

J. de Young

ECONOMIC DEVELOPMENT

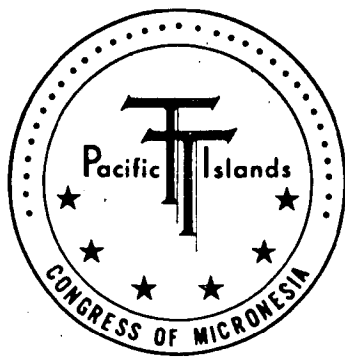
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A REPORT TO THE CONGRESS OF MICRONESIA

Prepared by

THE HOUSE OF REPRESENTATIVES

COMMITTEE ON RESOURCES AND DEVELOPMENT

Second Regular Session, Fourth Congress

January 1972

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ECONOMIC DEVELOPMENT
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TRUST TERRITORY OF THE PACIFIC ISLANDS

A MICRONESIAN VIEW

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COMMITTEE ON RESOURCES AND DEVELOPMENT

Fourth Congress of Micronesia
January, 1972

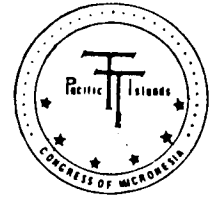
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COMMITTEE
RESOURCES AND
DEVELOPMENT

Sasao Haruo
Chairman
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Congress of Micronesia

House of Representatives
Saipan, M. I.
96950



January 10, 1972

The Honorable Bethwel Henry
Speaker, House of Representatives
Congress of Micronesia
Kolonias, Ponape District
Eastern Caroline Islands 96941

Dear Mr. Speaker:

The House Standing Committee on Resources and Development has the honor to submit herewith its report on Economic Development in the Trust Territory. The Committee was directed to undertake this study by House Resolution No. 26, Fourth Special Session, Fourth Congress of Micronesia, 1971.

Members of the staff who accompanied the Committee throughout its extensive two and one-half months of travel were Dr. D. C. Myrick of the Public Administration Service, Mr. Asterio Takesy, Clerk of the House, Mr. Adrian L. de Graffenried, Legal Counsel, and Mrs. Dorothy Smith, Secretary.

The Committee met with the leaders, businessmen, residents and administration officials in each of the six districts to obtain their views of the current status of economic development and its potential in terms of what Micronesians regard as essential and desirable locally and for Micronesia. Warehouses, docks, construction projects, agriculture stations, schools, and fishing projects were visited to obtain a first hand view of what is really happening in the economic development programs of the Trust Territory.

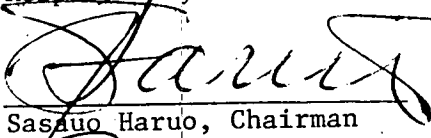
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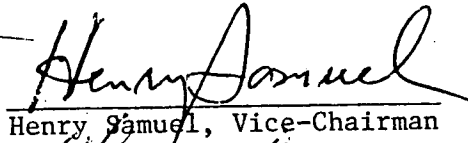
The Honorable Bethwel Henry
Speaker, House of Representatives
January 10, 1972
Page 2

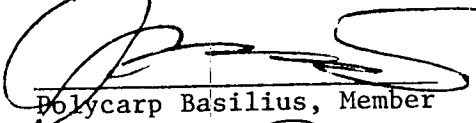
Generally, many overlapping areas were examined; infrastructure, agriculture, marine resources, tourism, and business and industry. The report examines economic development in terms of these major topic areas, offers conclusions in terms of what the situation is at present, and makes recommendations as to what steps should be taken to upgrade and improve economic development.

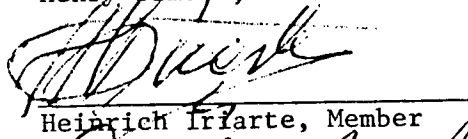
Your Committee hopes that this report will assist the Congress in its deliberations.

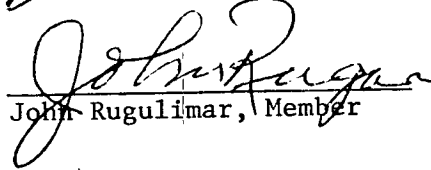
Respectfully submitted,

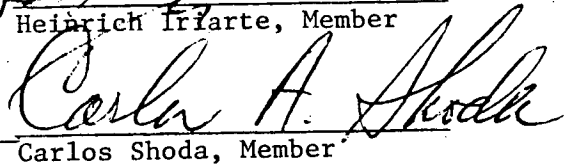

Sasao Haruo, Chairman


Henry Samuel, Vice-Chairman


Polycarp Basilius, Member


Heinrich Iriarte, Member


John Rugulimar, Member


Carlos Shoda, Member

01-C2645

A HOUSE RESOLUTION

Requesting the House Committee on Resources and Development to pre-
scribe the economic development goals and objectives for Micronesia
and to submit a report to the Congress of Micronesia during its regular
session in January, 1972.

WHEREAS, Senate Bill No. 11, which is now before the House of
Representatives of the Congress of Micronesia, proposes to establish
a Joint Committee on Economic Development Goals whose major respon-
sibility is to identify and set forth the economic development goals
and objectives for Micronesia and to report to the Congress of
Micronesia; and

WHEREAS, the House Standing Committee on Resources and Develop-
ment has jurisdiction over matters proposed to be accomplished by
Senate Bill No. 11; now, therefore,

BE IT RESOLVED by the House of Representatives of the Congress
of Micronesia, Fourth Special Session, 1971, that the Committee on
Resources and Development be and it is hereby requested to perform
the following responsibilities:

(1) Recommend goals, objectives and policies within
which economic and budget plans and programs can be developed for
Micronesia;

(2) Study and investigate the present programs and
policies in agriculture, land, marine resources, tourism, trade
and services, construction, retailing, manufacturing, transporta-
tion, labor and employment, finance and credit, or any other economic
area and to make recommendations on goals, objectives, programs and

policies to be established in these respective economic areas, with a view to ensuring the maximum contribution in each economic sector to an overall economic plan for the development of Micronesia;

(3) Analyze the economy of Micronesia and assess its natural, human, and capital resources, present and projected;

(4) Study the advisability of initiating or expanding economic activities in Micronesia;

(5) Make recommendations on priorities for the financing of economic development projects and programs in Micronesia;

(6) Recommend the enactment of legislation or any other action which they consider necessary or desirable for the implementation of viable economic plans and programs in Micronesia; and

(7) Perform such other duties and responsibilities which they may be assigned by the Congress of Micronesia or which they may deem necessary to carry out the purposes of this act; and

BE IT FURTHER RESOLVED that said Committee shall present a report of its activities, findings and recommendations to the Congress of Micronesia during the Second Regular Session of the Fourth Congress of Micronesia, either on its own or with the assistance of the Senate Committee on Resources and Development; and

BE IT FURTHER RESOLVED that a copy of this House Resolution shall be transmitted to the Honorable Sasauo Haruo, Chairman, House Committee on Resources and Development, and the Honorable Ambilos Iehsi, Chairman, Senate Committee on Resources and Development.

