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**Before the
House Foreign Affairs Committee
Subcommittee on Asia and the Pacific**

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**Compact of Free Association with the Republic of Palau:
Assessing the 15-year Review**

Chairman Manzullo, Ranking Member Faleomavaega, and Members of the Subcommittee, I am here today to testify on the importance of our bilateral relationship with Palau as well as to discuss the Compact with Palau and proposed legislation approving the results of the mandated 15-year Compact Review. History has proven that this small Pacific island nation remains indispensable to our national security and other core interests in the Pacific. Current and future challenges convince us we must remain steadfast to a thriving relationship that delivers much more than it costs.

Our Compact with Palau took effect in 1994. It does not have a termination date and requires a review on the 15-year, 30-year, and 40-year anniversaries. Our two governments worked closely over 20 months of discussions and negotiations to conclude the recent 15-year review, which resulted in an Agreement my predecessor, Ambassador Frankie Reed, signed with President Toribiong in September of 2010. The legislation now proposed is to implement the Agreement. The Agreement and proposed legislation are the outcome of the review and the manifestation of the shared commitments between our two governments.

The proposed Compact Review legislation would amend Title I of Public Law 99-658 regarding the Compact of Free Association between the Government of the United States of America and the Government of Palau. In formal language, this bill would approve the results of the 15-year review of the Compact, including the Agreement between our two governments following the Compact of Free Association Section 432 Review. It appropriates funds for the purposes of the

amended PL 99-658 for fiscal years ending on or before September 30, 2024, to carry out the Agreement resulting from the review.

The Agreement does not change the 1994 Compact, except in so far as it will require Palauans coming to the United States under the Compact to have machine readable passports (instead of allowing them to come to the U.S. without passports). It will require them to decrease the amount of money the Compact allows Palau to take out of its Compact Trust Fund through FY 2023. In addition, Palau will be required to make meaningful economic reforms and, if the U.S. determines that insufficient progress has been made on economic reform, the U.S. may delay assistance payments until it deems sufficient progress has been made. The Agreement does other things that are not changes to the Compact but supplement it and result from a review of how the Compact worked over its first 15 years. In particular, the Agreement is intended to strengthen the Trust Fund so it will perform as the Compact framers intended. It is also designed to result in Palau adjusting to the level of assistance it will receive through withdrawals from the Trust Fund, once the payments under the Agreement end in FY 2023.

The Agreement is specifically designed to get Palau to adjust to the amount of money (\$15 million a year) the Compact allows it to withdraw from the Trust Fund through FY 2044. The Agreement does this in three ways. First, the Agreement provides a glide path for Palau to move from reliance on the over \$18 million it has been receiving (through a combination of direct assistance and Trust Fund withdrawals), to a \$15 million level. Second, the Agreement provides for U.S. contributions to the Trust Fund from FY 2013 through FY 2023 and decreases the amount Palau may withdraw from the Trust Fund during this period, to allow the Trust Fund to grow so that it will be sufficient to meet the purpose of providing \$15 million a year to Palau through FY 2044 and thus not give rise to request for further additional U.S. contributions in direct assistance or further U.S. contributions to the Trust Fund after FY 2023. Third, the agreement commits Palau to economic reforms.

TRANSITION TO INDEPENDENCE

Palau has been and continues to be a strong partner with the United States. It sits on the westernmost point of an arc from California to the Philippines and anchors a security zone that safeguards U.S. interests in the Pacific. Our relationship was born after terrible battles in World War II, notably at Pelelieu in Palau, and has been built over the decades since 1945.

Shortly after the end of World War II, the United Nations assigned the United States administering authority over the Trust Territory of the Pacific Islands, which included Palau and island districts of Micronesia that we had liberated from Japanese occupation. Palau adopted its own constitution in 1981, and the governments of the United States and Palau concluded a Compact of Free Association that entered into force on October 1, 1994. The Compact fulfills our two government's collective commitment to Palau's self-governance in accordance with the freely expressed wishes of the Palauan people. The Compact also provides for an important element of our Pacific strategy for defense of the U.S. homeland and allows us to carry out important foreign policy objectives.

PALAU REMAINS A FRIEND AND RELIABLE PARTNER

The United States paid dearly in blood in World War II to free Palau. More than 3,000 American soldiers lost their lives and more than 10,000 were wounded in the Battle of Peleliu, one of the bloodiest battles of World War II. Mr. Chairman, the battle for Palau is a story that every American should understand and that generations before us have acknowledged as creating a sacred trust to remember and honor.

Rising from the ashes of the war, with the strong and steady bipartisan support of the American people, Palau rebuilt its infrastructure and modeled its government upon the principles of democracy, human rights, and fundamental freedoms. President Toribiong recently signed an Executive Order designating the last Monday of May Memorial Day in Palau, an official holiday. On this day, the people of Palau honor those who paid the ultimate sacrifice to defend the freedom and democratic principles we all enjoy today. Palau remains a strong reliable partner and continues to share our values.

