

**Testimony of Edgard Kagan  
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**

**July 11, 2013**

**The Compact Review Agreement between the United States and Palau**

Chairman Wyden, Ranking Member Murkowski, and Members of the Committee, thank you for inviting me to appear before you 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 review of the Compact. Let me just take a moment to thank you for introducing S.1268, which is identical to the legislative language proposed by the Administration to approve the Agreement.

Our relationship with Palau is a key aspect of the Administration's focus on our engagement, based on our history, our values, and our national interest, with the Asia-Pacific region, and specifically on ensuring that we increase our engagement with Pacific Island nations as we look forward to what the President has called the "Pacific Century." I know that several members of the Committee met recently with the President of Palau, Tommy Remengesau, Jr., and members of the Palau legislature, during his visit to Washington last month. Secretary Jewell, several other members of the Administration and I met with his team to discuss this legislation, and other important issues in our relationship, during that visit. I was fortunate during the first few weeks in my current position, almost exactly one year ago, to be able to travel with then-Assistant Secretary for East Asian and Pacific Affairs Kurt Campbell to the region, including to Palau. Secretary Clinton's participation at the Pacific Islands Forum in August 2012 was the first by a Secretary of State in its 41-year history and marked a historic high-water mark of engagement by the Administration with our Pacific partners, including Palau. In Palau, I was able to meet with several senior Palauan government officials, who repeatedly asked about the status of the legislation, passage of which is their highest priority in working with the United States. All of these events and meetings have demonstrated the excellent relationship we enjoy

with the people of Palau, the genuine friendship they share with the United States and the importance the Administration places on this relationship.

### **Palau: A Friend and Reliable Partner**

Mr. Chairman, the vast stretch of the Pacific and the island countries that reside within it share an integral connection to our western border and are critical to our national security. Linking many of our close friends and allies, from Japan and Australia to Palau, Papua New Guinea, and Tonga, the Pacific region forms a crucial security arc that stretches from California to the Philippines, from Alaska to New Zealand. Our presence and ties to our partners in the Pacific not only safeguard our security interests, they also guarantee access to the critical sea lanes through which much of our trade flows. Among our many friends and partners in the region, we have perhaps none stronger than Palau, a country for which we paid a steep price in blood and treasure to liberate in 1944.

Our relations with our Pacific partners are unfolding against the backdrop of a shifting strategic environment, where emerging powers in Asia and elsewhere seek to exert a greater influence in the Pacific region, through development aid, people-to-people contacts, and security cooperation. There is continued uncertainty in the region about the United States' willingness and ability to sustain the robust forward presence in the Pacific that has been a hallmark of much of the last 60 years. That is why the Administration has put such an effort into increasing our engagement not only with mainland and maritime Asia, but with the Pacific as well.

With respect to our foreign policy goals in the region, I think we have two critical tasks that touch on our historic relationship with Palau. First, we have to sustain and reinforce our full authority and responsibility for the security and defense of Palau. We have no greater responsibility in the eyes of the Palauan people, and I know that we, and the other federal agencies that work with Palau, take that responsibility very seriously. Second, we have to ensure that our partners in the Pacific, including Palau, continue to work with us and support our common goals in regional and multilateral fora, on everything from fisheries management to human rights to countering the proliferation of weapons of mass destruction.

Under the Compact of Free Association, the United States provides for the security of Palau, which occupies a strategic position in the Western Pacific. This security relationship gives us access to Palau and its waters, along with the critical authority to deny such access by military forces and personnel of other nations. While we have welcomed for many decades a peaceful and positive approach to

relations in the Pacific by all parties, the relatively modest annual cost associated with the proposed legislation is leveraged many times over in the important strategic advantages this arrangement confers on the United States.

As a result of our security guarantee, Palau does not maintain its own military forces, but under the terms of our Compact, their citizens are eligible to, and do, serve voluntarily in the U.S. Armed Forces. Palauan citizens volunteer in the U.S. military at a rate higher than in any individual U.S. state. Approximately 500 Palauan men and women serve in our military today, out of a population of about 14,000. 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 seven Palauans have lost their lives in combat.

