

JAN 14 2011

The Honorable John A. Boehner  
Speaker of the House of Representatives  
Washington, DC 20515

Dear Mr. Speaker:

Enclosed is a draft bill to amend Title I of Pub. L. No. 99-658, 100 Stat. 3672 (Nov. 14, 1986), regarding the Compact of Free Association between the Government of the United States of America and the Government of Palau. The draft bill would approve the results of the 15-year review of the Compact, including the Agreement Between the Government of the United States of America and the Government of the Republic of Palau following the Compact of Free Association Section 432 Review (the Agreement), and appropriate funds to the Department of the Interior for the purposes of the amended Pub. L. No. 99-658 for fiscal years ending on or before September 30, 2024, to carry out the agreements resulting from that review. We strongly urge that the draft bill be introduced, referred appropriately, and enacted at the earliest opportunity.

Section 432 of the Compact of Free Association between the Government of the United States of America and the Government of Palau (Compact) provides for the two governments formally to review the Compact upon the fifteenth anniversary of its effective date--October 1, 2009. The two governments concluded this review with the signing of the Agreement on September 3, 2010.

The proposed legislation would amend Pub. L. No. 99-658, the legislation that approved the Compact, to add a section to approve and implement the results of the 15-year review. In particular, the proposed legislation would provide \$215.75 million beginning in fiscal year 2011 through fiscal year 2024 to be administered by the Department of the Interior. Over this 14-year period, \$30.25 million would supplement the fund already provided in section 211(f) of the Compact; \$107.5 million would be in direct economic assistance to assist Palau in transitioning to the level of assistance that will be provided exclusively by the

section 211(f) fund after fiscal year 2024; \$40 million would be for infrastructure projects; \$28 million would be for maintenance of major infrastructure already provided to Palau (the Compact road and improvements to Palau's international airport); and \$10 million would enable fiscal consolidation.

Under the Agreement, Palau is to undertake economic, legislative, financial, and management reforms; economic assistance may be withheld in the absence of significant progress in implementing meaningful reforms. In addition to providing economic assistance and requiring reform, the Agreement would require citizens of Palau entering the United States to have a passport.

Direct economic assistance is scheduled to end after the expiration of the Continuing Appropriations Act, 2011 (Pub. L. No. 111-242), which is currently March 4, 2011. To ensure continuity of financial assistance for Palau, we are eager to provide Congress whatever information and assistance is necessary to secure early passage of the proposed legislation.

The Statutory Pay-As-You-Go (PAYGO) Act of 2010 provides that revenue and direct spending legislation cannot, in the aggregate, increase the on-budget deficit. If such legislation increases the on-budget deficit and that increase is not offset by the end of the Congressional session, a sequestration must be ordered. This draft bill would increase mandatory outlays and the on-budget deficit as shown below:

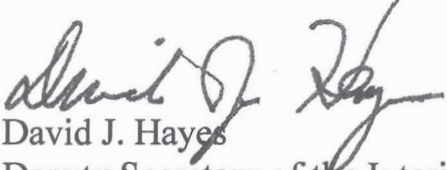
|                | Fiscal Years<br>(\$ Millions) |      |      |      |      |      |      |      |      |      |       |
|----------------|-------------------------------|------|------|------|------|------|------|------|------|------|-------|
|                | 2011                          | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
| Deficit Impact | 28                            | 28   | 26   | 23   | 22   | 20   | 14   | 12   | 11   | 10   | 194   |

This proposal would increase direct spending, and it is therefore subject to the Statutory PAYGO Act and should be considered in conjunction with all other proposals that are subject to the Act.

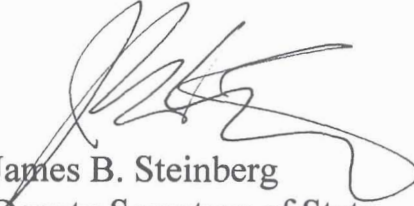
Enactment of the draft bill would protect United States interests and promote the continued mutual well being of our two countries. Palau is one of our nation's closest and most reliable allies. The legislation will support U.S. national security

interests in an important part of the western Pacific where U.S. influence is being challenged. The Office of Management and Budget has advised that enactment of the draft bill would be in accord with the program of the President.

Sincerely,



David J. Hayes  
Deputy Secretary of the Interior



James B. Steinberg  
Deputy Secretary of State