



7th States and National Leadership Conference

**Palikir, Pohnpei
May 22 - 23, 2014**

Final Communiqué

The Leaders of the FSM National and State Governments held their seventh State and National Leadership Conference in Palikir, Pohnpei, on May 22 and 23, 2014, under the Chairmanship of H.E. Emanuel M. Mori, President of the FSM.

2. The Meeting was attended by the following Principals:
 - H.E. Emanuel Mori, President of the FSM
 - The Honorable Alik L. Alik, Vice-President of the FSM
 - The Honorable Sebastian Anefal, Governor of the State of Yap
 - The Honorable Johnson S. Elimo, Governor of the State of Chuuk
 - The Honorable Lyndon H. Jackson, Governor of the State of Kosrae
 - The Honorable Marcelo Peterson, Acting Governor of Pohnpei State

 - The Honorable Dohsis Halbert, Speaker of the 18th Congress
 - The Honorable Fernando Scaliem, Speaker, Pohnpei State Legislature
 - The Honorable Gibson Siba, Speaker, Kosrae State Legislature
 - The Honorable Isiro Choram, Vice-President, Senate, Chuuk State Legislature
 - The Honorable Kenruo Nero, Floor Leader, House of Representatives, Chuuk State Legislature
 - The Honorable John Mooteb, Vice-Chairman, Finance Committee, Yap State Legislature

 - The Honorable Martin G. Yinug, FSM Chief Justice
 - The Honorable Aliksa Aliksa, Chief Justice, Kosrae State
 - The Honorable Camillo Noket, Chief Justice, Chuuk State

3. The 7th SNLC was also attended by Cabinet Members of the FSM National Government, Honorable Members of the FSM Congress and State Legislatures, FSM Ambassadors and Consul General overseas, Members of the Diplomatic Corps, and Representatives of International Organizations, and Members of the Private Sector.

4. The opening ceremony featured a prayer by Fr. Kenneth Urumolug, S.J. and remarks from the Principals. In his opening statement, President Mori welcomed the Principals for attending the 7th SNLC, and thanked the Judiciary Branch of the Government for their participation in the 7th SNLC and the 18th Congress for the passing of the FSM Telecommunications Bill in April, 2014, which will contribute towards enhancing access to and affordability of telecommunication services in the FSM, using the principles of liberalization, free and open competition, and a customer-oriented approach.

5. The President highlighted that 2023 was the main issue of the 7th SNLC, in light of the challenges the Nation will face in 2024. President Mori informed the Conference that the 2023 Committee established in 2012 conducted Nation-wide awareness and consultations. In this regard, President Mori congratulated and thanked all of those who participated in the consultations, in particular the Private Sector, for constructive comments and inputs.

6. Finally the President thanked the Members of the Diplomatic Corps and Representatives of International Organizations for their presence at the opening of the 7th SNLC and for their continuous support to the FSM Government and its People.

7. The Honorable Martin Yinug, FSM Chief Justice, also addressed the 7th SNLC. He stressed that the Judiciary Branch will play an important role as the Nation prepares for 2023, by contributing towards enhancing the confidence of investors in the FSM judicial system. In this regard, Chief Justice Yinug informed the Leaders on the ongoing time standards, which aims at enhancing investors' protection in the FSM.

8. The Honorable Sebastian Anefal of Yap, Johnson S. Elimo, of Chuuk, and Lyndon H. Jackson, of Kosrae, and the Honorable Marcelo Peterson of Pohnpei also delivered statements. They thanked President Mori for his foresight in convening the 7th SNLC and highlighted the importance of the main issues to be discussed, including the tax reform, investment, infrastructure, transportation, and the ODA policy. The Principals of the four States stressed the need for the five Governments to work together to tackle the issues in a timely manner, noting that the Nation was moving closer to 2023.

9. The Honorable David Panuelo, Chairman of the Committee on Resources and Development of the 18th FSM Congress, stressed the importance of human resources development, in particular technical and vocational training, for FSM youth who are not in the regular education stream. He urged the Leaders to take a realistic approach in tackling the issue.

10. The agenda of the Conference was adopted as amended.

1. Constitutional amendment on lowering the threshold

11. The Department of Justice made a presentation on lowering the threshold of constitutional amendments from 75% to 66% of the votes cast in 3/4 of the States, highlighting the need and the advantages of lowering the threshold.