The United States can count on Palau to vote with us on controversial issues in multilateral fora. On a number of important resolutions in the General Assembly over the past year, Palau stood by us and provided critical votes. Palau has voted with the United States on controversial resolutions related to Israel 100 percent of the time and on human rights issues 93 percent of the time. Palau's overall voting coincidence with us is about 90 percent, compared to United Kingdom at 67 percent, Canada at 66 percent, Australia at 63 percent, New Zealand, Japan and South Korea at 49 percent. Additionally, Palau has voted repeatedly with the United States on the U.S. embargo on Cuba. In 2009 Israel and Palau were the only two countries that voted with the United States on the Cuba embargo.

Although Palau is a steadfast and committed friend of the United States, China, the Arab states, and Russia are actively courting Palau and the other Pacific island nations. These countries seek to build influence in the region. The United States must maintain and strengthen its relationship with Palau by maintaining our strong friendship and upholding our commitments as set forth in the Compact.

The results of the 15-year Compact Review as reflected in the proposed legislation nurture our unique relationship. By supporting the Compact Trust Fund, the United States contributes to Palau's development and secures our security interests. Our contribution represents a vital link between our two countries. Implementation of the results of the Compact review will send a reassuring signal to Palau and others in the Pacific region and beyond that the United States follows through on its commitments, in good times and in difficult times. These are indeed difficult times for us. However, it is essential to our long-term national interests to make sure that the United States remains true to its identity as a Pacific power. Meeting vital interests more than six decades ago, the United States invested blood and treasure. Today, it remains in our strategic, political and economic interests to nurture Palau's young democracy, support its development and increase its self-sufficiency.

THE UNITED STATES' POSITION AS A PACIFIC POWER

Mr. Chairman, our identity as a "Pacific power" was, in many ways, forged on the beaches of the Pacific during World War II.

The importance of our special relationship with Palau is most clearly manifested in the U.S. defense posture in the Asia-Pacific region, which forms a north-south arc from Japan and South Korea to Australia. Maintaining U.S. primacy in the Pacific depends on our strong relationship with the Freely Associated States of Palau, the Marshall Islands and the Federated States of Micronesia, which along with Hawaii, Guam, the Commonwealth of the Northern Mariana Islands, and American Samoa comprise an invaluable east-west strategic security zone that spans almost the entire width of the Pacific Ocean.

Additionally, critical security developments in the region require the United States' sustained presence and engagement, particularly given the range of U.S. strategic interests and equities in the Western Pacific. Essential elements of our presence include the Reagan Ballistic Missile Defense Test Site on U.S. Army Kwajalein Atoll and disaster relief operations throughout the region. This posture will become increasingly important as regional powers become active and seek to

supplant U.S. military leadership and economic interests in the region. Following through on our commitments to Palau, as reflected in the proposed legislation, buttresses our defense posture in the Western Pacific.

Palau does not maintain its own military forces, but under the terms of our Compacts, their citizens are eligible to serve in the U.S. Armed Forces. And they do. Palauan citizens volunteer in the U.S. military at a rate higher than in any individual U.S. state. Approximately 200 Palauan men and women serve in our military today, out of a population of about 14,000. Palau is indeed a strong partner. We are grateful for their sacrifices and dedication to promoting peace and fighting terrorism. Palau has deployed soldiers for U.S. coalition missions and participated in U.S.-led combat operations in the world's most difficult and dangerous places, including Afghanistan and Iraq, where several Palauans have lost their lives in combat.

President Toribiong's niece and Minister Jackson Ngiraingas' son both serve in the U.S. Navy. The son of Minoru Ueki, Palau's Ambassador to Japan, serves in our army. Palau Paramount Chief Reklai has a daughter and son in the Army. Palau's Ambassador to the United States Hersey Kyota has two adult children serving in the Armed Forces. He has several nephews serving in the Army and Marine Corps. Similarly, many other Palauan sons and daughters of other government officials and of ordinary Palauan citizens served honorably in U.S. military units over the past decades and most recently in Afghanistan and Iraq.

The Compact and our continued commitment to Palau, as manifested in the proposed legislation, reinforce an important element of our Pacific strategy for defense of the U.S. homeland. As you will hear from my colleague from the Department of Defense, the U.S.-Palau Compact includes provisions that put Palau off limits to the military forces of any nation, except the United States. The United States enjoys access to Palauan waters, lands, airspace, and its Exclusive Economic Zones (EEZ), a vital asset for our defense and security needs. Our relationship with Palau allows the United States to guard its long-term defense interests in the region.

CONTINUED COMMITMENT BEYOND DEFENSE INTERESTS

The importance of our strong relationship with Palau extends beyond defense considerations. Palau works closely with the U.S. to detect and combat international crime and terror. In 2009, Palau resettled six ethnic Uighur detainees from Guantanamo at a time when few other countries were willing to step up.

Palau was the first island partner to sign the U.S. Coast Guard ship rider and ship-boarding agreements that bolster law enforcement in the vast Pacific region.