Palau's Ambassador to the United States, Hersey Kyota has a son, who is a staff sergeant in the Army and a daughter, who is also a staff sergeant in the Air Force. He also has one nephew, who is a sergeant in the Marine Corps and another nephew in the Army. Kyota also has other close relatives in the U.S. Armed Forces. The son of Minoru Ueki, Palau's Ambassador to Japan, serves in the U.S. Army. Palau Paramount Chief Reklai has a daughter and son in the Army. Similarly, many other Palauan sons and daughters of other government officials and of ordinary Palauan citizens served honorably in U.S. military units since the Compact has been in place.

In addition to our specific responsibility for the safety and security of the Palauan people under the Compact, given the wide range of U.S. strategic interests and equities in the Western Pacific, security developments in the region require our sustained presence and engagement. The Reagan Ballistic Missile Defense Test Site on Kwajalein Atoll, the presence of U.S. Armed Forces, including the U.S. Coast Guard, in Guam and in the waters of the Pacific, and our disaster relief operations throughout the region are all crucial to peace and security not only for the region, but for the United States. Keeping our commitments to Palau, as reflected in S.1268, reinforces our defense posture in the Western Pacific, and therefore our strategic interests. Working closely with the Palauan government, we are able to better protect and conserve its resources, while our access to Palauan waters, lands, airspace, and its Exclusive Economic Zones (EEZ), facilitate mutual economic benefits and allows us to guard and protect our long-term interests in the region.

With respect to the second goal of maintaining and strengthening our relationship, Palau is among our strongest supporters in regional and multilateral fora. In the former, Palau has been an ardent advocate for enhanced U.S. participation and engagement in the Pacific Islands Forum, the Secretariat of the Pacific Community and other regional bodies. Palau has been a constructive partner in our successful effort to work with Pacific Island nations to extend, and eventually renew, the South Pacific Tuna Treaty.

At the 67<sup>th</sup> General Assembly of the United Nations in 2012, Palau's voting coincidence with the United States on all votes was approximately 97 percent, which is markedly higher than 74 percent for the United Kingdom, 71 percent for Australia, 57 percent for Japan, and 61 percent for the Republic of Korea. Despite an increase in assistance from others interested in enhancing their engagement with the region, such as China, Russia, and the Arab League nations, Palau has not only supported the United States on Israel and Cuba-related votes but was one of only a handful of nations that voted with the United States on the divisive motion to grant Palestine "non-member observer state" status in the UN. Palau has supported UN resolutions seeking to combat the spread of weapons of mass destruction, and joined in efforts to address systematic human rights abuses in North Korea, Syria, and Iran.

### **Our Partnership Extends Beyond Defense**

The importance of our strong relationship with Palau is not limited to defense. We work closely with Palau in the fight against international crime and terror. In 2009, Palau resettled six ethnic Uighur detainees from Guantanamo, the first country to stand up to support our efforts, when few other countries were willing to do so. Palau was our first island partner to sign the U.S. ship rider and ship-boarding agreements that are successfully increasing maritime surveillance and law enforcement cooperation in the Pacific Islands.

### **Shared Responsibility as a Compact Partner**

The original process that led to our Compact with Palau was based on a solemn promise to help this young nation through financial, security, and other assistance to achieve self-governance and a sustainable economic development path. The effort that has gone into the 15-year Compact review and the positive contribution of Members of both chambers of Congress to work towards implementation of those arrangements is a symbol of our good faith and partnership, not just in Palau, but also among all our Pacific partners.

The timing of this review could not be more important. We are now at a point where the goal of self-governance and democracy in Palau is firmly in place. The goal of sustainable economic development and independence, however, remains a work in progress. The tiered nature of the support agreed to in this 15-year review agreement is designed to reduce Palau's dependence on U.S. direct economic assistance and assist Palau in moving towards sustainable economic independence. Importantly, it also requires the Palauan government to continue undertaking serious economic and fiscal reforms, and, should the United States determine that progress towards such reform is inadequate, we are able to withhold further assistance until they are implemented.