Adopted: May 22, 1971

01- C2647

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01-C2649

I. INTRODUCTION

The Committee on Resources and Development of the House of Representatives, Congress of Micronesia, was requested by House Resolution No. 26, Congress of Micronesia, Fourth Special Session, 1971, to prescribe the economic development goals and objectives for Micronesia and to submit a report to the Congress of Micronesia during its regular session in January, 1972. This Resolution is quoted in full in the preceding section of this Report.

The Committee convened, and decided that in order to respond to this mandate, it should hold hearings in all of the district and subdistrict centers and visit other islands as were accessible in the time available. A consultant was deemed necessary. The Committee selected its consultant through the Public Administration Service (PAS), a nonprofit corporation with headquarters in Chicago, Illinois. The consultant assigned by PAS, with the Committee's concurrence, had over thirty years experience as an economist with the United States Department of Agriculture (USDA). The Committee assembled in Guam with its legal counsel and consultant on September 26 to begin its field travel.

Survey Procedure

The Committee and staff traveled to Koror, Palau District, September 27, 1971. From then until November 18, it visited all six districts-and subdistricts Ebeye, Kwajalein Atoll; and Rota, Mariana Islands District. A subcommittee also visited Kusaie, Ponape District. Extensive public hearings were held with executive officials and employees of each of the Departments and Divisions of the Trust Territory Government, members of district legislatures and municipal councils, boards and commissions, business leaders, and many others. Capital Improvement Projects (CIP) and development projects and sites were visited, to the extent they were accessible.

The general objective in the meeting was to gather as much information as possible about the Executive Branch in supporting economic development, in developing and implementing economic plans and programs, and in its effectiveness, its problems, and its needs for improvement. The Committee solicited and explored as many different Micronesian views and ideas as possible, as they related to economic development. Opportunities for development were discussed, and ways and means of exploiting them. The Committee heard problems encountered by the private sector in carrying out their operations in trade, commerce, and services, and especially their ideas of how the Government could improve the framework within which they operated and the supporting services that were supplied.

At the end of the field travel, the Committee returned to Headquarters and conducted similar hearings with Headquarters' staff of the Executive Branch of the Government. These were completed December 1, 1971. Some executive sessions were then held, to identify the areas in which economic development had the greatest potential, and what assistance by the Administration and Congress was needed to support and hasten the process. This determined the general organization and content of the Report, and the recommendations of the Committee on various issues and problems. The Committee, its legal counsel, and its consultant then reviewed all material gathered and prepared the following Report.

Contents of Report

Chapter II reviews several general measures of the present level of development in Micronesia and concludes with an identification of major development opportunities. Chapter III briefly reviews the goals and objectives of development, and reviews the current general concept of organization of the responsibilities of the Executive Branch in terms of its suitability in support of development. Chapter IV examines the infrastructure program -- the facilities and institutions of common use and upon which economic development is founded. This includes for example, general government, transportation, water and sewage, power, education, health facilities, credit

and finance, and others.

Chapters V, VI, VII explore development opportunities, problems, and recommendations for the primary areas of agriculture, marine resources, and tourism. Chapter VIII is devoted to the private sector of the economy, that carries on the trade, supplies services, and otherwise participates in the operation of the economy.

At the end of each chapter is a list of selected major bills and resolutions pending before the Congress that relates directly to the subject of the chapter. Occasionally one is listed in two chapters. A complete list is included at the back of the Report. Also, following the list of pending legislation is a list of descriptive titles of legislation the Committee expects to introduce in this session of the Congress. This list is preliminary, and will be increased considerably. Some actions will require only amendments to the Code, others, new bills or resolutions.

II. ECONOMIC DEVELOPMENT IN MICRONESIA

Economic development is a concept that presupposes goals designed to establish self-sufficiency, not to establish dependency. Economic development is putting the basic resources of a geographic area or political or social entity to their most productive uses, as measured by the resulting effects on total output. Generally, it is a very complex process, depending upon the stage of development, the kinds and qualities of resources available and where they are, and what the people want in the context of their aspirations, cultural heritage, and political and governmental institutions. Micronesia is unlike the majority of other developing nations. It has no abundance of valuable natural resources, and no major source of funds and programs other than those extended by the United States. Most importantly, Micronesia's economic development is under the control and direction not of Micronesia, but of those nations that have undertaken, and that have been designated, to "oversee" our interests--the United Nations and the United States under the Trusteeship Agreement. Therefore, it is as important to examine the present programs and policies as it is to examine Micronesia's potential development possibilities.

It was unanimously agreed by members of the Committee that the Administering Authority has no specific economic development goals in Micronesia. General objectives, yes. These are to "develop"

agriculture, marine resources, and tourism; but no specific goal has, as yet, been set in each of these areas. The Committee was unable to ascertain whether the Administering Authority was emphasizing small, Micronesian-owned individual proprietorships or partnerships or corporations; was emphasizing cooperative or joint venture concepts; or was emphasizing foreign capital investment and exploitation. Unfortunately, public pronouncements and settled, established policy evidence the latter. The Committee has made several recommendations regarding foreign investment and they will be found throughout the Report. The Committee generally welcomes foreign investment and it recognizes that many development enterprises and opportunities can only be undertaken with the vast capital financing that is available to foreign firms. But, the Committee also recognizes that uncontrolled investment and exploitation of resources by foreign firms can only enslave Micronesia to larger forces. Foreign investment should be allowed, but only when ample opportunity is given for Micronesian participation in ownership and management, with a view to eventual control of the venture within a reasonable time frame. A word of caution -- joint ventures are not what they always appear to be, as was learned from a recent and well publicized experience that had widespread ramifications for Micronesia. The Committee welcomes genuine interests who want to assist Micronesia in its development; it will not welcome opportunists who are interested solely in

exploitation, in whatever guise or ruse attempted. Furthermore, and more importantly, the lack of specific economic development goals has led to a lack of confidence in the Administering Authority. This Congress must also accept a large part of the fault because until now, it has acquiesced to the present situation and has failed to step forward with a clear definition of what the Micronesian position is regarding economic development. Clearly, this Congress is obligated to do so, and just as clearly many of our own people question our purposes and our deliberations when they fail to see and to participate in definite results. There are many factors relating to economic development that need to be examined at this point.

