

STANDING COMMITTEE REPORT NO. 15-43

RE: C.B. NO. 15-11/T&C

SUBJECT: RESTRUCTURING OF CAROLINE ISLAND AIR
(PL No. 10-072)

SEPTEMBER 25, 2007

The Honorable Isaac V. Figir
Speaker, Fifteenth Congress
Federated States of Micronesia
Second Regular Session, 2007

Dear Mr. Speaker:

Your Committee on Transportation and Communication, to which was referred C.B. No. 15-11, entitled:

"TO FURTHER AMEND PUBLIC LAW NO. 10-072 BY AMENDING SECTION 1 THEREOF, BY CHANGING THE NAME OF THE CORPORATION, BY AMENDING SECTIONS 6,7,8 AND 9 THEREOF RELATING TO THE COMPOSITION OF THE BOARD OF DIRECTORS OF THE CORPORATION, AND BY AMENDING SECTION 19 THEREOF, BY CHANGING THE REQUIREMENT FOR THE CHIEF EXECUTIVE OFFICER OF THE CORPORATION, AND FOR OTHER PURPOSES.",

begs leave to report as follows:

The intent and purpose of the bill are expressed in its title.

The bill is intended to amend Public Law No. 10-072, the law establishing the Caroline Island Air Corporation. The first amendment is to change the name of the Corporation from "Caroline Island Air" to "Micronesian Island Air". The rationale behind the change is that "Caroline Island Air" existed during the Trust Territory time; therefore, it is more appropriate to use the name as proposed.

Second amendment is to change the composition of the Board of Directors of the Corporation. The Corporation is a public Corporation, and members are represented equally among the five governments, but appointed by the President of the FSM without advice and consent of Congress. The Committee feels strongly that since Congress has been subsidizing this Corporation, it must also have a say in the selection of the Board members. The proposed amendment will allow, since initially CIA is a public corporation, the FSM Congress to scrutinize who sits on the Board of Directors of the Corporation, and allow the Corporation to operate as a public Corporation and report its operation as required.

STANDING COMMITTEE REPORT NO. 15-43

RE: C.B. NO. 15-11/T&C

SUBJECT: RESTRUCTURING OF CAROLINE ISLAND AIR
(PL No. 10-072)

SEPTEMBER 25, 2007

Third amendment to the bill is on the organizational meeting of the Board of Directors. During an oversight hearing with the management of the CIA, the Chairman of the Board, Mr. Lukner Weilbacher indicated that a problem that the Board always confronted with is to have a quorum. Further, if a member of the board resides outside of Pohnpei, the Corporation cannot afford to pay per diem and airline ticket for each board member to travel. Your Committee feels that the Board members can always conduct meetings by teleconference, and meetings may be conducted on dates that are convenient to all.

Fourth amendment to the bill is to minimize the current management authority of the CEO and to limit the involvement of CEO in the management of the Corporation. Your Committee commented that the Board must get involved in the policy direction of the Corporation while the management and operation of the Corporation rest with the CEO. This would allow transparent and efficient operation and management of the Corporation. Apparently, the CEO of the Corporation is also the pilot. Hence, the Committee feels that the CEO should concentrate mostly on the management and operation of the Corporation and ensure that flight schedules are consistent. The CEO should ensure that reporting of the Corporation's financial statements are consistent and timely.

Your Committee held a series of public hearings in the four States on C.B. No. 15-11. The first public hearing on the bill was held on June 27, 2007 at the Yap Delegation Office conference room. Present at the hearing were representatives from the Executive branch, the Legislative branch, the Chief Council and the Judiciary branch.

The leadership of Yap suggested that the Corporation should be privatized, and the FSM National Government should not provide continuous subsidies to fund the operation of the Corporation. The leadership of Yap indicated that PMA, an airline that servicing the islands, is operating on its own without receiving subsidies from the National Government.

On July 3, 2007 the Committee conducted two separate hearings with the representatives from the Chuuk State Executive and Legislative branches. The introducer of the bill was present, in which he summarized the intention of the bill. He indicated that although this is a Public

STANDING COMMITTEE REPORT NO. 15-43

RE: C.B. NO. 15-11/T&C

SUBJECT: RESTRUCTURING OF CAROLINE ISLAND AIR
(PL No. 10-072)

SEPTEMBER 25, 2007

Corporation, the FSM National Government has not been receiving any reports on the financial statements of the Corporation. Apparently, the Corporation is run and operated by the pilot. For instance, there were incidents where the pilot who is also the CEO decided on what cargoes to take on certain flights. Apparently, flight schedules were arranged without any consultation from the Board of Directors of the Corporation. After the deliberation on the bill, the leadership of Chuuk State supports the intent of the bill, but caution the Corporation not to loose its only pilot.

On July 6, 2007 the Committee held a public hearing on C.B. No. 15-11 in the Kosrae Legislature chamber. This hearing has shed lights to a few Senators from Kosrae to become aware that Caroline Island Air Corporation is a public corporation. They thought that the airline is owned and operated by Pohnpei State. The witnesses attended the hearing were in full support of the proposed amendment to the bill.

The leadership of Pohnpei suggested that the Corporation should contribute to the maintenance of the airstrip that it is using.

Your Committee feels that the Corporation should follow the normal practice of any public Corporation - to provide consistent financial reports if receiving public funds, and to consistently report the operation and performance of the Corporation. Hence, your Committee recommends the restructuring of the Corporation.

Your Committee on Transportation and Communication is in accord with the intent and purpose of C.B. No. 15-11 and recommends its passage on First Reading, and that it be placed on the Calendar for Second and Final Reading in the form attached hereto as C.B. No. 15-11.

STANDING COMMITTEE REPORT NO. 15-43

RE: C.B. NO. 15-11/T&C

SUBJECT: RESTRUCTURING OF CAROLINE ISLAND AIR
(PL No. 10-072)

SEPTEMBER 25, 2007

Respectfully submitted,

/s/ Moses A. Nelson
Moses A. Nelson, chairman

Fredrico O. Primo, vice chairman

/s/ Tiwiter Aritos
Tiwiter Aritos, member

/s/ Dion G. Neth
Dion G. Neth, member

/s/ Claude H. Phillip
Claude H. Phillip, member

/s/ Joe N. Suka
Joe N. Suka, member

Joseph J. Urusemal, member