

STANDING COMMITTEE REPORT NO. 20-45

RE: C.B. No. 20-54/W&M

SUBJECT: TO CONVERT UNPAID BLANANCES OF PRIOR LOANS FROM  
THE NATIONAL GOVERNMENT OF THE FEDERATED STATES  
OF MICRONESIA INTO GRANTS

DECEMBER 11, 2017

The Honorable Wesley W. Simina  
Speaker, Twentieth Congress  
Federated States of Micronesia  
Third Special Session

Dear Speaker:

Your Committee on Ways & Means, to which was jointly  
referred Congressional Bill No. 20-54, entitled:

"A BILL FOR AN ACT TO CONVERT UNPAID BALANCES OF  
PRIOR LOANS FROM THE NATIONAL GOVERNMENT OF THE  
FEDERATED STATES OF MICRONESIA TO THE NATIONAL  
FISHERIES CORPORATION, PURSUANT TO PUBLIC LAW NO.  
6-69 AND PUBLIC LAW NO. 9-78, INTO GRANTS FOR THE  
PURPOSES FOR WHICH SUCH LOANS WERE PROVIDED, AND  
FOR OTHER PURPOSES.",

begs leave to report as follows:

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

Your Committee has reviewed C.B. No. 20-54 and the  
associated Standing Committee Report (S.C.R. No. 20-36)  
prepared by your Committee on Resources and Development, to  
which C.B. 20-54 was jointly referred.

Your Committee held a public hearing on Wednesday, December

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6, 2017, at 2:30 p.m., to discuss this bill, and your Committee was joined by representatives from the Department of Finance and Administration, the Department of Resources and Development, the Department of Justice, the President's Office, the National Oceanic Resource Management Authority (NORMA), and the National Fisheries Corporation (NFC).

Chairman Isaac V. Figir opened the public hearing by thanking the witnesses present for their attendance, and allowing the Secretary of Resources and Development to provide an overview of the purpose of the bill. The Secretary explained that the bill was intended to assist the NFC, by converting the balance of the NFC's outstanding debts to the FSM National Government into grants. The Secretary further explained that the NFC desires to expand as a business organization, but stated that the NFC is unable to begin expansion while continuing to pay on their debts owed to the FSM National Government. The NFC has received loans from the National Government in the total amount of \$3,100,000, and the vast majority of this amount remains outstanding. According to documentation provided by the NFC, most of the loans originate from 1990 to 1991. The Secretary of Finance and Administration confirmed that the NFC had begun making payments on these loans, since 2014.

Chairman Figir asked the Secretary of Finance and Administration whether recent payments made by the NFC indicated that the NFC has an "ability to pay" their outstanding debts. The Secretary of Finance and Administration indicated in the affirmative, but deferred to the Secretary of Resources and Development to further explain the substantive "reasons for the bill."

Noting that the bill, upon first consideration, appears to offer a financial loss for the FSM National Government,

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Chairman Figir invited the representative from the NFC to offer further support for the bill.

The representative from the NFC said that the passage of the bill would allow for more funds to be freed up for "training purposes." He echoed remarks previously made by the Secretary of Resources and Development, that the NFC would like to expand. He noted that the NFC "can pay the loan" but said it would "take time" and hinder the organization's expansionary goals. The representative from the NFC testified that he would anticipate "future restructuring" at the NFC, but said that he feels that it is most financially prudent for the NFC to "clear the [balance] sheets" before beginning this restructuring. He suggested that such restructuring will help bring about increased profitability.

Chairman Figir asked about the NFC's commitment to contributing a sum of money towards the FSM Trust Fund, as would be required by C.B. No. 20-54. The representative from the NFC testified that, if the bill became law, NFC would fully comply with the requirement to contribute \$500,000 to the FSM Trust Fund. The representative stated that he was unable to comment on whether the NFC would feel able to make a greater contribution, if the text of the bill were modified.

The representative from the NFC stated that, if the bill were passed, future expansion might allow for the NFC to make dividend payments to company shareholders, to the benefit of the FSM National Government. He stated, moreover, that the NFC has a number of possible projects in which it would like to engage, if its debts to the FSM National Government are forgiven, and that before any particular project is embarked upon, the NFC would conduct due diligence to make sure the project was financially advisable.

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The representative from NORMA testified that NORMA supports this bill. She stated that NORMA believes that this loan forgiveness would attract foreign investors to the NFC, as those investors would be drawn to the improved numbers on the NFC's financial statements.

Multiple members of your Committee on Ways and Means asked questions regarding the extent to which the NFC's joint ventures with foreign fishing fleets worked to the benefit of the FSM National Government. Specifically, members noted that under some of these joint ventures, fishing companies with a majority-foreign ownership were able to register as "domestic" vessels and receive deeply discounted domestic rates for fishing licenses. This seemingly results, several members noted, in substantial financial losses in fishing fee revenues to the FSM National Government. Unofficial estimates provided to members of your Committee suggest that in recent years, discounts to domestic vessels reduce fishing fees revenue by approximately \$19-20 million annually. Under some perspectives, members suggested that the NFC's joint ventures could appear to be a way for foreign companies to shield themselves from the higher foreign fishing fee rates, which in aggregate, costs the National Government substantial annual revenue. Certain members noted, however, that if fishing rates were increased, companies partnering with the NFC might simply choose to fish in waters outside the FSM altogether. Your Committee believes this is an issue worth ongoing examination.

Members of your Committee on Ways and Means also asked about the extent to which the NFC's joint venture partners engaged in the hiring of FSM citizens to carry out their operations. Certain members noted, with some disappointment, that some of the companies in joint ventures with the NFC appeared to hire only relatively

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small numbers of FSM citizens. Members of your Committee expressed the hope that the NFC's ventures with foreign fishing companies would be designed in such a way as to maximize potential economic gains in FSM citizen employment and in revenue to the FSM National Government.

Chairman Figir invited the representative from the Department of Justice to provide an opinion as to the legality of C.B. No. 20-54. The representative testified that the Department of Justice has reviewed the legislation, and the bill has been approved for legal sufficiency. The public hearing ended with your Committee's expression of thanks to witnesses and an expression of your Committee's intent to further discuss the bill internally.

On Friday, December 8, at 11:30 a.m., your Committee held a committee meeting to continue its discussion of C.B. No. 20-54. Your Committee considered, in detail, the testimony presented at the public hearing. Your Committee again noted some of the concerns expressed at the public hearing, especially concerns about the extent to which the NFC's approach to joint ventures truly maximized revenue for the FSM National Government. Your Committee, however, desires to see the NFC continue to grow and develop as an organization. Your Committee believes that the NFC plays an important role in the FSM's economy. Your Committee appreciates the ways in which substantial amounts of debt can hamper a company's prospects for growth. For these reasons, your Committee on Ways and Means, with the above noted reservations, joins your Committee on Resources and Development, in supporting the passage of C.B. No. 20-54.

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CONCLUSION

Your Committee on Ways & Means is in accord with the intent and purpose of C.B. No. 20-54. Your Committee recommends passage of the bill on First Reading and that it be placed on the Calendar for Second and Final Reading in the form attached hereto as C.B. 20-54, C.D.1.

Respectfully submitted,

/s/ Isaac V. Figir  
Isaac V. Figir, chairman

David W. Panuelo, member

/s/ Victor V. Gouland  
Victor V. Gouland, member

/s/ Ferny S. Perman  
Ferny S. Perman, member

/s/ Robson U. Romolow  
Robson U. Romolow, member

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

Paliknoa K. Welly, member