ECONOMIC DEVELOPMENT, A BACKGROUND

Micronesia was substantially developed by the Japanese who replaced the German administration under the League of Nations Mandate at the close of World War I. Sugar, rice, marine resources, and mining were the major areas of Japanese investment. But in support of these were heavy investments in mills, power, roads, railroads, docks, warehouses and airfields, not to mention thousands of Japanese residents. Although much of this development was war related, much of it had direct and indirect benefits for Micronesians. World War II

destroyed this development. After some twenty-six years since the end of World War II, Micronesia is still in the early stages of redevelopment. The United States as Administering Authority has adopted several attitudes towards Micronesia. They have ranged from "benign neglect", in what was explained as a need to protect our unique culture (although it had undergone changes from the Spanish, German, and Japanese administrations) to what is today an attitude of "development of the islands", in an obvious attempt to rebutt United Nations criticism. Some development has occurred during these twenty-six years. Like attitudes, it has varied in the extremes. Saipan benefited early from intensive construction of infrastructure, particularly housing, paved roads, power, docks and airfields, and a generation of employment opportunities (and subsequent benefits that steady incomes can generate) by serving as Headquarters for the U. S. Navy and Trust Territory Administration and as a base of operations for the Central Intelligence Agency. Other districts, particularly the outer islands, have felt little impact of development until the recent administration. Some islands have felt the impact of science and technology, notably Bikini and Eniwetok, but none have received the benefit and promise of science as it should be used. The direction and rate of Micronesia's redevelopment is as follows:

Gross Domestic Product

Economic measures of development are usually expressed by Gross Domestic Product (GDP), rate of investment, import-export ratios, levels of employment, and other items -- especially those that appear in national accounts. Unfortunately, statistics or statistical estimates are very scarce in Micronesia, so much so that the usual national accounts are not maintained. Some estimates suggest a Micronesian GDP of between \$40 million and \$50 million; a little over half of this is in the monetary economy where most of the growth is concentrated and the rest is outside. This GDP is supplemented by an appropriation of the U. S. Congress in FY 1972 of about \$60 million that provides for most of the operation costs of the Trust Territory Government. This appropriation includes salaries, benefits, supplies and materials, facilities and their maintenance, operating and maintenance of the infrastructure, and the Capital Improvement Projects (CIP). A small part of the U. S. appropriations has been used to establish and augment the Economic Development Loan Fund (EDLF), which provides capital to individuals, partnerships, and corporations for development projects in the private sector. Its capitalization in 1971 was about \$1.25 million. Further discussion on EDLF may be found later under capitalization requirements.

Rate of Growth

The rate of growth of the Micronesian economy is another measure of development efforts. A common indicator is growth in the GDP mentioned above, especially growths in GDP per capita. Because there are no available or reliable data, or are no good annual data, on GDP or population, these measures are uncertain. Usually, a per capita growth rate of 5 percent is indicative of a vigorous economy.

However, the direct and indirect effects of changes in the appropriations and other expenditures by the U. S. Congress so dominate the growth factor in Micronesia that measurements of changes in the basic economy are eclipsed. That these appropriations increased from \$7.5 million earlier to \$17.5 million in 1962, \$25 million in 1967, \$50 million in 1971, and \$60 million in 1972 illustrates the point.

Further, the multiplier or secondary effect of these inputs is such that the largest part of the growth in trade, commerce and services is attributable to that source.

Most of the obvious growth in the Micronesian economy is in the area of Capital Improvement Projects. Details of budgets are available elsewhere, but the scale of CIP is illustrated by the budget of about \$17.0 million dollars from U. S. Congressional appropriations in FY 1971 and about \$20.7 million in 1972. The CIP includes all investment in infrastructure such as school construction, dispensaries,

hospitals, roads, airfields, docks and harbors, water systems, sewers, power installations, communications and reefer plants. The groups "transportation and communications" and "water, sewage, and power facilities" each call for over \$7 million in 1972, and "education facilities" is a strong third with \$3.6 million.

The General Fund

The scale of the functioning economy directly attributable to Micronesia might more accurately be described by the "general fund" available to the Congress of Micronesia for its budgeting process. An annual amount of \$125,000 is allocated from the U. S. appropriations to help defray the costs of the Congress. All other funds available to the Congress are generated from various taxes, fees, licenses, rentals, leases, and the like. Many of these are returned to and shared in various degrees with the districts for appropriation by the district legislatures. The amount available to the Congress has been over \$1 million in recent years. The larger part of this amount has been required for operations of the Congress, although a considerable and increasing amount has been used to support social services and development projects. A major change is in effect in FY 1972 -- a one percent tax on gross business income and a three percent tax on personal income. These revenues will increase funds available for appropriations by the Congress to \$2.2 million for FY 72 and as

much as \$4.5 million for FY 73. This will come primarily from the pay of employees of the government and from the pay of Global Associates' employees on Kwajalein Atoll. The major action taken in the 1971 Congress of Micronesia was to appropriate \$600,000 from these revenues for the Economic Development Loan Fund (EDLF), which was almost entirely committed and would have had few funds to disburse in 1972. The imposition of the income tax greatly strengthens and diversifies the options of the Congress in the total budgeting process, and enables it to reallocate income as public interests dictate.

The levels of cash flow to the General Fund of the Congress, before and after the new taxes, reflect in their magnitude the definite enlargement of the tax base that arises from the increasing scale of U. S. appropriations and expenditures in Micronesia. U. S. expenditures should, thus, not be excluded in observing the General Fund as an indicator of the scale and character of economic activity. The Committee has made several suggestions relating to taxation laws and policies to stimulate economic growth. These suggestions come later in this Report.

Rate of Investment

An important measure of the strength of an economy is the rate of investment in relation to the GDP. In a healthy, self-sustaining

economy, a ratio of between 20 and 25 percent would be considered adequate. However, in Micronesia the ratio is probably 70 percent or more, reflecting the large capital inputs from the U. S. Congress. At the same time, investment derived from the GDP is no doubt very low. This is to be expected because much of the GDP of Micronesia is generated in the subsistence area of the economy. An analysis of the district centers and areas actively tributary to them, might show the private investment rate there to be quite high, but this is to a large extent dependent on the level of U. S. monetary contributions to the economy in terms of salaries, wages, and purchases of supplies and materials.

