

STATEMENT
OF
ESTHER P. KIA'AINA
ASSISTANT SECRETARY FOR INSULAR AREAS
DEPARTMENT OF THE INTERIOR

BEFORE THE
HOUSE SUBCOMMITTEE ON INDIAN, INSULAR AND ALASKA NATIVE
AFFAIRS

REGARDING
H.R. 4531, TO APPROVE AN AGREEMENT BETWEEN THE UNITED STATES
AND THE REPUBLIC OF PALAU

JULY 6, 2016

Chairman Young and the members of the Subcommittee on Indian, Insular and Alaska Native Affairs, I am pleased to appear today to discuss the importance of approving the 15-year Compact of Free Association Review Agreement between the United States and the Republic of Palau.

H.R. 4531 would approve the 15-year Review Agreement under the Compact of Free Association between the United States and the Republic of Palau with some modifications.

As required in the original Compact of Free Association between the Republic of Palau and the United States, which was incorporated into Public Law 99-658 on November 14, 1986, and entered in force in 1994, a 15-year review was conducted. This resulted in a Compact Review Agreement that was signed on September 3, 2010, primarily revising the U.S. economic assistance aspects of the Compact. The Review Agreement called for U.S. payments to Palau totaling \$229 million through fiscal year 2024. The planned assistance included direct economic assistance to Palau, infrastructure project grants, contributions to an infrastructure maintenance fund, a fiscal consolidation fund, and contributions to the Compact trust fund. Because the agreement has not yet been brought into force, the United States, through the U.S. Department of the Interior, has made annual payments, beginning with fiscal year 2010, of approximately \$13.1 million a year, for a total

of \$92 million in discretionary funds thus far. In the absence of an approved revised Compact agreement, the annual funding stream has been limited to direct economic assistance, leaving the other planned commitments in the Review Agreement unfunded. Currently, the United States government needs to provide \$149 million to meet the requirements of the Compact Review Agreement, which includes \$12 million for the U.S. Postal Service.

U.S. commitments under the Compact Review Agreement and this proposed legislation are important. But also vital is the commitment of Palau to the economic, legislative, financial, and management reforms contained in the 2010 Review Agreement. The Agreement requires the two governments to establish an advisory group to recommend reforms in these areas. Palau will be assessed on its progress in such reforms as the elimination of operating deficits, reduction in its annual budgets, reducing the number of government employees, implementing meaningful tax reform and reducing subsidies to public utilities. Most importantly, if these reforms are not undertaken, the United States would be able to delay all or part grant or other assistance until sufficient progress is made. These reforms would help ensure that Palau continues to take meaningful steps toward financial accountability and efficiency to increase Palau's long-term economic stability.

On February 22, 2016, the Secretary of the Interior re-transmitted draft legislation to Congress, along with the Departments of State and Defense, to implement the Review Agreement and provide \$149 million, the remaining funding required to bring the Palau Compact Review Agreement into force. On March 1, 2016, Senators Lisa Murkowski, Maria Cantwell, and Mazie Hirono introduced S. 2610, the Administration's updated bill for approving the 15-year Palau Compact Review Agreement. On April 5, 2016, I testified before the Senate Energy and Natural Resources Committee on behalf of the Administration in support of the enactment of S. 2610. The Senators worked to include funding the Compact Review Agreement as an amendment to the Senate version of the National Defense Authorization Act for FY 2017. The Administration supports including language approving the Compact Review Agreement in a final NDAA for fiscal year 2017.

H.R. 4531 differs from S. 2610 in several respects. H.R. 4531 provides \$149 million to fund the Palau Compact Review Agreement, but it also provides for several additional U.S. financial commitments that would significantly increase the total costs that were discussed and rejected or compromised upon during the negotiations in 2008-09. This includes an additional \$3.9 million for economic assistance, an inflation adjustment provision projected to cost \$13.2 million, and \$1.5 million in fiscal year 2016 funding for the U.S. Postal Service. In addition,

the bill does not account for \$13.1 million in discretionary economic assistance for fiscal year 2016, which have already been appropriated for Palau. These items bring the total cost of H.R. 4531 up to \$180.8 million or \$31.8 million over S. 2610.

The relationship between the United States and the Republic of Palau is grounded in shared history, friendship, and a strong partnership in national security, especially with respect to the Asia-Pacific region. In the storied Battle of Peleliu, in Palau, more than 1,500 American servicemen lost their lives, and more than 8,000 were wounded, resulting in one of the costliest battles in the Pacific in World War II. After the war, the United States assumed administrative authority over Palau as part of the United Nation's Trust Territory of the Pacific Islands. In 1994, the people of Palau expressed their desire, in a plebiscite, to become a sovereign nation in free association with the United States under a Compact of Free Association.

The Compact provides U.S. military forces full authority and responsibility for security and defense matters in and relating to Palau. The United States has the extraordinary advantage of being able to deny other nations' military forces or personnel access to Palau, an important element of our Pacific strategy for defense. The Compact has also helped strengthen democratic principles and economic stability in Palau, and stabilizing the larger Micronesia region which includes the U.S. territory of Guam and the Ronald Reagan Ballistic Missile Test Range on Kwajalein Atoll in the Marshall Islands.

In addition to the important historical and security relationship, Palau has consistently demonstrated a commitment to the U.S.-Palau partnership. Palauan nationals have served in U.S. coalition missions and participated in U.S.-led combat operations. Palauan citizens volunteer in disproportionately large numbers in the U.S. military compared to its population. At the United Nations, Palau has voted with the United States more than 95 percent of the time.

Approving the Agreement with Palau is important for the national security of the United States, our bilateral relationship with Palau, and stability in the Western Pacific region.

The Administration continues to support strongly the approval of the 15-year Palau Compact Review Agreement as contemplated in S. 2610.