



**STATEMENT OF  
THE HONORABLE HERSEY KYOTA,  
AMBASSADOR OF THE REPUBLIC OF PALAU**

**HEARING OF THE SUBCOMMITTEE  
ON INDIAN, INSULAR AND ALASKA NATIVE AFFAIRS,  
COMMITTEE ON NATURAL RESOURCES,  
UNITED STATES HOUSE OF REPRESENTATIVES,  
ON H.R. 4531, TO APPROVE AN AGREEMENT BETWEEN THE UNITED STATES AND THE  
REPUBLIC OF PALAU, AND FOR OTHER PURPOSES.**

**July 6, 2016**

The Government of the Republic of Palau would like to express its appreciation to Committee Chairman Rob Bishop and Ranking Member Raul Grijalva and to Subcommittee Chairman Don Young and Ranking Member Raul Ruiz for this hearing today and for inviting the Government of Palau to testify. Many members of the Subcommittee are long-time friends of the people of Palau and we are thankful for that. We particularly thank Delegate Gregorio Sablan for introducing and pushing forward H.R. 4531 to approve the Compact Review Agreement entered into September 3, 2010, between the Republic of Palau and the United States.

The Agreement continues the critical relationship between Palau and the United States under the Compact of Free Association between our two countries by implementing the results of the Compact mandated review of the relationship and Palau's economic progress. That review found the Compact relationship to be strong. It found further that, while Palau's economic and governmental accomplishments are significant and firmly in place, Palau's economy remains fragile and has not achieved full economic self-sufficiency as envisioned in the Compact. In particular, the Compact trust fund could not provide sufficient annual funding because it over-optimistically assumed that it would grow at 12.5% per annum. As a result, the trust fund cannot support adequate annual draws to allow an end to dependence on U.S. annual direct economic assistance.

The Agreement addresses these issues by setting out a path to economic self-sufficiency for Palau and to the end of annual direct economic assistance from the U.S. by 2024 through a combination of: continued limits on withdrawals from the Compact trust fund, additional funding of the trust fund beginning in fiscal year 2011, and declining annual U.S. direct economic assistance ending in 2024. It also addresses other needs by providing funding for infrastructure development and maintenance and other mutually identified needs. The Agreement also provides for continued governmental improvements in Palau which is regularly recognized for its effective government operations.

The Agreement was intended to go into effect in Fiscal Year 2011 but has not yet been approved by the Congress. H.R. 4531 addresses this six-year delay through two principles – make funding as close as possible to what was originally agreed upon without further delay and adjust funding to compensate for the costs of the delay. In particular, H.R. 4531 modifies the Agreement to bring current all funding agreed to be provided in prior fiscal years, to provide future funding when agreed upon, to adjust funding by two-thirds of the rate of inflation as provided in the Compact, and to assign to the U.S. certain annual audit costs consistent with what is already in the Compact. Without these adjustments, the Agreement's objectives cannot be met. H.R. 4531 does need minor amendments to change the starting fiscal year to 2017. We are prepared to work with the Subcommittee to use H.R. 4531 as a means to finally implement the Agreement.

The Government of Palau has been provided an information copy of a proposal concerning the Agreement made to Congress this year by the U.S. Executive Branch. We have not been consulted about either this proposal or its approach. The proposal is a matter of concern because it harms Palau by further delaying payments under the Agreement and provides no adjustment for the costs of the U.S. delay. The proposal is even further harmful to Palau because it drastically reduces economic assistance available to Palau in the first few years in order to aggressively take back alleged excess funding (approximately \$7 million over six years or about \$1.2 million per year) paid to Palau because of the U.S. need to use continuing resolutions to meet its obligations.

Palau did not choose to have this delay or the uncertainty of relying on CR funding. The U.S. Executive Branch proposal lacks any rationale and has a negative and punitive tone. It is not clear that a proposal like this can be approved in Palau.

Palau understands that there are budget rules and issues that have impeded U.S. approval of the Agreement notwithstanding support from all across the U.S. government and the strong relationship between our two countries. How this is resolved is obviously a matter to be decided by the U.S. and not Palau. However, the resulting delay is not understood by and is a matter of great frustration among the people of Palau and its friends in the Pacific. The people of Palau are patient but their patience is being seriously tested.

Approval of the Agreement is now critical – not just for Palau but because of the dynamic changes occurring in the Western Pacific. For Palau, the continued U.S. delay creates an obstacle to Palau's continued economic growth and progress toward self-reliance. This uncertainty affects the confidence of domestic and potential foreign investors. It also creates delays in critical public infrastructure investments, delays in funding for maintenance of existing economic infrastructure, and delays in initiating the closer coordination and oversight of needed economic policy improvements called for under the Agreement. While Palau has already implemented some of the parts of the Agreement, including governmental improvements, all other Agreement objectives are delayed and made even more difficult.

From an international perspective, the U.S. delay is very problematic. As noted by many members of Congress and in numerous U.S. Executive Branch statements, Palau is one of the United States' strongest allies, a security bulwark in the Western Pacific, and a success story for democratic and economic development. Palauans have a very high enlistment rate in the U.S. military (some have paid the ultimate sacrifice). Other nations in the Pacific are watching whether and how the United States acts in meeting its commitments to such a well-known, close U.S. ally. The continued U.S. failure to implement an agreement central to its relationship with Palau is having an impact on how the United States is viewed both within Palau and throughout the Asia Pacific region. Nations with

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antithetical agendas are trying to move into what they perceive to be a vacuum and are creating their own economic incentives.

The people of Palau appreciate that the United States has stood with Palau on both security and economic matters for many years since the end of World War II. Palau has likewise been a strong friend of the United States. Palau wants to continue, and believes the United States also wants to continue, this very successful and effective across the board close relationship. We believe implementation of the Agreement can be accomplished with the same good will that governs our relationship. We are most appreciative of your support for Palau and we hope you can help reach solutions that will allow prompt approval of the Agreement in the U.S. and in Palau.

Again, thank you for inviting Palau to participate today. I will be pleased to answer any questions.