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. The direct economic assistance provisions of the Compact, however, expired on September 30, 2009. Our two governments worked closely over 20 months of discussions and negotiations to conclude the 15-year review, which resulted in an Agreement, signed by former Deputy Assistant Secretary Frankie Reed and former President Toribiong in September 2010. If approved, S. 1268 will implement the outcomes of that Review and is the manifestation of the shared commitment between our two governments. In support of our relationship with Palau, the Departments of Defense, State and Interior resubmitted draft legislation to Congress. The Agreement provides a glide path for Palau to move from reliance on the over \$18 million it has been receiving to a sustainable \$15 million level, 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. The Agreement has other provisions that supplement the Compact, resulting from a review of how the Compact worked over its first 15 years. The Agreement will also require Palauan nationals coming to the United States under the Compact to have machine readable passports (instead of allowing them to come to the United States without passports).

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, backed by Senate and House concurrence, in the 1980s. To ensure smooth continuation of our bilateral relationship as well as the continued economic development and advance of its self sufficiency, it is crucial we provide Palau the assistance agreed to in the Compact review.

## **Supporting Palau's Transition to Independence**

Our history with Palau began in bloody battle in 1944. It was a sense of duty, and the understanding that Palau was important then to our strategy in the Pacific, that led thousands of Marines ashore to free Palau from colonialism and occupation. Palau remains important now, and that same duty has led the United States down a long road of partnership with the people of Palau from liberation to trusteeship and, finally, to independence. That steadfast commitment to our friends has been noted not just in Palau, but across the Pacific.

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.

With a government modeled on our own, Palau shares our goals for human rights and democracy throughout the world. Palau has shown maturity of a much older nation in its democratic processes, which is a testament to the commitment to strong values the people of the Pacific have, and reinforces the value of the Compact as a vehicle for transition.

Palau has been a staunch ally to the United States, and it is essential we stand by our commitment to the people of Palau. The Palauan people have been loyal and dedicated partners, but they are concerned about their future and that of their grandchildren. Palau is as interested in regional and international security as we are. 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 House and the Senate will pass it before the end of the year.

Senator Inouye of Hawaii was perhaps the most important example to the people of the Pacific of the American generation that fought in World War II and its aftermath. As his generation passes and other emerging powers seek to increase their influence in the region, passage of this legislation will send a reassuring signal that the United States is and will be engaged in the Pacific and will remain a faithful friend and ally through both good and challenging times.

## **The Importance of Implementing the Agreement**

Mr. Chairman, Secretary Kerry, and others in this Administration deeply appreciate not only the rich and historic World War II legacy of the Pacific, but also the continuing strategic role those islands and waters play globally. The Administration places great importance on continuing our strong alliance with Pacific Island partners. I recently visited the battlefield of Peleliu, where more than 1,700 U.S. Marines and other servicemen were lost liberating the island, a necessary step towards the eventual liberation of the Philippines and the seizure of other key island bases that helped bring the war to a close. I met with Palauans who are working with partners in the United States to identify personal effects that still remain on the battlefield and to return them to family members in the United States nearly seventy years later. These efforts are emblematic of our shared history and the deep connections that have been forged in the decades since World War II. In the current political environment in the Pacific region, it is paramount that we maintain those ties and continue to develop our strategic framework for a peaceful future in the region. Our investment will help to ensure that Palau becomes financially independent over time and continues to stand with us as a loyal, trustworthy, and democratic ally.

In today's dynamic Pacific environment, others in the region closely watch how the United States treats its new and old friends. Changing out engagement with Palau could affect the way others view our commitment to the region. It is likely that Palau would face offers of assistance from other nations expanding their reach in the Pacific to fill the void we would leave.

I hope that my testimony today gives you an understanding and sense of how the Compact deepens our partnership with Palau and serves 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 before the end of the year.

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.