A BILL FOR AN ACT

To further amend the Foreign Investment Act of 1997, as amended, to streamline the review and screening of foreign investment applications and issuance of permits by creating a National Foreign Investment Single Window to achieve the stated purposes, by amending sections 202, 205, 206, and 208, and by inserting a new section 202A to title 32 of the Code of the Federated States of Micronesia (Annotated), and by providing for a transitional clause, and for other purposes.

BE IT ENACTED BY THE CONGRESS OF THE FEDERATED STATES OF MICRONESIA:

1 Section 1. Statement of Policy. In order to achieve economic self-sufficiency through sustainable economic growth, it is deemed in the best interest of the FSM to create an open and friendly investment environment within which the private sector will be able to freely conduct business and be guaranteed fair competition and investor protection. Foreign investment plays an important role [of foreign investment] in the economic development of the nation and the states. However, [this] inadequate business climate [and performance] perpetuates a negative impact that is not only counterproductive but also inimical to the interest of the nation and its people. Some of the perceived reasons for the poor foreign investment performance in the Federated States of Micronesia are the complicated and oftentimes conflicting requirements of foreign investment set out in the national and state laws. While efforts have been undertaken to encourage foreign investment, little has been achieved so far because of the fundamental weaknesses arising from the national and state foreign
investment legislations lacking in harmony. Therefore, it is the
policy of the national government to streamline and centralize the
regulation of foreign investment with a view towards achieving the
following objectives and principles:

(a) National government recognizes the role of foreign
investment in the economic development of the nation and the
states.

(b) Priorities of foreign investments shall align with the
goals and objectives of national development plan.

(c) Procedures in processing foreign investment applications
shall start at the national government and endorsed to the
relevant state government to facilitate the commencement of
business operation.

(d) Foreign investment is to be encouraged in accordance with
transparent, fair, and consistent rules based on international
best practices.

(e) The national government recognizes the potential
contribution of foreign investment towards creating jobs for
Micronesians, efficient utilization of resources, and increased
public revenue.

(f) Foreign investment is subject to providing development
training and capacity building of domestic labor force, technology
transfer, and incentive on apprenticeship.

Section 2. Section 202 of chapter 2 subchapter I of title 32
of the Code of the Federated States of Micronesia (Annotated) is
Section 202. Purpose of this chapter.

(a) The purpose of this chapter is to encourage responsible foreign investment and openness to entering into partnership with domestic investors within the territory of the FSM in a manner that serves the economic, social, and cultural interests of its citizens. This purpose shall be borne in mind in the implementation and interpretation of the provisions of this chapter.

(b) In achieving the purpose stated in subsection (a), Congress intends uniform application and interpretation of the law and in the procedures adopted to give effect to the law in order to minimize differentiated treatment of investors, uncoordinated policy application, and potential discrimination among prospective investors.

(c) In adopting this act, Congress intends to exercise its expressly delegated powers to regulate banking, foreign and interstate commerce and the interplay of related powers enumerated in section 2 Article IX of the Constitution."

Section 3. Chapter 2 subchapter I of title 32 of the Code of the Federated States of Micronesia (Annotated) is hereby amended by inserting new section 202A, following section 202, to read as
follows:

"Section 202A. National preemption. (a) Except as provided in subsection (b) of this section, the provisions of this act shall supersede any and all state laws insofar as they may now or hereafter relate to foreign investment regulation. This section shall take effect immediately.

(b) Construction and interpretation.

(1) This section shall not apply with respect to any cause of action, which arose, or any act or omission, which occurred, before the effective date of this act.

(2) Nothing in this act shall be construed to exempt or relieve any person with foreign investment or employees from any state or municipal law with respect to state and municipal fees or taxes, if applicable.

(3) Nothing in this act shall be construed as negating the authority of the states to require health and environmental standards and measures, PROVIDED, THAT, they are uniformly applied to foreign and domestic businesses."

Section 4. Section 205 of chapter 2 subchapter II of title 32 of the Code of the Federated States of Micronesia (Annotated), is hereby amended to read as follows:

"Section 205. Categories of economic sectors.
The following system of Categories of economic sectors is hereby established for the purpose of implementing the policy of the FSM to welcome foreign investment in
all sectors of the FSM economy, insofar as such foreign
investment is consistent with the economic, social, and
cultural well-being of its citizens:

(1) **Categories for National Regulation**— economic

sectors that are of special national significance and
therefore fall within the jurisdiction of the National
Government in respect of foreign investment regulation.

