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AGREEMENT BETWEEN  
THE GOVERNMENT OF THE UNITED STATES  
AND  
THE GOVERNMENT OF PALAU  
REGARDING ECONOMIC ASSISTANCE  
CONCLUDED PURSUANT TO SECTION 211(f)  
OF THE COMPACT OF FREE ASSOCIATION

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OF THE COMPACT OF FREE ASSOCIATION

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THE GOVERNMENT OF PALAU  
REGARDING ECONOMIC ASSISTANCE  
CONCLUDED PURSUANT TO SECTION 211(f)  
OF THE COMPACT OF FREE ASSOCIATION

This Agreement is concluded by the Signatory Governments and sets forth the obligations and duties between them and the procedures governing the management of a fund to be provided by the Government of the United States for the express purpose of producing income for the Government of Palau in accordance with Section 211(f) of the Compact of Free Association (the Compact).

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Article I

Definitions

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Article I

Definitions

1. The Definition of Terms contained in Article VI of Title Four of the Compact is incorporated in this Agreement.
2. For the purpose of this Agreement only, the following term shall have the following meaning:

"the Fund" means the sum provided to the Government of Palau in accordance with paragraph 1 of Article II of this Agreement, such instruments in which this sum is

invested, earnings derived from such sum or such investments reduced by any distributions made in accordance with this Agreement.

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## Article II

### Creation, Ownership and Distribution

#### Aspects of the Fund

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## Article II

### Creation, Ownership and Distribution

#### Aspects of the Fund

1. In fulfillment of its obligation under Section 211(f) of the **Compact**, the Government of the United States shall provide to the Government of Palau the sum of \$66 million commencing on the effective date of the **Compact** and the sum of \$4 million during the third year after the effective date of the **Compact**. These sums shall constitute the initial corpus of the Fund.
2. The Fund shall be owned by the Government of Palau. Neither the expiration of Section 211(f) of the **Compact** on the fiftieth anniversary of its effective date nor the termination of the **Compact** pursuant to its terms shall affect the ownership by the Government of Palau of the Fund. The capitalization of the Fund by the Government of the United States pursuant to paragraph 1 of this Article shall constitute fulfillment of any obligation of the Government of the United States to provide economic assistance to the Government of Palau in the event that the **Compact** is terminated by the Government of Palau pursuant to Section 443 of the **Compact** on or after the fifteenth anniversary of its effective date.
3. The Government of Palau may make distributions from the Fund as set forth in Section 211(f) of the **Compact** and this Agreement as follows:

(a) Distributions may be made from the Fund only during a qualifying year. The qualifying years are the forty-six one-year periods following the fourth anniversary of the effective date of the **Compact**; and

(b) Any amount which is not distributed in any qualifying year shall remain in the Fund for growth and subsequent distribution in accordance with the terms of this Agreement. All distributions from the Fund shall be made to the account of the Government of Palau and shall be used in accordance with its constitutional processes for current account and capital account purposes as specified in Sections 211(a), 211(f), 461(h) and 461 (i) of the **Compact**.

4. Upon the expiration or termination of this Agreement, the ownership of the Fund by the Government of Palau shall be without condition.

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### Article III

#### Management of the Fund

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### Article III

#### Management of the Fund

1. Upon the initial capitalization of the Fund in accordance with Article II of this Agreement, the Government of Palau shall invest the Fund into interest-earning instruments which are structured to allow distributions during the qualifying years. The Fund may be invested in a single instrument or in a series of different instruments.

2. The Government of Palau shall retain the services of a qualified investment manager (the Fund Manager) of United States nationality with funds under management in excess of \$1 billion to invest and manage the Fund on behalf of the Government of Palau in accordance with Section 211(f) of the **Compact** and this Agreement. The Fund shall be invested only in qualified instruments which are identified from time to time by mutual agreement of the Government of the United States and the Government of Palau. Issues of bonds, notes or other redeemable instruments of the Government of the United States shall be considered qualified instruments and

the Government of Palau may invest the Fund in such issues without transaction fees or intermediary charges imposed by the Government of the United States. In consultation with the Government of Palau, the Government of the United States shall designate other investment grade instruments of United States nationality and shall consider designating other investment grade instruments as qualified instruments in order that the performance objectives of the Fund are met.

