

STANDING COMMITTEE REPORT NO. 18-146

RE: C.B. NO. 18-65/R&D

SUBJECT: MERGING THE CDA WITH THE FSM PETRO
CORP.

MAY 14, 2014

The Honorable Dohsis Halbert
Speaker, Eighteenth Congress
Federated States of Micronesia
Fourth Regular Session, 2014

Dear Mr. Speaker:

Your Committee on Resources and Development, to which was referred
C.B. No. 18-65, entitled:

"A BILL TO REPEAL SECTIONS 201 THROUGH 215 OF TITLE 22 OF THE
CODE OF THE FEDERATED STATES OF MICRONESIA, AS AMENDED BY PUBLIC
LAW NO. 11-26, IN THEIR ENTIRETY AND INSERTING NEW SECTIONS 201
THROUGH 212 IN LIEU THEREOF, IN ORDER TO DISSOLVE THE FEDERATED
STATES OF MICRONESIA COCONUT DEVELOPMENT AUTHORITY, AND REPOSE
THE RESPONSIBILITY FOR COCONUT DEVELOPMENT IN THE FEDERATED
STATES OF MICRONESIA PETROLEUM CORPORATION, AND FOR OTHER
PURPOSES."

begs leave to report as follows:

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

C.B. No. 18-65 was transmitted to Congress on September 9, 2013
through Presidential Communication No. 18-82. The purpose of the bill
is to merge the Coconut Development Authority and the FSM Petroleum
Corporation. In this merging, the FSM Petroleum Corporation will
assume the assets and functions of the Coconut Development Authority
(CDA).

Your Committee held a public hearing on Wednesday, January 22, 2014 at
8:30 a.m. in the Congressional hearing room. In attendance were the

STANDING COMMITTEE REPORT NO. 18-146

RE: C.B. NO. 18-65/R&D

SUBJECT: MERGING THE CDA WITH THE FSM PETRO
CORP.

MAY 14, 2014

new General Manager of the Authority, Mr. Peterson Sam, the Plant Chemist, Eddie Parce, and members of the CDA Board. Your Committee asked the CDA staff and Board members what is CDA's position of the proposed merging of CDA with the FSM Petroleum Corporation. In general, the staff and Board members of the CDA are in support of the merging.

Your Committee also conducted another public hearing on C.B. No. 18-65 with the staff of the FSM Petroleum Corporation on Friday, January 24, 2014 at 8:30 a.m. in the Congressional hearing room. In attendance were the CEO of the FSM Petro Corp. Jaret Morris, CFO of the FSM Petro Corp. Mathias Lawrence, and Alik Alik, Oliver Wortel and Pelsesar Petrus representing the President's Office. Chairman Panuelo welcome the witnesses and gave an opportunity to them to comment on the said bill.

CEO Jaret Morris thanked the Committee for the opportunity and explained that a year ago, the President had challenged the FSM Petroleum Corporation to do more, especially to provide the public at large essential services. So the FSM Petroleum Corporation started looking at the coconut industry in the FSM and undertook a 26-month period study. In this study, the FSM Petroleum Corporation conducted a full analysis on biofuel and the coconut. The FSM Petroleum Corporation found out that it can embark on biofuel, but to be consistent, it needs a consistent supply of around 350,000 gallons.

CEO Morris explained that the ability to give farmers the confidence to grow more coconuts is not there, and this is a fundamental challenge to the CDA today. CEO Morris explained that the CDA does not have the purchasing power to consistently buy coconuts from the farmers because it lacks the principal. The CDA continues to receive subsidy from the National Government. So if the FSM Petroleum Corporation assumes the functions of the CDA, it can resolve this challenge and can incentivize the selling of coconut products so more people will be willing to produce more coconuts.

Your Committee inquired if the bill becomes law, how long will it take the FSM Petroleum Corporation to start moving with its proposal on

STANDING COMMITTEE REPORT NO. 18-146

RE: C.B. NO. 18-65/R&D

SUBJECT: MERGING THE CDA WITH THE FSM PETRO
CORP.

