the Pacific Insular Areas and other participating jurisdictions.

The Insular Areas present unique issues for those planning to address the effects of a possible avian flu pandemic. Guam and the CNMI are located near the areas in Asia where many believe that a pandemic is most likely to commence. There is a great deal of travel between both of these Insular Areas and Asia: both territories receive a large number of tourists from Asia, and the CNMI has a large labor force from China, the Philippines, and other Asian nations. Guam is also a major transportation hub for Micronesia and has daily flights to and from Hawaii. It is therefore quite conceivable that the avian flu could spread from Asia to the U.S. mainland through the Insular Areas. The Insular Areas also face serious challenges in their ability to treat their own populations in the event of an avian flu outbreak. All of the Insular Areas have substandard health care systems and limited capacity to quickly identify the presence of avian flu within the population.

² For the purposes of the GAO study, the Insular Areas also include Puerto Rico.

Recommendation: The Department of Health and Human Services, the Office of Insular Affairs, and other relevant Federal agencies should continue to help the Insular Areas to find ways to obtain current, reliable health data and to reduce the cost and improve the quality of health care. The unique needs and circumstances of the Insular Areas should be taken into account in the Federal Government's planning for a possible avian flu pandemic.

c. Other Issues

i. Political Representation

The CNMI is the only U.S. territory that is not represented in the U.S. Congress. Each of the other territories, including a territory with a population smaller than that of the CNMI, has a nonvoting delegate to the U.S. House of Representatives. At a hearing before the House Resources Committee on February 25, 2004, the Administration testified in favor of granting the CNMI a nonvoting delegate to the House. The following is an excerpt from that testimony, which discussed the distinguished service in Iraq of two soldiers from the CNMI:

Capt. Pangelinan and Specialist Sablan have put their lives on the line so that the people of Iraq can achieve the dream of a democracy, in which every community is represented in an elected national government. Other servicemen and servicewomen from the CNMI are fighting so that the people of Afghanistan can achieve the same dream.

Mr. Chairman, these brave young men and women from Saipan, from Tinian, from Rota, have the same dream for themselves as they do for the peoples of Iraq and Afghanistan. They dream of being represented in the national legislature of their country, the country whose uniform they proudly wear, the country that they proudly defend. They dream that they will one day have the representation that has been afforded to every other state, territory and commonwealth in the American family.

Three soldiers from the CNMI have now been killed in action in Iraq.

Recommendation: The Administration should reaffirm its support for the granting of a nonvoting delegate to the U.S. House of Representatives from the CNMI.

ii. Submerged Lands

To the inhabitants of Micronesia, dominion over the seas surrounding their islands is an essential part of their cultural identity and heritage. The islands of Micronesia are small (Micronesia means "small islands") and generally resource-poor; Micronesians have therefore traditionally relied very heavily on the sea for food, transportation, and resources. The primary importance of their relationship with the sea has become deeply

ingrained into the collective consciousness of the Micronesian people. An understanding of this general cultural issue is helpful to understand the depth of emotion that underlies efforts by the CNMI to assert jurisdiction over the lands submerged off their shores.

In 1997, the CNMI brought suit to assert ownership, sovereignty, and exclusive jurisdiction over submerged lands and marine resources extending offshore to a distance of 200 miles. The claim is of the type that sovereign political entities surrounded by water would make to assert rights over a 200-mile “Exclusive Economic Zone.” The CNMI claimed that the U.S.-CNMI Covenant never transferred sovereignty of submerged lands to the United States. The Federal Government has disputed the claim, contending that the United States automatically obtained sovereignty over submerged lands when the CNMI came into being as a part of and under the sovereignty of the United States of America. The Federal District Court in Saipan ruled against the CNMI in August 2003, and this was upheld by the Federal Court of Appeals for the Ninth Circuit in February 2005. In March 2006, the U.S. Supreme Court effectively brought an end to the CNMI’s case by declining to review it.

The CNMI is the only U.S. territory that does not have rights to its submerged lands out to a distance of at least three miles from shore. The other territories received these rights through acts of Congress. In 2005, the Administration testified in favor of Senate Bill 1831, which would give the CNMI authority over its submerged lands out to three miles. The legislation is designed to give the CNMI the same rights with respect to its adjacent submerged lands as are enjoyed by Guam, American Samoa, and the U.S. Virgin Islands.

Recommendation: The Administration should reaffirm its support for granting the CNMI the same rights to its adjacent submerged lands as are enjoyed by Guam, American Samoa, and the U.S. Virgin Islands.