3. The Government of Palau shall inform the Government of the United States of its decisions and actions with respect to investment or reinvestment of the Fund within sixty days of the consummation of each action. The Government of Palau shall notify the Government of the United States of the amount of each distribution made from the Fund within sixty days after the date of the distribution.

4. Investment of the Fund in qualified instruments of United States nationality, and the distribution of sums derived from such investment to the Government of Palau, shall not be subject to any form of taxation by the United States or its political subdivisions.

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#### Article IV

#### Distribution Goals

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4-1

#### Article IV

#### Distribution Goals

1. In order to attain the objectives for performance of the Fund set forth in Sections 211(a) and 211 (f) of the **Compact**, the Government of Palau, in its management of the Fund, shall be guided by the distributions shown in the following illustrative table which includes goals for the minimum and maximum amounts of annual distribution.

TABLE 1

This table is based on the assumption that the Fund, capitalized pursuant to Article II of this Agreement, is invested in a fashion which yields a twelve and one-half percent annual return.

The disbursement schedule in Column 1 assumes that the annual distribution is made on the first day of the year in question and the disbursement schedule in Column 2 assumes that the annual distribution is made on the last day of the year in question.

- \$ in millions -

Column 1	Column 2
<u>Year</u>	<u>Year</u>
Disbursement	Disbursement
Fund at	Fund at
year end	year end
	1
	5.00
	61.88
	5.00
	62.50
	2
	5.00
	63.99
	5.00
	65.31
	3
	5.00
	66.37
	5.00
	68.48
	4
	5.00
	69.04
	5.00
	72.04
	5
	5.00
	72.04

5.00  
76.04

6  
5.00  
75.42

5.00  
80.55

7  
5.00  
79.22

5.00  
85.61

8  
5.00  
83.50

5.00  
91.32

9  
5.00  
88.32

5.00  
97.73

10  
5.00  
93.73

5.00  
104.95

11  
5.00  
99.82

5.00  
113.06



12  
5.00  
106.67

5.00  
122.20

13  
5.00  
114.38

5.00  
132.47

14  
5.00  
123.06

5.00  
144.03

15  
5.00  
132.81

5.00  
157.04

16  
15.00  
132.54  
  
15.00  
161.67

17  
15.00  
132.23  
  
15.00  
166.87

18  
15.00  
131.89

15.00  
172.73

19  
15.00  
131.50

15.00  
179.32

20  
15.00  
131.06

15.00  
186.74

21  
15.00  
130.57

15.00  
195.08

22  
15.00  
130.01

15.00  
204.47

23  
15.00  
129.39

15.00  
215.03

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Table 1, continued

- \$ in millions -

<u>Year</u> year end	Disbursement year end	Column 1	Column 2
		Fund at	Disbursement Fund at
		24 15.00	
		128.69	
		15.00	226.90
		25 15.00	
		127.90	
		15.00	240.27
		26 15.00	
		127.01	
		15.00	255.30
		27 15.00	
		126.01	
		15.00	272.21
		28 15.00	
		124.89	
		15.00	291.24
		29 15.00	
		123.62	
		15.00	312.64
		30 15.00	
		122.20	
		15.00	336.72
		31 15.00	
		120.60	
		15.00	363.81
		32 15.00	
		118.80	
		15.00	394.29
		33 15.00	
		116.77	
		15.00	428.58