12. During the discussions, the Principals raised the following issues: the need to consider all the issues that made the previous attempts to amend the Constitution unsuccessful, including the phrasing of the question and public awareness; whether lowering the threshold will not lead to undesirable constitutional modifications; whether the passage of Congressional Bill No. 18-55 by Congress will change the Constitution; and whether the FSM should look at all the aspects of the FSM Constitution that need a facelift.

Decisions

13. The 7th SNLC agreed to:

- (1) urge Congress to pass Congressional Bill to lower the threshold of constitutional amendments from 75% to 66% of the votes cast in $\frac{3}{4}$ of the States and the Congressional Bill on dual citizenship;
- (2) urge the National Government to undertake a nation-wide public education and awareness campaign on the constitutional threshold amendment and the dual citizenship amendment, in anticipation of the upcoming elections. The public education campaign shall include Guam, Hawaii, CNMI, and US Mainland; and
- (3) support the appropriation of the amount of US\$500,000.00 to fund the public education campaign.

2. Tax Reform in relation to expected losses of Compact Funds

14. The Tax reform Taskforce briefed the SNLC on the status of the Tax reform. The Taskforce informed the Leaders that despite the anticipated benefits of the proposed tax reform and despite the 6th SNLC adopting a Resolution in support of the tax reform; it was yet to be completed. In order to avoid the Revenue Administration Act being nullified on May 31, 2014, there was a need to repeal the Sunset clause and to allow the States that are ready to move ahead to do so.

15. The Principals raised the following issues: the need to find a compromise to allow the two States that have already passed the necessary legislations to move forward, given the implications of the status quo on their finances and economies; the need to ensure that Congress passes laws that do not violate the FSM Constitution; Congress supports the tax reform in its current form as long as the five Governments move at the

same pace; whether to explore alternate options to generate revenues that are needed, considering the amount of financial resources already spent on the tax reform.

Decisions

- (1) State and National Leaders agreed to endorse SNLC Resolution 2014-001 urging FSM Congress to repeal of Section 934 of Title 54 of the Code of the Federated States of Micronesia and urging the two other States to undertake necessary work to move the tax reform forward.

3. FSMPC

16. The FSMPC provided a presentation on its current activities, its financial and management performance of the FSMPC over the last six (6) years, and its expansion into conventional and renewable energy related infrastructure within the FSM such as: new oil transshipment port, new fuel storage tanks and facilities, coconut based biofuels development, conventional and renewable power generation, and outer island fuel supply arrangements. The Principals also noted that FSMPC is expected to conclude a new supply agreement with Mobil Oil Guam Inc.

17. The Leaders inquired whether FSMPC's main interest in taking over the FSM Coconut Development Authority (CDA) is mainly in biofuels or in virgin coconut oil. It was clarified that FSMPC's interest is in any value-added coconut products that will generate high return both to the company and the producers, which will include virgin coconut oil.

Decisions

- (1) The SNLC agreed to endorse SNLC Resolution 2014-002 in support of FSMPC investment projects.

4. PMU

18. The Department of Transportation, Communication & Infrastructure updated the SNLC on its status and current projects. The Conference noted that PMU is currently not funded; and that JEMCO needs an updated Infrastructure Development Plan (IDP) before new projects are authorized.

19. With respect to ongoing projects, PMU presented the status of the Weno Road Project (PMU has recently issued a conditional notice of award based on availability of funding, and will be consulting with the Office of Insular Affairs to discuss the lifting of the grant suspension noting that US\$4 million is required to complete the Project), the Chuuk Lagoon Dispensaries, Chuuk schools, Weno Sewage Treatment, Yap ECE building, Yap hospital renovation, Yap High School, Pohnpei-COM to Diati waterline, Pohnpei NMS, PICS & MHS classroom, Primary Health center, Kinakapw to Lehn Diadi waterline, and new Kosrae hospital. The Leaders also noted with concern the current

financial status, which shows that of US\$456 million, only US\$251 million are currently allocated.

20. The Principals raised the following issues: whether PMU should undertake a periodic review of the priorities identified by the States; the need to go beyond health and education infrastructure and fund infrastructure projects in other key areas such as road and bridges which have direct impact on health and education as well as economic development; whether PMU should be decentralized, considering that Congress has already passed a Resolution supporting the decentralization of PMU.

Decisions

21. The 7th SNLC agreed to:

- (1) urge those State Governments that are ready to submit their plan for managing PMU at the State level, to submit their plans to OIA;
- (2) urge the National Government to conduct a management plan for decentralizing PMU to allow State and National Leaders to make an informed decision at their subsequent meetings; and
- (3) urge the National Government to review the procedures for project implementation in the FSM.

