

**Testimony of Frankie Reed
Deputy Assistant Secretary of State
Bureau of East Asian and Pacific Affairs
U.S. Department of State**

**Before the
Senate Committee on Energy and Natural Resources**

June 16, 2011

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

Chairman Bingaman, Senator Murkowski, and Members of the Committee, 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 and true to a thriving relationship that delivers much more than it costs in dollars and cents.

Our Compact with Palau was concluded 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 negotiations to conclude the 15-year review last September, which resulted in an agreement I signed with President Toribiong. The legislation now proposed to implement the agreement is the outcome of that review and is the manifestation of the shared commitments between our two governments.

The Palau Compact Review legislation amends 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 approves 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 agreements resulting from the review.

Palau has been and continues to be a strong partner with the United States. Its location on the westernmost point of an arc from California to the Philippines creates a security zone that safeguards U.S. interests in the Pacific. That relationship was born in World War II and has been built over the decades since 1945.

TRANSITION TO INDEPENDENCE

Allow me to look back to the end of World War II. In 1947, 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. During that period, the United States built roads, hospitals and schools and extended eligibility for U.S. federal programs in the Trust Territory. In the following years, the trustee islands sought changes in their political status. 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 solemn 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'S SUPPORT OF THE UNITED STATES

Mr. Chairman, the United States paid dearly in blood in WWII to free Palau. It is a story that every American should understand and that generations before us have seen as creating a sacred trust to remember and honor.

Rising from those ashes, with the strong and steady 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. On May 30, President Toribiong and our U.S. Ambassador to Palau laid wreaths on the grounds of the WW II monument in Peleliu State. More than 2,000 American soldiers lost their lives and more than 10,000 were wounded in the Battle of Peleliu, one of the bloodiest battles of WW II. Palau remains a strong reliable partner and continues to share our values through these historic ties.

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. For example, 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 at 87 percent.

Although Palau is a steadfast and committed friend of the United States, China, the Arab states, Cuba and others are actively courting Palau, and the other Pacific island nations, as they 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 subsequent 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 sends 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.

U.S. Defense Interests in Palau

Mr. Chairman, the United States and the people of the Pacific have fought side-by-side. 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, American Samoa and

the smaller U.S. territories 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 increasingly 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 who punches well above its weight. 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. Since 9/11, at least six Palauans lost their lives in combat.

Just this year, Sgt. Sonny Moses was killed in Afghanistan while serving with his comrades providing computer training to Afghan citizens. Sgt. Moses was the youngest of eight children of Mr. and Mrs. Sudo Moses and when his body came to Palau for burial, three of his siblings came home in U.S. uniform. Of the family of eight, four chose to serve in the United States military. And during the motorcade for his procession to the Capitol the streets of Koror were lined with citizens waving U.S. and Palauan flags. This sad occasion shows just how close the ties between the United States and Palau truly are.

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, will reinforce an important element of our Pacific strategy for defense of the U.S. homeland. As you will hear from Deputy Assistant Secretary of Defense Robert Scher, the U.S.-Palau Compact includes provisions that close Palau 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.

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 ADMINISTRATION'S PACIFIC STRATEGY

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. An investment in Palau today will help to ensure Palau will continue to stand with us as a staunch, dependable, democracy tomorrow.

Palau is important, but why enact the U.S.-Palau Legislation now?

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 as relatively young a state as 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 clean audit opinion on the government's financial statements. Public facilities are in good repair, and 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.

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.

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 provides \$215.75M to Palau over the next 14 years and enables 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 included in the legislation, which provides approximately \$215 million to Palau divided over the next 14 years, reflects an effort 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. The Trust Fund suffered considerable shrinkage as a result of the recent global financial crisis. For the smooth continuation of our bilateral relationship, it is crucial that we provide Palau the assistance agreed to in the Compact review.

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. The economic center of gravity continues to shift to the Asia Pacific, and the vital importance of a stable, increasingly prosperous and democratic Palau to U.S. interests in this dynamic region continue 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, has given 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.