These Categories are the following:

(a) **National Prohibited Category** [Category A
("National Red List")]: The following set of economic
sectors that are [closed] prohibited to foreign and
domestic investment anywhere in the FSM. Economic
sectors in the National Prohibited Category [Red] List
are the following:

(i) arms manufacture;

(ii) the minting of coins or printing of
notes for use as currency;

(iii) business activities relating to nuclear
power or radioactivity; and

(iv) such other economic sectors as the
Secretary may, after consultation with States pursuant
to section 206(2) of this chapter, designate in the FSM
Foreign Investment Regulations as being on the National
Red Prohibited Category List.

(b) **National Restricted Category** B ("National
Amber

List”) The following set of economic sectors that are subject to National Government regulation and as to which certain criteria specified in the FSM Foreign Investment Regulations must be met. Economic Sectors on the National Restricted Amber Category List include the following:

(i) banking, other than as defined in title 29 of this code;

(ii) insurance; and

(iii) such other economic sectors as the Secretary may, after consultation with States pursuant to section 206(2) of this chapter, designate in the FSM Foreign Investment Regulations as being on the National Amber Restricted Category List.

(b) National Restricted Category

The economic sectors under this category shall be identified by the Department and made part of the National Foreign Investment Regulations subject to specified criteria on how they must be met.

(c) National Green Investment Category

The economic sectors under this category shall be identified by the Department and made part of the National Foreign Investment Regulations subject to specified criteria on how they must be met.
(Category C ("National Green List")—The following set of economic sectors that are subject to National Government regulation but as to which no special criteria need to be met before a Foreign Investment Permit is to be issued. Economic sectors on the National Green Investment Category List include the following:

(i) banking, as defined in title 29 of this code;

(ii) telecommunications;

(iii) fishing in the FSM's Exclusive Economic Zone;

(iv) international and interstate air transport;

(v) international shipping; and

(vi) such other economic sectors as the Secretary may, after consultation with States pursuant to section 206(2) of this chapter, designate in the FSM Foreign Investment Regulations as being on the National Green Investment Category List.

(2) National Reserved Category (Categories for State Regulation)—Economic sectors that are not of special national significance and therefore are delegated to the jurisdiction of the State Governments in respect of foreign investment regulation. These Categories are to
be established separately by each State, by means of the
State Foreign Investment Regulations in each State. An
economic sector included in any of the Categories for
National Regulation pursuant to subsection (1) of this
section shall not appear in any of the Categories for
State Regulation.] Economic sectors under National
Reserved Category shall be developed in consultation
with the States following the effective date of this act
to be incorporated into the National Foreign Investment
Regulations for the purpose of safeguarding the
interests of local businesses and reserving business
opportunities for the citizens, and to effectively
facilitate review, screening, and issuance of permit by
the National Foreign Investment Single Window.

(3) Notwithstanding anything to the contrary in
subsection (1) of this section, and regardless of the
economic category involved:

(a) every applicant for or holder of an FSM
Foreign Investment Permit may be required to meet such
character criteria as may be specified in the FSM
Foreign Investment Regulations in order to obtain or
retain an FSM Foreign Investment Permit; and

(b) every present or future holder of a
substantial ownership interest in an applicant for or
holder of an FSM Foreign Investment Permit as
established by law may be required to meet those same character criteria in order to obtain or retain that substantial ownership interest.

Section 5. Section 206 of chapter 2 subchapter II of title 32 of the Code of the Federated States of Micronesia (Annotated) is hereby amended to read as follows:

“Section 206. Responsibilities of the National and State Governments regarding foreign investment.

(1) The National Government of the FSM shall be responsible, at the initiative of the Secretary, for:

(a) determining, after consultation with the States as required under subsection (2) of this section, which economic sectors, in addition to those enumerated in section 205(1) of this chapter, shall be designated for inclusion in [**Category A** (National [**Red**] Prohibited Category List[†]), [**Category B** (National [**Amber**] Restricted Category List[†]), [and **Category C** (National Green Investment List[†]) and National Reserved Category].