5. 2023 Challenges

a) 2023 Framework and Action Plan

22. The Office of SBOC briefed the SNLC on work conducted by the 2023 Committee established in 2012. During the presentation, the Principals were informed that the 2023 Committee recently completed a round of sensitization and awareness activities as well as consultations with the Private Sector throughout the four States; and that the next steps on the Committee's road map are: (1) complete a Draft Framework and Action Plan by July 2014; (2) finalization and adoption of the Framework and Action Plan by the SNLC towards the end of 2014; and (3) convening of the second Development Partners Forum to discuss the implementation of the Framework and Action Plan.

23. State and National Leaders raised the following issues during the discussions: why didn't the National Government go through the same process as the States did with respect to the LTFF; whether there are plans from the Executive Branch to review its structure to reflect the transfer of some of the Compact Sector Grants to State Governments; whether States will also consider putting money into the FSM Trust Fund; whether the FSM Trust Fund is being invested and is earning interest; and whether the FSM has approached other Development Partners to contribute to its Trust Fund, noting that the Republic of the Marshall Islands has adopted such an approach with respect to Taiwan.

24. The Principals inquired whether the money will be apportioned among five governments; the Fund could be used to address some of the impediments hampering economic development, including economic infrastructure; how to ensure that the experience of the IDF under the Original Compact does not repeat itself; how to ensure that the IDF addresses some of the issues with the FSM Development Bank, and the need to enhance the capacity of State Governments in utilizing existing funds.

25. State and National Leaders agreed to note the work undertaken by the 2023 Committee and the activities needed to complete the 2023 Framework and Action Plan, as well as the proposal to establish an Investment Development Fund.

Decisions

- (1) State and National Leaders agreed to urge the 2023 Committee to meet the deadline highlighted in its Road Map and to expedite the 2023 Framework and Action Plan that will be submitted to Congress for adoption.

b) Strategies to address economic development

26. The Department of Resources and Development made a presentation on impediments affecting economic development, which include inadequate business enabling environment; limited in-country capacity for agro-processing and value-added agriculture products; inadequate domestic and international transport linkages; weak capacity to undertake fishing, processing, transshipment, and aquaculture development; limited capacity and resources as well as poor infrastructure to develop high-end tourism and tourism products development; high dependency on imported fossil fuel; and lack of coordination between States and National Government, between public and private sector, and among the private sector.

27. States and National Leaders noted that the main strategic options moving forward include: harmonization/unification of foreign investment laws and regulations; identification of land to be made available to potential investors, establishing industrial/economic zones; enacting of legislations requiring registration of land related transactions; enhancing the productive infrastructure (quarantine, treatment and processing facilities, quality compliance centers and competent authorities); enhancing human resources development and the capacity of the productive sector; and promoting and supporting investment projects in targeted sectors.

6. COM-FSM space utilization and facilities Master Plan Study (COM-FSM)

28. The College of Micronesia FSM (COM-FSM) presented the SNLC with the findings of the Space Utilization and Facilities Master Plan Study with recommendations for development of facilities at all campuses for the next 15 years in accordance with growth projections. The Principals noted that COM-FSM is subject to particular standards for facilities in order to meet the requirements for accreditation and that

funding for a number of years is required in order to improve and construct appropriate facilities.

29. The Principals raised the following issues: whether the Study commissioned by COM-FSM looked at the number of youth graduating from high school who do not enroll in College and whether there are plans to establish a vocational section at COM-Chuuk Campus; whether the configuration of the College needs to change to ensure the sustainability of the College; and whether the College has identified the funding strategies to implement the Master Plan.

Decisions

30. The 7th SNLC, mindful of COM-FSM being the only national institution of higher education for the Federated States of Micronesia, agreed to:

- (1) express their support for improving facilities at all COM-FSM sites in accordance with the Space Utilization and Facilities Master Plan Study to accommodate growth and accreditation standards; and
- (2) direct COM-FSM to formulate strategies for funding facilities development at all COM-FSM sites and submit them to the Leaders for consideration at the next SNLC.