MAY 14, 2014

biofuel and the coconut. According to CEO Morris, currently the CDA law is a monopoly, especially in regards to buying and selling of coconut products. Once the bill becomes law, the FSM Petroleum Corporation has the authority to engage in the manufacturing and processing of biofuel and other products derived from the coconut tree as well as collection, marketing, selling, and distribution of all other products derived from the coconut tree. As of now, the FSM Petroleum Corporation has no authority. Importantly, when the FSM Petroleum Corporation is authorized to engage in the manufacturing and processing of biofuel and other products derived from the coconut tree, it will offer the purchase of a coconut for 10 cents.

It is noted that the FSM Congress is determined to dissolve the Authority and transfer its responsibilities and functions to a more business oriented entity, which is the FSM Petroleum Corporation. Assuming that the bill becomes law, any transfer of assets, liabilities and employees of the CDA to the FSM Petro Corporation is free of any lien or encumbrance. Also the FSM Petro Corporation shall not assume, nor shall it be deemed to have assumed, any liability of the CDA unless an express assumption of liability is executed by the FSM Petroleum Corporation. Furthermore, the National Government shall be responsible for the settlement or discharge of any liability of the Authority, which the FSM Petro Corporation has not expressly assumed. In addition, the FSM Petro Corp shall not be required to assume, acquire or maintain the employment of any employees of the Authority unless it expressly agrees.

The National Government shall be responsible for the layoff, redundancy, re-assignment, or placement (whichever may be appropriate) of all employees of the Authority, which the FSM Petroleum Corporation does not expressly agree to assume, acquire, or maintain in its employment. It was discussed that the FSM Petroleum Corporation is willing to employ the employees of the Authority.

The FSM Petroleum Corporation could also enter into and perform such contracts, leases, agreements, or other transactions as may be necessary in the performance or undertaking of the Works. It is proposed that the FSM Petroleum Corporation shall be exempt from the

STANDING COMMITTEE REPORT NO. 18-146

RE: C.B. NO. 18-65/R&D

SUBJECT: MERGING THE CDA WITH THE FSM PETRO
CORP.

MAY 14, 2014

license required under chapter 3 of title 22 of the FSM Code or this title.

The FSM Petro Corporation is required to file with the President and Congress, within 30 days after the close of the fiscal year of the FSM Petro Corp, an annual report generally stating the activities in the performance or undertaking of the Works. The annual report shall contain a profit-and-loss statement on the Works during the preceding fiscal year, and a statement of assets and liabilities as of the close of such year. The annual report shall be considered a public document and made available for public inspection.

Furthermore, the FSM Petro Corporation shall be liable for the payment of any tax, assessment or contribution as may be required by law in respect of the Works. Nothing herein shall be deemed to exempt employees and independent contractors of the FSM Petro Corp from any tax liability for services rendered to the FSM Petro Corp in connection with the Works.

The FSM Petroleum Corporation will still retain its legal personality, privileges, rights, protections, disabilities, and liabilities, as defined in chapter 2 of title 27 of the FSM Code, and also its powers, functions, responsibilities, duties, obligations, and charges as mandated in chapter 2 of title 27 of the FSM Code.

STANDING COMMITTEE REPORT NO. 18-146

RE: C.B. NO. 18-65/R&D

SUBJECT: MERGING THE CDA WITH THE FSM PETRO
CORP.

MAY 14, 2014

Recommendations of your committee

Your Committee on Resources and Development is in accord with the intent and purpose of C.B. No. 18-65 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.

Respectfully submitted,

/s/ David W. Panuelo
David W. Panuelo, chairman

/s/ Victor Gouland
Victor Gouland, vice chairman

/s/ Tiwiter Aritos
Tiwiter Aritos, member

/s/ Florencio S. Harper
Florencio S. Harper, member

/s/ Berney Martin
Berney Martin, member

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

Paliknoa K. Welly, member