A RESOLUTION

Adopting the Federated States of Micronesia National Trade Policy and ratifying the Pacific Island Countries Trade Agreement (PICTA) dated August, 2001 and its subsequent amendments.

WHEREAS, the Strategic Development Plan (2004), the Economic Policy and Implementation Council (EPIC) resolution (2005) and the Chief Executive Council decision (2006) called for the FSM to establish the National Trade Facilitation Committee to assist in the formulation of a National Trade Policy to guide the nation on trade and investment issues; and

WHEREAS, the President established the National Trade Facilitation Committee (hereinafter, “NTFC”) through Executive Order Number 34 in January, 2008, which is chaired by the Vice President, with representatives from the National Government, States, the private sector and civil society, to assist the nation in formulating and implementing the Trade Policy; and

WHEREAS, the Department of Resources and Development, (formerly Economic Affairs) has held consultations in all the four States since 2006 and gathered the views of the National Government, States, the private sector, civil society and Non-Governmental Organizations on Trade Policy; and

WHEREAS, the first meeting of the NTFC was held June, 2008, to consider and finalize the Trade Policy; and

WHEREAS, the FSM is facing annual decline in Compact funding
and a serious economic quagmire, the Trade Policy (trade and investment) has the potential to stimulate private sector development and promote export-led economic growth and sustainable development; and

WHEREAS, the objectives of the Trade Policy are to promote exports of value added goods and services (agriculture, fisheries, tourism, labor), create an environment which is conducive for investment and private sector development, address production and supply-side constraints, promote production and consumption of local products and reduce the trade deficit, secure technical and financial assistance (Aid for Trade) from FSM’s trading partners and donors, and guide the nation in negotiating, ratifying and implementing trade agreements including the Pacific Island Countries Trade Agreement (hereinafter, “PICTA”), the Economic Partnership Agreement (hereinafter, “EPA”), the Pacific Agreement on Closer Economic Relations (hereinafter, “PACER”) taking into account the Compact trade provisions; and

WHEREAS, the vision of the Trade Policy is to create an environment which is conducive for foreign direct investment, to enable the private sector to produce value added and competitive goods and services, and promote export-led economic growth, self reliance and sustainable development, with the ultimate objective of creating employment, alleviating hardship and raising the living standards of FSM citizens; and

WHEREAS, the FSM has signed PICTA, which establishes a free
1 trade area in goods among the parties, it has not yet ratified
2 PICTA, and PICTA is now being extended to trade in services; and
3 WHEREAS, the Leaders’ meeting in Niue in August, 2008 urged
4 all the countries (FSM included) that have not yet ratified PICTA
5 to do so on or before January, 2008; and
6 WHEREAS, the States’ consultations and the economic and
7 social impact studies have indicated that the impact of ratifying
8 PICTA will be minimal; and
9 WHEREAS, the FSM is a party to the Cotonou Agreement and has
10 already signed and ratified the Fisheries Partnership Agreement
11 with the European Union (hereinafter EU), it is currently
12 negotiating the EPA with the EU and this agreement is expected to
13 be finalized no later than December, 2008; and
14 WHEREAS, the trade provisions in the Cotonou Agreement
15 expired in December, 2007, the EU has provided generous rules of
16 origin for certain products, duty free and quota free access for
17 those countries that sign the Interim EPA; and
18 WHEREAS, Papua New Guinea and Fiji have signed the Interim
19 EPA; and
20 WHEREAS, FSM together with other eleven Pacific countries
21 have not yet signed EPA because of outstanding countries, have
22 been relegated to the Generalized System of Preferences (a worse
23 scheme that what FSM had under the Cotonou Agreement; and
24 WHEREAS, the Interim EPA itself may not impose any
25 significant economic and social impact on the FSM, signing an EPA
will require the FSM to give the same benefits that it would have given to the EU and to the United States under the most favored nation (MFN) clause in the Compact Agreement and this may have potential revenue consequences; and

WHEREAS, to minimize the potential revenue consequences from EPA, FSM will be required to reform its tax system to a value added tax plus system and enter into consultations with the United States on whether and how the MFN provisions will be applied, how to improve the trade and investment relations with the United States in light of preference erosion and also how to secure additional compensation for the lost trade and tax benefits including more Aid for Trade; and

WHEREAS, PACER is a cooperation agreement between the Forum Island Countries and Australia and New Zealand, FSM has not yet signed this agreement because if it is extended into a free trade agreement, as is being proposed by Australia and New Zealand, this would trigger the MFN Compact obligation; and

WHEREAS the Forum Island Countries are proposing to negotiate a trade, investment and development cooperation agreement with China, if designed properly this agreement may have a positive impact for the economy; and

WHEREAS, trade and investment have the potential to lift the nation from economic malaise, underdevelopment and hardship, there is a need to priorities resources for Trade-related activities and provide the necessary assistance to the private
sector to promote exports and import substitution; and

WHEREAS, in order to promote foreign investment to assist in export development and economic growth, FSM needs to adopt the World Bank Report on the Ease of Doing Business in order to create an environment which is conducive for foreign investment and address all the outstanding issues pertaining to investment reforms; and

WHEREAS, the amount of work and challenges facing FSM in trade and investment are enormous, there are not adequate human and financial resources to undertake these tasks; and

WHEREAS, the FSM has identified all the problems affecting trade and investment in FSM as memorialized in the trade Policy, and now desires to have the Trade Policy adopted as a national document to guide the nation on all trade and investment matters including using the document to secure the resources that are required to implement the Trade Policy at the National and State level; now, therefore

BE IT RESOLVED by the Fifteenth Congress of the Federated States of Micronesia, Fifth Regular Session, 2008, that the Congress hereby adopts the Trade Policy including its Annexes; and

BE IT FURTHER RESOLVED by the Fifteenth Congress of the Federated States of Micronesia, Fifth Regular Session, 2008 that FSM ratifies PICTA and commences trading under the agreement; and

BE IT FURTHER RESOLVED that Congress supports the
implementation of the Trade Policy including the allocation of the
necessary resources for the NTFC, and the Department of Resources
and Development and other activities identified in the
recommendations; and

BE IT FURTHER RESOLVED that an annual budget of approximately
$150,000 be set aside for the purposes of convening the NTFC to
assist with implementing the Trade Policy and conducting annual
review of the Trade Policy; and

BE IT FURTHER RESOLVED that certified copies of this
resolution be transmitted to the President and Vice President of
the Federated States of Micronesia, the Secretary of the
Department of Resources and Development, the Secretary of the
Department Justice and the Secretary of the Department of Foreign
Affairs.

Date: 9/19/08

 Introduced by: /s/ Resio S. Moses
Joe N. Suka
(by request)