

RELEASE IN PART B6

**HRC meeting Thurs. w/Pres. of Palau**

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**CC:** Jeff Farrow

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**Subject:** HRC meeting Thurs. w/Pres. of Palau

I met yesterday with Palau's new President who HRC is to meet with tomorrow at 11. I'm writing to give HRC some perspective beyond what she may get from EAP and to suggest points for her to make. I'll start with the points. I'd like to discuss questions.

\* I'm delighted to meet you, President Toribiong (Tohr-rib-e-yong), my opposite number, Minister Pierantozzi (Peer-an-toe-zee), and the other members of the delegation. I tried hard to get a better job than Sandra was elected to as vice-president ... but we have pretty good jobs now, don't we, Sandra?

\* I'm proud that the Compact was entered into in my husband's administration.

\* It's disappointing the Bush Administration didn't do what it should have to complete the Compact Review process this year.

\* But now we have new administrations. I understand you will re-evaluate your predecessor's proposal. I'll look at our position too.

\* I hope, however, we can complete the process soon, although I understand it will take some time. I promise high-level, understanding, and sympathetic attention. I will designate a representative shortly.

\* The U.S. and Palau have a special bond formed by decades of territorial administration and I know our responsibilities.

\* And I understand that free association is not pure independence and you want to continue a very close relationship.

\* The President's Budget is largely completed but I will look into your FY10 request and will work with OMB and Congress on it. I also understand the problem of the trust fund created by the market and earlier expectations.

\* I've been to Guam. I understand that Palau has some of the most beautiful islands in the world, the 'rainbow's end.'

\* Thanks for coming. We'll work with you on the Review and in the years ahead seriously, fairly, and responsibly.

Now, some background. We took Palau from Japan in bloody WWII battles and administered it for the UN. It became a 'freely associated state' in 1994. HRC and I have discussed this status as one of Puerto Rico's options. In free association, nations share governing responsibilities. We have full security rights in strategic Palau, provide Pell Grants, and Postal Service, etc. At the staff level, I guided congressional changes that Palauan reformers sought to the Compact of Free Association which the Reagan and Bush 1 Administrations tried to force on the territory. It was a tough battle that included the suicide of the corrupt first president allied with Reagan and Bush. Minister of State Pierantozzi was a leading reformer. President Toribiong was in the group.

A Review of the Compact is due this year with a focus on whether Palau's operational needs are being met. After years of US appropriations, a trust fund was supposed to fully meet the needs after year 15. But the trust, unrealistically expected by the US to grow 12% per year, will not be able to replace all appropriations according to the GAO. Early last year, Palau's last president made a Compact extension proposal but the Bush Administration failed to respond. Palau's lawyer, who I know from the Carter WH, quoted the head of the Australia, NZ, & Pacific Islands Office, Alcy Frelick (who he gives good marks to) saying she hadn't been able to get support within DoS.

Toribiong wants to revise his predecessor's proposal a bit and has three requests. 1) HRC ask OMB for current funding to continue through FY10 to provide time for talks since they didn't really begin as they should have last year, there are new administrations here and there, and it is unrealistic to get the talks done and legislation passed this fiscal year. This position is supported in the attached letter sent HRC Monday by the chairs of the Senate and House committees, Sen. Lugar, and others. 2) The talks be serious and consider his administration's proposal (vs. his predecessor's). 3) The U.S. be represented by someone who can command the necessary attention. (I think EAP is planning to have Frelick. She is capable but maybe there should be someone higher or more special. There was a special Negotiator for the Reviews with the other two freely associated states.)

Toribiong says Palau needs \$20 m in Compact funding in FY10. \$15 m will come from the trust but he would like \$5 m through continued Compact appropriations. A fallback would be to take it from the trust but that would further deplete the trust.

Finally, the Bush Administration's inclination was to transform free association into pure independence. Palau wanted and wants a closer relationship with the US and this is important as a precedent for US territories for which statehood is not an option.