Most of the development investment of Micronesia is in these centers and their tributary supply areas. This development investment has been given the highest priority to provide for the effective operation of government services and to support the concentration of population in these areas, where 50 percent of the population is located. This investment continues to attract more of the population as employment increases and is overburdening the existing infrastructure. The investment figure continues to increase, in no small part, at the expense of the rural areas and outer islands.

The outer islands have not been entirely neglected -- most of the population has access to educational and health facilities through

the construction and staffing (Peace Corps and Micronesian) of island elementary schools and dispensaries. Various other minor projects have been undertaken. One of the major economic supports for the outer islands is the system of field trip ships that provide access to a market for copra and other products and bring necessary food, clothing, and other supplies and trade goods. But outer island development opportunities have been limited by small and widely dispersed populations that are continually being attracted to opportunities in the district centers, and by a lack of available resources to develop. The main commercial product is copra, and must be expected to remain so indefinitely. A special section on copra is found at the end of the chapter on agriculture. Other products are mostly shells and handicrafts for sale in the district centers, and crops and fish for subsistence purposes.

Imports and Exports

The import-export ratio for Micronesia is not meaningful as a measure of development. Exports are actually very minor -- 12,000 to 15,000 tons of copra, a few thousand tons of fish, trochus and other shells, and exports to the developing tourist industry, (in this context, tourism is an export by bringing money into the territory in return for the Micronesian services and commodities sold to tourists). The volume of copra, fish, and trochus shell

collection available for export is markedly depressed by a diversion of manpower from these activities to government and secondary employment in the district centers.

The high level of imports arises primarily from U. S. expenditures for administration and development of the Trust Territory. These imports include materials, supplies, and personnel required for: construction, operation, and maintenance of the infrastructure; and the building and maintenance of private housing and businesses. They also include consumption goods. These are all at much higher levels than could possibly be maintained by an economy based solely upon Micronesian resources. Thus, the current living standards are based upon an artificial economy. This also accounts for the great disparity between the district centers and the outer islands. In this connection, the unique situation arising from the research and development operations of the U. S. Army centered in Kwajalein Atoll should be recognized. The Micronesian population in that area has access to employment at relatively high wages, and those displaced from their islands by the installations have been paid, or have accrued in total, considerable rentals for the use of their land. The effects by the government on life styles and values are much more intense here than has been the case in any of the other district centers.

Level of Resource Use

Economic activity based on Micronesia's own resources -- primarily agriculture, fisheries, and tourism -- has grown very slowly. There are many evidences of this. Copra output, the traditional mainstay of commercial agriculture, has been generally steady for some years, but dropped 30 percent last year. Sharply lowered world market prices may depress it further. There is no other agricultural product that is substantially exported. Even more important, an area long self-sufficient in subsistence crops is increasingly importing its foods. Now, almost all of the islands are dependent on imported rice, sugar, and other staples, and the heavily populated district center areas on meat, potatoes, eggs, dairy products, and other items. Not only does this reflect the movement out of agriculture but also rising standards of living that are supported by cash incomes in a monetary economy and that call for different and increasingly sophisticated foods and improved diets. Food imports totaled almost \$7 million in FY 1970.

The fishing industry has similar aspects. Micronesia has had a history of adequate supply of marine resources for subsistence purposes, primarily reef fish for a local consumption and for export purposes from migratory tuna schools exploited by a flourishing tuna fishery industry operated by the Japanese. At present the supply

of marine resources for subsistence purposes is adequate away from the district centers. But populations in the centers, being engaged in government and other nonsubsistence employment, must depend on supplies transported to the district centers; yet, they cannot buy nearly enough fish to supply their traditional dietary needs and wants. Because of this, district center population depend heavily on imports of protein foods, which include canned and some frozen marine products. This is a very depressing factor considering the almost unlimited potentials of marine resources for helping Micronesia attain a goal of self-sufficiency; more is discussed later.

The Van Camp tuna fishery based at Palau is the only revival of the tuna industry that has accumulated some experience. In its first five months of operation in 1964, landings were over 1,332 tons. In all of 1965, 3,000 tons were produced. This increased to 5,795 tons in 1969. New enterprises were undertaken at additional locations in 1971, but this proved to be a very poor tuna year in the Micronesian area, although full reports are not yet available. A few other developments in marine resources have occurred. They are important locally but are not large in terms of the total economy.

Tourism has been the Administration's bright spot in terms of economic development. When the Trust Territory was first opened to

tourists and visitors in 1965, about 4,000 came. By 1968, this had increased to 13,000. In 1969 an estimated 20,600 tourists spent about \$900,000. This is less than \$50 per tourist spent in the Trust Territory and is amazingly low. However, for Fiscal Year 1971 some 30,000 tourists were estimated to have spent \$2,400,000 in Micronesia.^{1/} This works out to \$80 per person, or an increase about \$30. Most tourists would expect to spend more, depending on length of stay and availability of services and commodities they want to buy. The Committee questions, however, just how much of these tourist expenditures remain in Micronesia to benefit the Micronesian economy. A major issue here is whether tourism will be controlled and owned by Micronesians or foreign companies.

Development Opportunities

Opportunities for development in Micronesia are guided by the location and amounts of natural and human resources. The priorities for development should be based on the needs of the economy in both the short and long run, and on the wishes of our people in terms of our economic, social, cultural and political aspirations.

1/

These figures are, of course, only estimates. Expenditures are based on the assumption that \$25 per day is spent per person on an average three day visit. The number of tourists is also an estimate and in some cases may contain some double counting.

The general consensus of all who have studied the economic development potential of Micronesia, either cursorily or in depth, is that primary opportunities lie in agriculture, marine resources, and tourism. The Committee agrees. The numerous potential small manufacturing operations that might be suggested would, to a large extent, further process agricultural or marine products or would supply the inputs in equipment and materials; and some, as will be seen, would support tourism. A few would be dependent, however, upon a concentration of low-cost labor, which does not exist in Micronesia at present in quantities and at prices required.

The Committee concentrated its attention on the three areas mentioned above. It has observed the efforts being made, noted lack of effort at critical points, and been particularly alert to successes and failures, and the underlying reasons. In addition, it has evaluated the organization for development, and the supporting infrastructure.

