

STANDING COMMITTEE REPORT NO. 16-131

RE: C.R. NO. 16-100/R&D

SUBJECT: ADOPTION OF THE NATIONAL TRADE POLICY

JANUARY 27, 2011

The Honorable Isaac V. Figir
Speaker, Sixteenth Congress
Federated States of Micronesia
Sixth Regular Session, 2011

Dear Mr. Speaker:

Your committee on Resources and Development, to which was referred C.R. No. 16-115, entitled:

"A RESOLUTION ADOPTING THE NATIONAL TRADE POLICY FOR THE
FEDERATED STATES OF MICRONESIA."

begs leave to report as follows:

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

The said resolution is the National Trade Policy for the Federated States of Micronesia, and was transmitted to Congress via Presidential Communication No. 16-226. The National Trade Policy is a document that covers broad areas relating to trade. The National Trade Policy is intended to promote and facilitate private sector development and foreign direct investment in priority sectors in order to achieve export-led economic growth, self-reliance, and sustainable development, with the ultimate objective to create employment, alleviate poverty and raise the living standards of the citizens of the Federated States of Micronesia.

Your Committee conducted a series of hearings in each of the States, accompanied by staff from the FSM Department of Resources and Development. The outcomes of such hearings are summarized below.

In a meeting with the Kosrae Executive Branch, the Governor of Kosrae State expressed the state's support for adoption of the National Trade Policy. The Director of the Department of Resources and Economic

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Affairs, Steven George, commented that the National Trade Policy would certainly build and expand export development, not only for Kosrae, but in all the other FSM states. The Kosrae Legislative Branch also endorsed the National Trade Policy fully, and supports its adoption.

In Yap, both the Legislative and Executive branches also expressed their support for the adoption of the National Trade Policy and encouraged the FSM to prioritize the strengthening of intra-state and sub-regional trade.

In Pohnpei, the leadership stressed the need for the FSM to consider ways and means to address quarantine constraints faced by farmers in subregional markets such as Guam and Palau. In this regard, Pohnpei State recommended that it is imperative to include Guam and CNMI in trade discussions with the Micronesian Trade Committee. It was also suggested that the National Government needs to explore venues for external assistance. In this regard, the Pohnpei leadership requested that the National Government look for Aid for Trade opportunities during ongoing trade negotiations. Pohnpei leadership also commented that there is a need to envisage bold strategies and actions to enhance the capacity of the private and productive sector in the FSM, including small medium sized enterprises and women entrepreneurs. Following a broad discussion, the Pohnpei leadership expressed its support for adopting the National Trade Policy, but cautioned that there is a need to ensure that the local private sector is not negatively affected by trade liberalization.

In Chuuk, there was a concern regarding the exportation of exportable products from Chuuk to Guam, specifically the difficulty that exports face with quarantine issues. The staff of the FSM Department of Resources and Development explained to the Chuuk leadership that the National Government will be initiating a dialogue with the appropriate authorities in Guam to try to resolve this quarantine issue. Another concern that was raised is whether the FSM has the capacity to trade goods with other countries. It was clarified during the hearing in Chuuk that the FSM is currently negotiating trade in services under PICTA, but it is not a good policy to become a party to PICTA until the FSM first identifies products that can be traded and ensures that the FSM has the surplus to engage in exports. The Legislative Branch questioned the establishment of the National Trade Facilitation Committee (NTFC), and commented that states should play a major role in the formulation and implementation of any policy on trade. Based on the discussions, the Chuuk leadership endorsed the National Trade Policy.

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Your Committee on Resources and Development held a hearing on the said resolution on January 17, 2011. Witnesses present at the hearing included Secretary Marion Henry, Mr. Ernest Weirlangt, Assistant Secretary for Trade and Investment, Miss Camille Movick, Deputy Assistant Secretary for Trade, Miss Vita Akapito from the Department of Resources and Development. Members of the Committee that were present included Chairman Roger S. Mori, Senators Tony Otto, Paliknoa K. Welly, Joseph J. Urusemal, Dion G. Neth, Peter Sitan and staff member Alik Jackson.

Secretary Henry stated that several documents presented to the Committee summarized the key objectives of the National Trade Policy. More specifically, these key objectives include: creating an environment which is conducive to investment and private sector development; addressing the supply-side constraints and non-tariff barriers; promoting import substitution and exports of value added goods and services; guiding the Nation in trade negotiations and in implementing trade agreements; using the Trade Policy to secure Aid for Trade from FSM's trading partners and donors; and promoting export-led sustainable economic growth, with the ultimate objective of raising the standard of living in the FSM.

In order to achieve the above mentioned objectives, multi-year project proposals will be prepared based on the National Trade Policy as detailed in Annex 2 that was attached and made part of the National Trade Policy. Annex 2 summarizes programs, activities, responsible offices, departments and agencies and the anticipated funding that are needed to implement such anticipated programs and activities.

Your Committee inquired with Secretary Henry what has happened before, and why all of a sudden the Department needs this National Trade Policy. Secretary Henry stated that this Policy will guide the Nation in its endeavours to trade with other countries. Currently, the Department is relying on an ad hoc trade policy, which is not sanctioned by Congress. Your Committee also inquired with Secretary Henry whether the National Trade Policy can be amended in the near future. It was revealed that the National Trade Policy will be reviewed and monitored annually and necessary changes made to ensure that the objectives are met. Secretary Henry indicated that National Government has already consulted with its counterparts at the State Governments and asked them to recommend to their respective legislatures that they amend necessary laws for trade and investment to complement the objectives of this National Trade Policy.

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Your Committee also inquired with Secretary Henry what would be the next step if Congress adopts this National Trade Policy. Your Committee was informed that in order for the Department to implement programs and activities summarized in Annex 2, the Department may need technical and financial assistance. On the technical assistance, the Department is negotiating with the Commonwealth Secretariat. On the financial assistance, the Department is ready to begin a dialogue with EU and EPA to tap any financial assistance that is available. Your Committee also inquired whether the Republic of the Marshall Islands and the Republic of Palau have already adopted their Trade Policies. Secretary Henry indicated that these two countries are still working on their Trade Policies.

Your Committee wishes to know what are some of the tradable goods in the FSM that the Department is trying to trade to other countries. Secretary Henry stated that some of these tradable goods include betelnut, handicrafts, sakau, taro, tangerines and other trade in services. The Secretary indicated that the Department is requesting the assistance from the UNDP office to assist in the identification of exportable goods in the FSM.

With all the discussions on this National Trade Policy, your Committee strongly recommends that the Department try its best to fulfil the objectives of this National Trade Policy.

Your Committee would like to offer an amendment to the resolution as follows:

1. Page 2, line 5, delete "Fifth Regular Session, 2010" and insert "Sixth Regular Session, 2011," in lieu thereof.

Your Committee on Resources and Development is in accord with the intent and purpose of C.R. No. 16-100, as amended herein, and recommends its adoption in the form attached hereto as C.R. No. 16-100, C.D.1.

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Respectfully submitted,

/s/ Roger S. Mori
Roger S. Mori, chairman

/s/ Tony H. Otto
Tony H. Otto , vice chairman

/s/ Peter M. Christian
Peter M. Christian, member

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

/s/ Peter Sitan
Peter Sitan, member

/s/ Joseph J. Urusemal
Joseph J. Urusemal, member

/s/ Paliknoa K. Welly
Paliknoa K. Welly, member