

A RESOLUTION

Adopting the Federated States of Micronesia National Trade Policy and ratifying the Pacific Island Countries Trade Agreement (PICTA) dated August, 2001 and its subsequent amendments.

1 WHEREAS, the Strategic Development Plan (2004), the Economic
2 Policy and Implementation Council (EPIC) resolution (2005) and the
3 Chief Executive Council decision (2006) called for the FSM to
4 establish the National Trade Facilitation Committee to assist in
5 the formulation of a National Trade Policy to guide the nation on
6 trade and investment issues; and

7 WHEREAS, the President established the National Trade
8 Facilitation Committee (hereinafter, "NTFC") through Executive
9 Order Number 34 in January, 2008, which is chaired by the Vice
10 President, with representatives from the National Government,
11 States, the private sector and civil society, to assist the nation
12 in formulating and implementing the Trade Policy; and

13 WHEREAS, the Department of Resources and Development,
14 (formerly Economic Affairs) has held consultations in all the four
15 States since 2006 and gathered the views of the National
16 Government, States, the private sector, civil society and Non-
17 Governmental Organizations on Trade Policy; and

18 WHEREAS, the first meeting of the NTFC was held June, 2008,
19 to consider and finalize the Trade Policy; and

20 WHEREAS, the FSM is facing annual decline in Compact funding

1 and a serious economic quagmire, the Trade Policy (trade and
2 investment) has the potential to stimulate private sector
3 development and promote export-led economic growth and sustainable
4 development; and

5 WHEREAS, the objectives of the Trade Policy are to promote
6 exports of value added goods and services (agriculture, fisheries,
7 tourism, labor), create an environment which is conducive for
8 investment and private sector development, address production and
9 supply-side constraints, promote production and consumption of
10 local products and reduce the trade deficit, secure technical and
11 financial assistance (Aid for Trade) from FSM's trading partners
12 and donors, and guide the nation in negotiating, ratifying and
13 implementing trade agreements including the Pacific Island
14 Countries Trade Agreement (hereinafter, "PICTA"), the Economic
15 Partnership Agreement (hereinafter, "EPA"), the Pacific Agreement
16 on Closer Economic Relations (hereinafter, "PACER") taking into
17 account the Compact trade provisions; and

18 WHEREAS, the vision of the Trade Policy is to create an
19 environment which is conducive for foreign direct investment, to
20 enable the private sector to produce value added and competitive
21 goods and services, and promote export-led economic growth, self
22 reliance and sustainable development, with the ultimate objective
23 of creating employment, alleviating hardship and raising the
24 living standards of FSM citizens; and

25 WHEREAS, the FSM has signed PICTA, which establishes a free

1 trade area in goods among the parties, it has not yet ratified
2 PICTA, and PICTA is now being extended to trade in services; and

3 WHEREAS, the Leaders' meeting in Niue in August, 2008 urged
4 all the countries (FSM included) that have not yet ratified PICTA
5 to do so on or before January, 2008; and

6 WHEREAS, the States' consultations and the economic and
7 social impact studies have indicated that the impact of ratifying
8 PICTA will be minimal; and

9 WHEREAS, the FSM is a party to the Cotonou Agreement and has
10 already signed and ratified the Fisheries Partnership Agreement
11 with the European Union (hereinafter EU), it is currently
12 negotiating the EPA with the EU and this agreement is expected to
13 be finalized no later than December, 2008; and

14 WHEREAS, the trade provisions in the Cotonou Agreement
15 expired in December, 2007, the EU has provided generous rules of
16 origin for certain products, duty free and quota free access for
17 those countries that sign the Interim EPA; and

18 WHEREAS, Papua New Guinea and Fiji have signed the Interim
19 EPA; and

20 WHEREAS, FSM together with other eleven Pacific countries
21 have not yet signed EPA because of outstanding countries, have
22 been relegated to the Generalized System of Preferences (a worse
23 scheme than what FSM had under the Cotonou Agreement; and

24 WHEREAS, the Interim EPA itself may not impose any
25 significant economic and social impact on the FSM, signing an EPA

1 will require the FSM to give the same benefits that it would have
2 given to the EU and to the United States under the most favored
3 nation (MFN) clause in the Compact Agreement and this may have
4 potential revenue consequences; and

5 WHEREAS, to minimize the potential revenue consequences from
6 EPA, FSM will be required to reform its tax system to a value
7 added tax plus system and enter into consultations with the
8 United States on whether and how the MFN provisions will be
9 applied, how to improve the trade and investment relations with
10 the United States in light of preference erosion and also how to
11 secure additional compensation for the lost trade and tax
12 benefits including more Aid for Trade; and

13 WHEREAS, PACER is a cooperation agreement between the Forum
14 Island Countries and Australia and New Zealand, FSM has not yet
15 signed this agreement because if it is extended into a free trade
16 agreement, as is being proposed by Australia and New Zealand,
17 this would trigger the MFN Compact obligation; and

18 WHEREAS the Forum Island Countries are proposing to negotiate
19 a trade, investment and development cooperation agreement with
20 China, if designed properly this agreement may have a positive
21 impact for the economy; and

22 WHEREAS, trade and investment have the potential to lift the
23 nation from economic malaise, underdevelopment and hardship,
24 there is a need to priorities resources for Trade-related
25 activities and provide the necessary assistance to the private

1 sector to promote exports and import substitution; and

2 WHEREAS, in order to promote foreign investment to assist in
3 export development and economic growth, FSM needs to adopt the
4 World Bank Report on the Ease of Doing Business in order to
5 create an environment which is conducive for foreign investment
6 and address all the outstanding issues pertaining to investment
7 reforms; and

8 WHEREAS, the amount of work and challenges facing FSM in
9 trade and investment are enormous, there are not adequate human
10 and financial resources to undertake these tasks; and

11 WHEREAS, the FSM has identified all the problems affecting
12 trade and investment in FSM as memorialized in the trade Policy,
13 and now desires to have the Trade Policy adopted as a national
14 document to guide the nation on all trade and investment matters
15 including using the document to secure the resources that are
16 required to implement the Trade Policy at the National and State
17 level; now, therefore

18 BE IT RESOLVED by the Fifteenth Congress of the Federated
19 States of Micronesia, Fifth Regular Session, 2008, that the
20 Congress hereby adopts the Trade Policy including its Annexes;
21 and

22 BE IT FURTHER RESOLVED by the Fifteenth Congress of the
23 Federated States of Micronesia, Fifth Regular Session, 2008 that
24 FSM ratifies PICTA and commences trading under the agreement; and

25 BE IT FURTHER RESOLVED that Congress supports the

1 implementation of the Trade Policy including the allocation of the
2 necessary resources for the NTFC, and the Department of Resources
3 and Development and other activities identified in the
4 recommendations; and

5 BE IT FURTHER RESOLVED that an annual budget of approximately
6 \$150,000 be set aside for the purposes of convening the NTFC to
7 assist with implementing the Trade Policy and conducting annual
8 review of the Trade Policy; and

9 BE IT FURTHER RESOLVED that certified copies of this
10 resolution be transmitted to the President and Vice President of
11 the Federated States of Micronesia, the Secretary of the
12 Department of Resources and Development, the Secretary of the
13 Department Justice and the Secretary of the Department of Foreign
14 Affairs.

15

16 Date: 9/19/08

Introduced by: /s/ Resio S. Moses

17

Joe N. Suka
(by request)

18

19

20

21

22

23