III. GOALS AND ORGANIZATION

A rational approach to economic development includes a set of objectives, along with guidelines, or constraints (requirements) for these objectives -- and an organization to guide, control, and support the development process. The first provides the framework within which development should occur; the second provides the means to move it forward. As noted earlier, there is an unfortunate absence of specific development goals in the major areas of the economy.

Objectives

The goal of development for Micronesia should be to attain a self-sustaining and acceptable level of economic growth. A significant constraint upon this goal is the attempt to attain the fastest possible rate of growth with the maximum participation possible by the Micronesian people.

Other constraints are also imposed by certain aspects of Micronesia's economy. The present influx of money from U. S. appropriations ^{2/} assures something approaching the "fastest possible

2/

Only in rare instances has the U. S. in its assistance programs, provided development assistance as high as 10 percent of the recipient country's GDP, and then only for short periods of time. More frequently, small countries receive as much as 3 to 5 percent, again for very few years. Assistance to large countries has been minute in relation to their GDPs.

rate of growth", but puts considerable strain on "maximum participation" by Micronesians. This constraint occurs because of three factors. One, an unusually large part of the Micronesian manpower is in direct government employment or secondary employment in district centers where the economic impact is greatest. This diverts the labor force from participating in agriculture, marine resources and tourism to more lucrative, less physically demanding, and more prestigious office, clerical and service work. Only employment in tourism offers somewhat similar amenities. More specific labor problems are discussed later in each of the major areas. Two, there is an overall skilled labor shortage in Micronesia (augmented by factor number one) requiring the importation of alien workers, mostly in contract construction. Three, there is a substantial number of positions in the government for which qualified Micronesians are not available, therefore, Americans serve as advisors while the qualified people are being developed. This is a normal process of development, wherein technical assistance and training are sought -- and supplied, from external sources, much the same as outside grants and loans.

This is the setting in which some hard choices must be made. Some have already been made -- at least implicitly. In approving a \$60 million appropriations level, Micronesia has opted for the fastest possible rate of growth and has sacrificed somewhat the

"maximum participation" of Micronesians. One of the biggest problems of economic development in Micronesia is that the government is the largest "business" and the largest employer, directly or indirectly.

It might be possible to emphasize the maximum participation of Micronesians by reducing the annual CIP to a level at which Micronesian manpower labor force would be augmented considerably by the accompanying reduction in government employment and in the secondary employment generated at the current level of economic activity. This would greatly extend the period of major investment in infrastructure and would avoid the inevitable sharp decline in the economy at the completion of the large transportation, communication, and public facilities projects. Also, more people might find the alternative in agriculture and fisheries more attractive. On the other side, much of the development of the economy and of human resources and the ability to maintain the health and well-being of the people is dependent upon the infrastructure. To delay its installation would be a difficult, almost impossible, decision to make.

Therefore, at the current level of CIP and of projects funded by the Congress of Micronesia, continued importation of labor will be necessary to undertake development projects as long as the shortage of skilled Micronesian labor exists and Micronesian employment in the

government sector of the economy has first priority. There is one advantage to this: when a project is completed, imported laborers can return to point of origin and Micronesians can become established in the more permanent occupations and areas of employment.

Again, it should be noted that Micronesia is at the present time short of labor. This underlies much of the discussion above and throughout this Report. Some unemployment exists, but most people who want to work can find employment. Above all, there is a great shortage of skills, which various training programs are attempting to remedy. This leads us to the organization to do the job.

Organization

The Committee generally supports the present structural and operational policy of the Government as an organization to lead, guide, and implement development. This is expressed in the concept of "decentralization". It not only can accommodate the great diversity among the districts, but it brings the people in widely dispersed locations much closer to their government.

The application of diversification is certainly far from perfect -- which is well recognized. However, it is a relatively new concept in the Trust Territory Government, the organization is new and it is on trial. But it is functioning in total very well, and in some locations

and some areas of activity, extremely effectively. Yet, problems exist. In the process of staffing, for example, some people have been miscast in their present roles. Others are obviously not yet fully qualified for their jobs. The Committee saw many examples of personnel who had failed in their jobs in one district and had been requested to leave, but who were merely transferred to another district. This practice must be stopped. Other problems have to some extent been recognized by the government in the existence of advisors at Headquarters whose function is to support program operations and to help develop personnel in the districts. The district level program officers need this assistance and support. This is especially true because of few highly skilled technicians in the districts. District Economic Development Officers are a major example. Nearly all receive level 22 salaries, which does not attract the best or most skilled Micronesian. By lending more Headquarters' assistance and training, these officers could acquire upgraded skills. It is a responsibility of the District Administrator to facilitate and participate in this process.

Out of the Committee's extended hearings and discussions in the districts and at Headquarters, have come some observations of some points that need attention. The first is a restatement of what is being decentralized. This would be a statement of what, under the

current decentralization policy, are considered the functions properly reserved for Headquarters and those to be carried out at the district level.

The second, closely akin to the first, is a spelling out of responsibilities of each office, or officer, in Headquarters and in the districts. This is more an expression of intent of position descriptions than the position descriptions themselves. Not only would it guide the responsible individuals in planning and carrying out their activities, but help administration in establishing responsibility for successful or troubled activities and programs.

A third problem is the very low level of coordination observed among agencies, offices, and programs, both at Headquarters and in the field. Very few activities can be carried out without reliance or impact on others. Too, there are oftentimes activities of one office that need the support of special talent or capabilities available in another. Coordination and interchange should be the rule -- not the exception.

Finally, and of great importance, is communication, in both directions, between Headquarters staff and staff in the districts. Very frequently, those responsible for program areas in the field and the supporting staff at Headquarters complained of lack of

communication. A man at Headquarters had an idea, wanted information, or was available to visit an officer in the field -- no response. Or an officer in a district wanted advice or assistance, perhaps a visit from a staff member -- again, no response. Why or where communication breaks down is not known. Both complain about a lack of communication from the other end, and this raises questions about the channels, either the mechanics or personnel involved. It is suspected that Headquarters personnel are not desired and ways are found to discourage their visit to a district for any length of time because too many local mistakes would be uncovered. In short, the general mood reflected by local administrative employees throughout the Committee's travels was one of insecurity and defensiveness. Whatever the problem, it should be reviewed and communication facilitated.

Action in these matters provides an opportunity for review of the functioning of decentralization after it has been in operation a short time, and before its elements become fixed or institutionalized. Weaknesses can be corrected and necessary adjustments made with a minimum of disturbance at this time. Again, the Committee supports the concept, but would like to see its intent clarified and functioning improved.