34	15.00		
	114.49		
	15.00	467.15	
35	15.00		
	111.93		
	15.00	510.54	
36	15.00		
	109.05		
	15.00	559.36	
37	15.00		
	105.80		
	15.00	614.28	
38	15.00		
	102.15		
	15.00	676.07	
39	15.00		
	98.05		
	15.00	745.58	
40	15.00		
	93.43		
	15.00	823.77	
41	15.00		
	88.23		
	15.00	911.74	
42	15.00		
	82.39		
	15.00	1010.71	
43	15.00		
	75.81		
	15.00	1122.05	
44	15.00		
	68.41		
	15.00	1247.31	

45	15.00	
60.09		
15.00		1388.22
46	15.00	
50.73		
15.00		1546.75
47	15.00	
40.19		
15.00		1725.09
48	15.00	
28.34		
15.00		1925.73
49	15.00	
15.01		
15.00		2151.44
50	15.00	
0.01		
15.00		2405.37

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Article V

Consultation

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Article V

Consultation

1. The Government of the United States and the Government of Palau shall consult at any time at the request of either of them with respect to the subject matter of this Agreement.

2. The Government of Palau shall provide a report on its implementation of this Agreement, including the date and amount of any distributions and the resulting size and status of the Fund, in conjunction with its annual report referred to in Section 231 of the Compact. For purposes of this report and all other transactions, the Fund shall be denominated in the currency of the United States. Such report shall provide comprehensive information on the activities of the Fund Manager with respect to the Fund and may include material supplied by the Fund Manager.
3. Upon the fifth anniversary of the effective date of the Compact and at five year intervals thereafter, the Government of the United States and the Government of Palau shall review all aspects of the performance of the Fund and shall take such actions as are mutually agreed to resolve any issue identified in these reviews. In the reviews, specific consideration shall be given to the relationship between the performance of the Fund and the condition of the current account of the Government of Palau.
4. Any issue or dispute arising under the terms of this Agreement shall be resolved exclusively by the Government of the United States and the Government of Palau in accordance with the provisions of Article II of Title Four of the Compact.

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Article VI

Transitional Provisions

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6-1

Article VI

Transitional Provisions

1. The Government of the United States and the Government of Palau recognize that certain assumptions underlie the signature of this Agreement by their representatives. Specifically the representatives of the Government of the United States and the Government of Palau anticipate that the Fund can be invested in a fashion which yields a minimum annual return of twelve and one-half percent, and anticipate that the Compact will be approved and come into effect in 1986. If questions arise regarding the basis for these assumptions during the period between the signature of this Agreement and its effective date, the provisions of this Agreement may be revised and adjustments made on the basis of mutual agreement of the Signatory Governments.

2. Prior to the effective date of this Agreement, the Government of the United State shall assist the Government of Palau in determining an investment strategy which accord with the term of this Agreement and the objectives of Sections 211(a) and 211(f) of the Compact.

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Article VII

Effective Date, Amendment and Duration

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7-1

Article VII

Effective Date, Amendment and Duration

1. This Agreement shall come into effect simultaneously with the Compact.
  2. This Agreement may be amended at any time by the mutual consent of the Government of the United States and the Government of Palau.
  3. This Agreement shall remain in effect for a term coincident with Section 211(f) of the Compact and thereafter as mutually agreed by the Government of the United States and the Government of Palau.
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Agreement Between the  
Government of the United States  
and the  
Government of Palau

Regarding Economic Assistance  
Concluded Pursuant to Section 211(f) of  
the Compact of Free Association

DONE AT  PALAU , THIS  10  DAY OF  JANUARY ,  
ONE THOUSAND, NINE HUNDRED EIGHTY-SIX.

FOR THE GOVERNMENT

OF

THE REPUBLIC OF PALAU

/s/  Lazarus E. Sali

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DONE AT  PALAU , THIS  10  DAY OF  JANUARY ,  
ONE THOUSAND, NINE HUNDRED EIGHTY-SIX.

FOR THE GOVERNMENT

OF

THE UNITED STATES OF AMERICA

/s/  Fred M. Zeder II

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Agreement Regarding the Operation of  
Telecommunication Services of the  
Government of the United States