7. State issues

a) Burden sharing

31. State Governments thanked the National Government for transferring its share of Compact sector grants to State Governments. However, those resources are insufficient to make up the shortfall resulting from the cut made by the State Governments in their respective Long Term Fiscal Framework. State Leaders emphasized that there is need for more support from the National Government, in particular with respect to sharing local revenue. In this regard, Kosrae State suggested that the current formula for sharing local revenue should be revisited to allow State Government to receive 70% of local revenue, with the 30% remaining for the National Government.

Decisions

- (1) State and National Leaders agreed to continue discussions on the issues raised at their subsequent SNLC.

b) China concessional loan of US\$ 2 billion to the Pacific Region

32. State Leaders inquired about the modalities of accessing the China concessional loans of US\$2 billion. The SNLC was informed that US\$1 billion will be available through the China Exim-Bank and the other US\$1 billion will be available through the China Development Bank for business oriented activities. The Leaders also noted that the Chinese Government has pledged approximately US\$30 million in grant assistance to the FSM.

8. Information & updates

a) 2012 Investment Facilitation Symposium

33. The FSM Department of Resources and Development updated the SNLC on the implementation of the Recommendations adopted during the Investment Facilitation Symposium that took place in 2013. State and National Leaders noted that a number of actions have been undertaken with a view to address the challenges identified during the Symposium, including: development of an Investment Guide to be finalized by the end of the year; redesigning the Department of Resources and Development website; development of time standards by the FSM Supreme Court; submission of Technical Assistance Requests to IFC-World Bank Group and the Asian Development Bank to review and harmonize the five investment regimes in the FSM and undertake a survey of FSM highly-skilled citizens and entrepreneurs residing overseas. Finally, the Conference noted that to enhance financial literacy in FSM, the Department of Resources and Development is supporting the Bank of Guam in organizing a Finance and Business Conference on June 12-13, 2014, in Pohnpei.

b) ODA

34. The Office of SBOC updated the SNLC on the developments that have taken place since the adoption of the ODA Policy by Congress; and the Leaders noted that there was a need for the Nation to agree on clear priorities and to ensure that those priorities are aligned with the various Strategic Development Plans as well as the need to avoid submitting conflicting requests to Development Partners.

c) Telecommunication Bill

35. The FSM Department of Transportation, Communication and Infrastructure updated State and National Leaders on the progress in expanding the fiber optic cable to Yap, Chuuk, and Kosrae. The Principals noted that FSM will use the IDA 17 and regional grant funding from the World Bank for the Palau-Yap-Guam Cable System and to connect Chuuk and Kosrae.

36. The Leaders raised a number of issues, including the reasons why Chuuk and Kosrae do not qualify for regional connectivity and whether the O3B will constitute a viable alternative option.

Decisions:

37. States and National Leaders reaffirmed the 4th SNLC's decision of February 2012 recognizing the importance of telecommunications services to the social and economic development of the Federated States of Micronesia, agreed to :

- (1) support on-going efforts to obtain fiber optic connectivity for all states in the FSM within a liberalized telecommunications market that is regulated to ensure universal access to telecommunications services;

- (2) support the FSM-Palau Joint Task Force Partnership for a regional Palau-Yap-Guam Cable System in cooperation with funding partners World Bank and the ADB; and
- (3) support the initiative to secure IDA 17 and regional connectivity grant funding from the World Bank for the Palau-Yap-Guam Cable System and for Chuuk and Kosrae fiber optic connectivity.

d) Airline Taskforce

38. The FSM Department of Transportation, Communication and Infrastructure presented an update of ongoing work and efforts of the Airline Taskforce to enhance air service connectivity to and from the FSM. The Principals noted the different options available, including (1) procuring of Y-12E aircraft into Caroline Islands Air, which is expected to be delivered in April 2015; (2) establishing Micronesia Airways; and (3) using the service of Our Airline and Air Niugini which appear to be the most feasible for immediate commencement of service.

39. State and National Leaders raised a number of issues, including whether CIA has the capacity to manage the Y-12 that the National Government wants to buy; whether the National Government has offered to subsidize additional flights operated by United Airline into the FSM; and the need to further develop the tourism sector to ensure that the Nation has tourism products and infrastructure that will attract visitors into the FSM.

Decisions

- (1) State and National Leaders agreed to direct the Airline Taskforce to conduct a cost/benefits analysis of the various options presented at the 7th SNLC, with a view to allow the Leaders to make informed decisions before the next SNLC.