IV. INFRASTRUCTURE

Infrastructure facilities are basic to any economic development. The Committee wonders, however, how the government can establish infrastructure priorities that involve vast sums of money and that are designed to support a basic economy without definite goals and objectives within that economy. How do the government and the Congress decide to build a dock and reefer or a road and bridge without clear views of what these facilities are designed to support? Furthermore, the Committee questions the need for the type of infrastructure that is currently designed, funded, and constructed.

Generally, infrastructure is a concept that includes the physical installations and institutions of common use which are essential to and facilitate the development and operation of the economy and which contribute to the well-being of the people. The benefits and use of these installations are not identified with nor limited to any one activity or personal situation, but the basis for a decision to invest in a given infrastructure project may be very narrowly defined. The costs of infrastructure include not only the basic installation, but staffing, operation and maintenance, and growth and modernization.

Infrastructure includes government; components of transportation --

roads, docks and port facilities and airports and facilities, as well as bus and taxi service, ocean shipping lines, and airlines; communication systems; power; water supplies and distribution and sewage systems; education and training; health facilities and services; and banking and credit facilities. They will be discussed in order, and recommendations developed within each section.

Government

Government is a part of the infrastructure in that it provides the organization through which infrastructure is implemented. More technically, government is the organization of functions, officials, and staff, and facilities that provide the leadership and execute actions on behalf of a population grouped together, on the basis of geography and common interest, and claiming a high degree of autonomy in relation to groups similarly organized.

While history and events have led to the recognition of Micronesia as an entity, Micronesia has only recently been recognized as a governmental entity and that through the secretarial orders. It has a complete government, in terms of executive, legislative, and judicial branches. Also, it has a hierarchy of governmental power and responsibility -- the central Trust Territory Government, which retains certain authorities and functions; the six administrative

districts, each with its own complete governmental organization; and, the municipal governments within each district with rather limited authorities and functions. The secretarial order delimits these powers and responsibilities as between the executive, judicial, and legislative branches and patterns the Micronesian government upon the "separation of powers" doctrine of the U.S. But here, the similarity ends.

The Legislative Branch is given no full power to override a veto of legislation, to appropriate funds, or to advise and consent upon appointments by the Executive. The Congress may only review the annual budget for the Administration and "recommend" additions or alterations. It has been principally through this device that policies of the Administration have been scrutinized. However, almost all attempts to change or reverse major policies have been futile to date. The Committee recommends that other means be explored, because until the Congress obtains full control over the entire budget the Congress will be used to "rubber-stamp" decisions of the Administration. Furthermore, only the Legislative Branch is elected by and thus is truly representative of the Micronesian people. Thus, the dilution of autonomy is largely in favor of the Executive Branch, which is composed either of American personnel or

Micronesians appointed by Americans, at the Headquarters level and at the district level.

The ultimate objective of this entire structure of government is full autonomy commensurate with the realities of a relatively small and widely dispersed population with limited physical resources. One goal of development is to provide the economic base on which that autonomy can be supported. The goal of government, reflected, for example, in the specific responsibility of this Committee, is to advance the rate of development as rapidly toward that end as possible.

The intent of this discussion of government as a form of infrastructure is to comment on some of its characteristics and problems in that role. Great detail, as would be involved in systematically commenting on each part of the organization is not appropriate. General discussion, with perhaps, specific illustrations, will serve. The current organizational policy of the government -- the Executive Branch -- in terms of its appropriateness to carry out its purposes, was discussed and recommendations advanced in the preceding section.

The role of government can vary in relation to the rest of the infrastructure, ranging from installations, retained ownership, and responsibility for operation and maintenance. Use of the

infrastructure may be subsidized (free) or made available for a fee. At the other extreme is maximum private responsibility for infrastructure with use made available for a fee -- these are public utilities and because they tend to be both monopolies and necessities, they are regulated by the government to restrict exploitation of the users. Some major items like roads, commercial airports, docks, water and sewers, and general education tend to remain governmental responsibilities in almost all cases.

In the Trust Territory, with few significant exceptions, full responsibility for the infrastructure remains with government, including some at district and municipal levels. One reason is that most of the capital and financing of operations enters the economy through the government (approximately \$20 million from U. S. appropriations and \$3 million from the Congress of Micronesia) rather than being generated internally, and the need for the infrastructure far exceeds the internal capital financing potential. Most of the capital that becomes available in the private sector is diverted to projects that rely on infrastructure, and that are limited in their impact either to one of several of the districts.

Among general problems, the level of employment in government is most often discussed. Approximately 7,000 Micronesians, or about 50 percent of the total number of Micronesians estimated to be gainfully employed, work for the government. While this level is

exceptionally high, there are some valid reasons why this is so. First, the heavy influx of funding from the U. S. in relation to the GDP requires a large government just to manage the assimilation of it. Two, the responsibility for most of the infrastructure is vested in the government and reflects the need for government employment than if a substantial part of the infrastructure were in the private sector. Because infrastructure is an area dominated by construction, required government services in planning, contracting and monitoring are large, augmented by a certain amount of direct construction by the government rather than under private contract. Over-staffing is more likely to occur in utilities under government than private operations, with management under the latter motivated by profit objectives. Finally, a characteristic of developing areas is the unavailability of properly qualified people, hence individual productivity may be low while personnel training and development is in process. Therefore, more people will be required to provide a given output.

There is another aspect of government employment that should not be overlooked. Because the government sector can offer higher salaries, vacation and sick leave allowances, and retirement and health benefits, many Micronesians are reluctant to enter the less secure private sector. Private businessmen complain that they cannot compete with the government for labor due to these reasons,

and offer this as one major reason why alien labor must be imported. They believe that any equal pay plan, however valid in theory, would reduce their already small ability to attract workers from the government sector.

No ready remedy is available under these circumstances. The Committee urges continued vigilance in evaluating the real need for additional personnel in each case where requested, urges increasing individual responsibility as training progresses, and urges continued emphasis on training, both on-the-job and supplemental. The hearings pointed out some personnel shortcomings; among the most important was the difficulty of some Micronesians in government employment to read and understand English. Obviously, this will delay qualification and training of Micronesian personnel, and will further slow the installation and maintenance of the infrastructure facilities. Administrators and supervisors must therefore continually evaluate, supervise, and monitor individual performance and institute corrective measures where needed, including reassignment to more suitable work when appropriate.