Our people-to-people ties continue to grow. Since 1966, more than 4,200 Peace Corps Volunteers taught English, offered life skills education, and supported economic development, education, capacity building, and marine and terrestrial resource conservation in Palau and in the two other Freely Associated States. Today approximately 55 Peace Corps volunteers serve in Micronesia and Palau.

THE IMPORTANT POSITION OF PALAU

Mr. Chairman, the President, Secretary Clinton, and others in this Administration deeply appreciate the historic World War II legacy of the Pacific and the strategic role it plays, particularly in keeping the Pacific Islands allied with the United States. Today, we find ourselves in a tumultuous global political environment that calls for wisdom and long-term strategic vision. Our investment in Palau will help to ensure that Palau will be able to achieve budgetary self-sufficiency over time and continue to stand with us as a staunch, dependable, and democratic ally.

Palau's stable government is modeled on our own. Palau shares our vision on important international goals for human rights and democracy. The maturity of the democratic process in the relatively young state of Palau is a testament to the strong values of the people of the Pacific and reinforces the value of the Compact as a vehicle for their transition to greater self-sufficiency.

Palau was the first insular area, including the U.S. territories, to get a unqualified audit opinion on the government's financial statements. Palau puts a great deal of care into maintaining a pristine environment, especially by addressing critical areas of energy, water, sewer, and transportation. They understand the importance of continuing efforts to operate within a balanced budget.

Under the Agreement, Palau will do its part financially. The Agreement sets up a fund for the routine and periodic maintenance of major capital improvement projects financed by the United States. The Agreement requires Palau to contribute \$150,000 to the maintenance fund on a quarterly basis for fourteen years through FY 2024. Under the Agreement, Palau will also contribute, not by financial outlays, but by making hard economic adjustments. Palau is committed to reforms such as improvements in fiscal management, including the elimination

and prevention of operating deficits; reductions in the national operating budget; reductions in the number of government employees; reductions in the amount of the national operating budget dedicated to government salaries; and a reduction of government subsidization of utilities, and meaningful tax reform.

Palau is a steadfast friend to the United States. We must remain true to our commitment to the people of Palau. The bottom line is that Palau is an irreplaceable and loyal partner, who shares our interests in preserving regional and international security. Failing to affirm the results of the 15-year review of the Compact with Palau is not in our national interest. We appreciate the interest and leadership of this Committee in considering this legislation promptly and hope both the Senate and the House will pass it this session.

Mr. Chairman, although the Department of the Interior is responsible for implementing and funding the Compact programs, I would like to say a few words about the assistance package resulting from the 15-year review. The direct economic assistance provisions of the Compact expired on September 30, 2009. The outcome of the 15-year review resulted in an assistance agreement that, adjusted for amounts already provided, would provide \$201 million to Palau over the next 13 years and enable Palau to transition to reliance on a \$15 million a year withdrawal from its trust fund, instead of the \$13 million in direct assistance and \$5 million from its trust fund that it has come to rely on. The assistance package is designed to ease Palau off of U.S. direct economic assistance as it continues to grow and reform its economy. As a result of the Compact review, Palau will have continued eligibility for a wide range of Federal programs and services from agencies such as the U.S. Postal Service, federal weather services, the Federal Aviation Administration, the Department of Agriculture, and Health and Human Services.

If the bilateral Agreement between our two countries is not implemented, the trust fund would be unable to provide a steady outlay of \$15 million a year, from now until 2044, which was the intended purpose of the Compact negotiators in the 1980s. For the smooth continuation of our bilateral relationship as well as the continued economic development and advance of self sufficiency, it is crucial that we provide Palau the assistance agreed to in the Compact review.

If the Agreement is not implemented, Palau will not have had time to adjust to the reduction from \$18 million to \$15 million in combined direct assistance and trust fund withdrawals on which it has been relying, and will not have embarked on the reforms called for in the September 2010 agreement. There will be a shock to

the Palauan economy from the \$3 million reduction in assistance (between direct assistance and trust fund withdrawals), and serious damage to our bilateral relationship in a key region of the world.

Mr. Chairman, in closing I would like to emphasize that Palau, a small island country far away in the Pacific, was our protectorate and is now our ally. The people of Palau are woven into the American fabric, serving with distinction and honor in our military and living and working beside us in the United States. Thanks to its geography, Palau is a unique outpost in our security arc in the Pacific. It is a place America liberated with its blood and that now helps us protect the western flank of our homeland. As the economic center of gravity continues to shift to the Asia Pacific, the vital importance to U.S. interests of a stable, increasingly prosperous and democratic Palau continues to grow.

I hope that my testimony today, coupled with that of my colleagues from the Department of the Interior and the Department of Defense, gives you a more robust and complete picture of the key role played by the Compact in not only cementing our partnership with Palau, but also in serving the interests of the United States.

I look forward to working with you and other Members of Congress to secure and advance U.S. interests in Palau by passing the legislation implementing the results of the Compact review.

Thank you again for giving me the opportunity to testify before you today and to clarify the importance of this legislation. I look forward to answering your questions.