(b) determining what criteria, if any, shall be specified for foreign investments in **Category B** [‡]National [**Amber**] Restricted Category List[‡] economic sectors.

(c) the issuance of FSM Foreign Investment Permits in respect of [**Category B** and **Category C**]
National Restricted Category List, National Green Investment List, and National Reserved Category economic sectors, and in general for the administration of foreign investment rules established by this act or by the FSM Foreign Investment Regulations.

(d) promulgating such FSM Foreign Investment Regulations as may be necessary for the effective and efficient discharge of the responsibilities enumerated in this subsection and in general for the proper administration of this chapter.

(e) Develop and execute a national and state monitoring system between designated national and state agencies responsible for monitoring foreign investment to ensure that investors comply with their foreign investment permits and commitments to support the FSM economic development priorities.

(2) The National Government and the state governments or their designated agencies or authorities shall [consult] meet regularly, at least once every two years, [with authorities designated by the Governments of the States] to review sectoral development priorities and to formulate policy recommendations in order to improve the implementation of this chapter. [to discuss proposals to add economic sectors to, or remove them from, Category A (National Red List), Category B}
(National Amber List), or Category C (National Green List) under section 205(1) of this chapter.

(3) The Government of each individual State shall be responsible for the regulation of foreign investment, including the issuance of State Foreign Investment Permits, in respect of foreign investment taking place or proposed to take place within the territory of that State in all economic sectors other than those designated for inclusion in Categories A, B, or C pursuant to section 205(1) of this chapter.

(4) If any foreign investment of a type described in subsection (3) of this section takes place or is proposed to take place within the territories of more than one State, each of those States shall have authority to regulate such foreign investment within its own territory.

(5) Action taken by the Government of a State under subsections (3) and (4) of this section shall be consistent with the provisions of this chapter and the FSM Foreign Investment Regulations.

(3) [(6)] If any foreign investment or proposed foreign investment involves more than one economic sector, and those economic sectors are designated for inclusion in more than one Category pursuant to section 205 of this chapter, such investment or proposed investment shall be
subject to the provisions of this law and FSM Foreign Regulations. [rules and jurisdiction applicable to each such Category as described in this section and elsewhere in this chapter.]

(7) The Department shall, upon request, offer assistance:

(a) to States in the areas of foreign investment policy and promotion, under terms to be specified in the FSM Foreign Investment Regulations; and

(b) to foreign investors with investments taking place or proposed to take place within the territory of more than one State, under terms and guidelines agreed with the concerned States.

(8) In the absence of State Foreign Investment Legislation, the National Government will continue to regulate foreign investment in that State pursuant to provisions of the Foreign Investment Regulations which shall be substantially the same as the Foreign Investment Act which is superseded by this Act."

Section 6. Section 208 of chapter 2 subchapter II of title 32 of the Code of the Federated States of Micronesia (Annotated), is hereby repealed in its entirety.

"Section 208. Transition [Application procedures for State Foreign Investment Permits.

An application for a State Foreign Investment Permit
shall be made in accordance with the provisions of State
Foreign Investment Legislation and State Foreign
Investment Regulations. In the interest of coordination
and reducing administrative burdens on foreign
investors, such provisions should:

(1) establish rules and procedures consistent with
the provisions of this chapter and with the provisions
of the FSM Foreign Investment Regulations;

(2) direct the responsible State authorities to make
available to the Department copies of the application
forms for State Foreign Investment Permits, together
with such other materials and information necessary for
the Department to assist prospective foreign investors;

(3) direct the responsible State authorities to
forward to the Secretary any application for an FSM
Foreign Investment Permit, or any information submitted
in support of such an application; and

(4) direct the responsible State authorities to
forward to the Department a copy of any State Foreign
Investment Permit issued by those authorities].”

Within one year from the effective date of this act,
holder of existing foreign investment permit issued by
state authority is required to apply for a foreign
investment permit and to qualify for issuance of foreign
investment permit in accordance with this chapter to be
able to continue to engage in business. Failing to apply for permit or to qualify for issuance of permit will result in the immediate discontinuance of business. During the one-year period, state authority shall refrain from issuing any new foreign investment permit."

Section 7. This act shall become law upon approval by the President of the Federated States of Micronesia or upon its becoming law without such approval.

Date: 5/22/19

Introduced by: /s/ Florencio S. Harper

Florencio S. Harper (by request)