Responsibility for determination of needs, priorities, design construction, and operation of infrastructure lies in the Department of Public Works. It is a large, if not the largest, department at Headquarters and in the districts. The determination of needs and priorities rests with the Planning Branch at Headquarters, with

counterparts in the districts. The technique involves development of a master plan for each planning unit -- district center or sub-district center usually, done either in-house or contracted out. Because so many needed to be done at once, contracting has been resorted to, but the trend is toward in-house design and planning. The master plan establishes the needs and priorities locally, with cost estimates, and these are aggregated for districts and the Trust Territory. The Committee reviewed a number of excellent master plans for various districts. It noted one large omission -- Babelthau has no master plan although it is the largest island in all of Micronesia and has significant potential. The final decisions on priorities rest with the Program and Budget Division, which has responsibility for developing the total Trust Territory budget in consultation with the Planning Division. This finally results in scheduling major and minor CIP projects.

The system works quite well. As with a multi-year development plan, CIP scheduling must be subject to reexamination and revision, as needs and priorities change. Such changes are a characteristic of dynamic growth.

Engineering and Design, a branch of Public Works, has the responsibility for developing the specifications and design of CIP projects, and the engineering-architectural plans. These latter are usually contracted out for major projects, as is some specialized

engineering work.

A few general problems were noted in this area. One, designs by Headquarters are too complex and expensive. There was no widespread complaint that the designs and plans were not sufficient, but there was widespread agreement at the district level that these projects could be done more cheaply and would be just as serviceable. The impact and importance of designs cannot be overemphasized. Infrastructure facilities not only determine the rate and direction of economic development, but also have lasting effects on organization in the government and private sectors. These facilities require vast sums of funds for installation, for repair, maintenance and expansion, and for salaries of workers, to install and repair and maintain. Any facility will always require a permanent allocation from available budgetary funds. The more sophisticated and complex facilities usually require that more funds be allocated and more employees required to operate the facility unless, of course, the facility is designed for low maintenance and operation. The Committee recommends that the design and engineering branch examine less complex and costly installations, and consider the possibility of future limited Micronesia budgets and the already high level of government employment that exists.

Two, districts do not have sufficient input into the design. As an example, laterals and tap-ins for water and sewage projects

are not provided for all districts. Consequently, tap-ins will require that the main pipes be uncovered after installation, thus impairing road construction and utilities service. Coordination between Headquarters and the District Public Works staff seemed otherwise to be adequate. More specific problems will be noted in the context below.

Four alternative arrangements are available for construction of CIP projects. One, large projects that require a large number of heavy and specialized equipment, more labor than may be available locally, and specialized management, supervisory, and construction skills, may be contracted to international construction firms. This has several advantages. An outside contractor can bring in large equipment and highly specialized and skilled labor not needed beyond completion of the infrastructure projects. This primary contractor can also be utilized to undertake a number of different CIP programs within a given district thus reducing bidding, equipment, personnel and transportation costs. However, there are tremendous needs for close monitoring of these projects. The Committee strongly recommends that the Congress examine all public contracts. The Committee recognizes that these are funded with U. S. monies, but at some future date, all maintenance and repair costs will be assumed by Micronesians. If these vast projects do not meet specifications, the costs to Micronesia will

be almost too much to bear.

Two, where local construction firms have the capacity and qualifications to carry out CIP projects, they have, or should have, first priority in bidding on projects. Local firms do not presently have all the equipment or expertise for a major CIP installation; however, it would be possible to permit local firms to enter bidding, and if awarded a major contract, to subcontract out such part of the contract as they are not able to undertake. This would permit local contractors to obtain expertise and experience, would make it possible to channel more funds into the Micronesian economy rather than have these large CIP expenditures leave the economy almost entirely and to engage more Micronesians directly in the development of their economy. A problem arises in this area with bonding requirements associated with bidding procedures. High bonding is not available at present for Micronesians. Every effort should be made to correct this inequity.

Three, Civic Action Teams are available to undertake construction of certain of the smaller projects. These teams are presently under the control and direction of the local legislatures for their CIP programs. The teams are extremely efficient, but greater use could be made of them by augmenting the teams with more heavy equipment and operators and directing congressional projects to them. However, the costs for maintaining these teams

are increasing each year.

Finally, Public Works itself may undertake construction under a "force account." Public Works, however, is not organized, equipped, or staffed to properly undertake CIP (government, Congress, or district legislature). It is intended as a last resort, when no other means is available -- the equipment and skills requirements exceed the capacities of local contractors; the project is not large enough to justify the mobilization of an outside contractor; and it is not appropriate for a Civic Action Team or it is fully committed. The underlying justification for force account construction is that a given project is in a high degree dependent on Public Works equipment and special skills. Construction, remodelling, or extension of power distribution facilities is a case in point. In its operation and maintenance role -- its basic charge -- Public Works must have equipment to replace poles, transformers and other hardware, install drops for new services, and meet other recurring needs. It must also have workers skilled in these operations. There is no reason for these to be otherwise available in Micronesia, so force account construction is resorted to. This situation is paralleled in several areas. Public Works has some large trucks, power shovels, cranes for digging coral, special tools, and other equipment. However, most district departments do not have sufficient equipment for both maintenance

and repair and for CIP undertakings. The equipment that is available is in poor condition and repair parts are not readily available.

Management overhead for force account construction appears to be assimilated by the Director and his immediate staff. The cost of skilled workers is charged to the project, except occasional advisory work. The basic labor is hired specially for the project, and is above and beyond the employment ceiling for regular full time employees. In this connection, Public Works is the principal user of WAE employees. This is a special category of employment established for intermittent, occasional, and short-term personnel, not counted against ceiling levels. Because their employment is irregular and limited to the duration of any specific project, the several career Civil Service benefits of health and life insurance and annual leave, and such, are not made available. To compensate, the basic pay rate is augmented by 10¢ per hour and they are covered by Workmen's Compensation.

The Committee is concerned about the rights and possible exploitation of employees under WAE and the possible misuse of the human resources in Micronesia. This appears to be the only provision for this type of employment -- the only way this extra-ceiling employment opportunity can be made available to the labor force. In most cases employees had been in this status less than a year,

although up to three years was noted. Most administrators indicated that insofar as possible, permanent positions that became open were filled from the WAE group. Their WAE time then is counted in total service time for retirement purposes. Also, after project completion and WAE employees became unemployed, when a new project was started the same workers were not given first opportunity, and for the most part they tended to be available. This leads to a number of complaints received about discriminatory hiring practices; oftentimes a department official will tend to hire his relatives. These practices must be stopped. Also, benefits extended to WAE employees engaged in hazardous duties must be closely examined to insure that these employees receive these benefits. The Committee is not satisfied with the benefits afforded under WAE and hopes they can be improved, and that its use will be minimal. All WAE employees who have been on this status for a one year period should be converted to permanent status.