9. Miscellaneous issues

▪ **2016 Pacific Islands Forum**

40. The Department of Foreign Affairs informed the SNLC that the FSM would like to host the Pacific Islands Forum in 2016, given that the FSM will commemorate the 30 anniversary of its independence that year. State and National Leaders noted that hosting the Pacific Islands Forum will bring several benefits to the FSM, and stressed the need to prepare for such a big event.

Decisions

- 1) State and National Leaders endorsed the FSM hosting the 2016 Pacific Islands Forum; and
- 2) Urge the President to officially communicate FSM's interest to host the 2016 Pacific Islands Forum at the 2014 Summit in Palau.

▪ **Updates on activities of the Judiciary.**

41. The Honorable Yinug, FSM Chief Justice, briefed the SNLC on the FSM Supreme Court's five year strategic plan and the ongoing initiatives to enhance the business climate in the FSM, including the time standards, posting of court's decisions on the FSM Supreme Court website, and developing annual reports.

42. State and National Leaders commended the work of the Judiciary in enhancing the business enabling environment in the FSM, which will contribute towards addressing the impediments to economic development in the Nation.

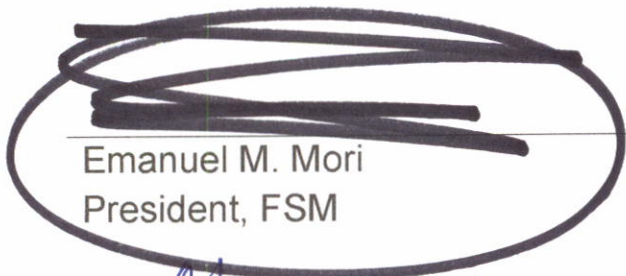
10. Next SNLC Meeting

2. State and National Leaders welcomed Kosrae State's offer to host the next SNLC.

Closing remarks

43. State and National Leaders thanked President Mori, Chairman of the 7th SNLC, for his chairmanship in leading the deliberations. President Mori expressed his appreciation to State and National Leaders for their active participation and contribution to the discussions.

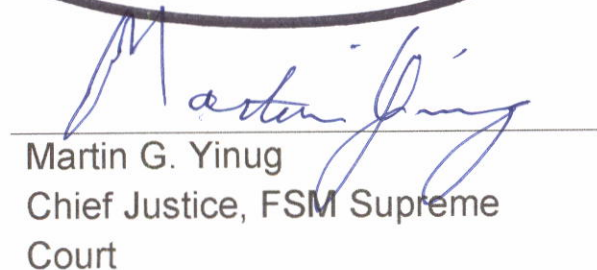
Done in Palikir, Pohnpei, this 23rd day of May 2014



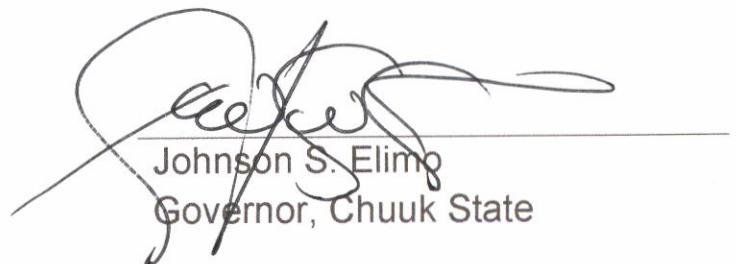
Emanuel M. Mori
President, FSM



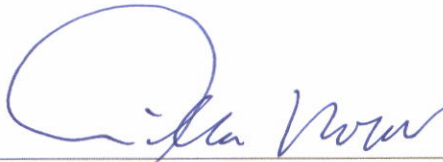
Dohsis Halbert
Speaker, 18th FSM Congress



Martin G. Yinug
Chief Justice, FSM Supreme
Court



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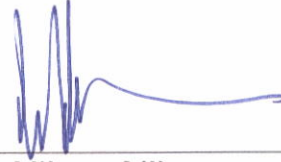
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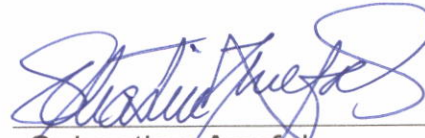
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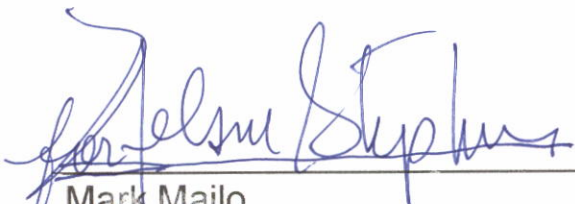


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