Public Works must make more definite and firm decisions between force account construction and local contracting. As a regular practice it makes supplemental special equipment items and operators and skilled technicians available to contractors on a fee basis. Such a practice greatly increases the capacity and flexibility of local contractors, but this sometimes interrupts its

own work schedules. At some point, the equipment and personnel needs by a local contractor become so large that Public Works must resort to force account construction in order to control the use of its equipment and personnel. The Committee recommends that force account construction be kept to a minimum. The Committee recognizes at the same time that the capacities of local contractors are increasing rapidly.

As mentioned earlier, the primary function of Public Works is the maintenance and operation of the existing physical plant not installation of new physical plants. In the early stages of development, the physical plant in each of the six districts, and the organization required to maintain and operate it, were small. Increments to the physical plant were not large in the era of small appropriations, therefore the Administration decision was delegation of responsibility for CIP (including in this context projects funded by the Congress) to Public Works. Now, under greatly increased appropriations, the physical plant in each of the districts is growing rapidly -- equally, so is the responsibility for operations and maintenance of these new plants. At the same time CIP programs have multiplied -- those both in process and scheduled. The Public Works Department has now become so large that the responsibilities of the Directors' offices, at Headquarters and in the districts, have become excessive and diffused. CIP

affects so many government activities and requires so much informational input and continued supervision by so many different departments and divisions that it is no longer appropriate to assign responsibility for it to Public Works.

To resolve this problem, the Committee recommends that the responsibilities for CIP be separated from Public Works and established in a new department or division. This would incorporate the old Public Works Planning, Design and Engineering, and Construction functions. This would also permit one government body to assume responsibility for coordinating and gathering all necessary data and material, for initiating and carrying a CIP project through to completion, and for supervision and control of the project. The function of force account construction would remain in Public Works, but the decisions of implementation would be made in the construction branch of the new division. Many details need to be worked out in assigning responsibilities and establishing coordination between the divisions.

To this end, a suggestion has been received from the Department of Public Works that a committee be established for the purpose of coordinating the CIP planning activities. This would consist of high-level individuals in positions of authority: Division Chiefs, office heads and possibly Department Directors. The composition of this committee should represent the physical, social, financial,

and economic aspects of development. The proposal was explicit in suggesting that a member of the staff of the Congress be included on the committee. A membership of about seven individuals was contemplated, but it might require as many as nine, so as to include the agencies with major interest in CIP. This Committee endorses this proposal as a major step in promoting much-needed coordination in government, and in a critical part of the development process.

Transportation

Transportation -- land, sea and air -- is basic to the functioning and growth of the economy of Micronesia and to the well-being of the people. Providing facilities in support of transportation dominates CIP expenditures. In relation to the needs of the economy, ignoring anticipated growth, the facilities are clearly inadequate. At the present level of U. S. funding available for CIP, several years will still be required to provide for even the most basic and urgent requirements. Determination of priorities is critical, and at times revision of CIP schedules may be necessary. One of the most pressing problems at the present time is in organizing and operating sea transportation, specifically between Micronesia and its sources of supply and markets.

Transportation is a systems concept -- land, sea, and air are interdependent, and no one of them functions adequately without the

others. While for many purposes a choice can be made among them, any given movement of persons or objects seldom is accomplished by sea or air alone. This is one of the guiding factors in planning and establishing priorities for construction of facilities.

Land

Roads form a large part of the demand for transportation facilities. From the view of the Micronesian people at the district level, it is urgently needed. Generally, any new economic development project or any installation of additional facilities require roads for access, usually before the activity can be initiated. Throughout Micronesia the needs for roads are great and pressing, far in excess of available funds, or equipment and manpower for local construction. The present roads need improvement and extension into new areas.

There is a general need for farm-to-market roads and roads linking remote villages to district centers or to main villages. Many of these roads are constructed locally, by Civic Action Teams and other agencies or private businesses. One inherent problem is that such roads are often inadequately designed and engineered. An example is the drainage and watershed problem of these unpaved roads. Professional services from Design and Engineering should be used to insure a design that will be adequate for anticipated

traffic and emphasize features that will minimize requirements later for maintenance and repair. To advance the programming of locally financed road construction, the Committee recommends that a substantial proportion of the fuel tax returned to the district be earmarked for road construction and improvements.

Paving of roads in the district centers and to airports, docks and other major facilities is urgently needed. Maintenance and repair costs of the coral surfaced roads are too excessive. These monies could be directed into other needed areas. Also, a very large proportion of traffic in terms of miles traveled is on these roads, and there is a high cost to the private sector. The importance of this is demonstrated by the fact that car life in Saipan -- where roads were surfaced early under the Navy administration -- is about double the car life of two years in the other districts. Tire life and other upkeep costs also are much lower. Traffic moves faster, more safely, and with more comfort.

But, it is also important to remember that road requirements in Micronesia are not the same as those in the United States. Therefore, roads need not be as wide, need not be designed for speed, need not accommodate large trucks or automobiles, and need take only the bare minimum amount of land to install. This last factor is an important aspect to remember. Renovation of old Japanese roads might be an alternative to costly new super service

road networks. Under any decision, Japanese road concepts -- narrow lanes, no shoulder areas, drainage culverts, slow speeds -- are best suited for small island transportation. The maintenance and repair costs will be much lower and more nearly approximate what Micronesia could support alone. The narrow roads and no shoulders conform to the scarcity of land. Speed is immaterial in Micronesia because island distances are hardly comparable to large continental land masses. In fact, many areas are better suited for water transportation than a road system. The Committee believes that the adoption of Japanese concepts of road construction as was instituted during the Mandate era will reduce design and building costs and maintenance and repair costs. This will free funds for other projects. The Committee realizes that paving roads is in abeyance pending completion of sewers and water projects, but it should be scheduled to follow immediately. Unfortunately, in Majuro, circumstances have led to the start of paving before the sewer and water projects.

From among the many specific priority road projects brought to the attention of the Committee, a few examples will be mentioned:

1. In Palau, the Airai bridge replacing the Toagel Channel crossing and the primary road system on Babelthaup are essential to construction of the Palau airport and to developing the

the agricultural potential of Babelthaup, the largest island in Micronesia. These steps are in the design stage, with construction scheduled to follow.

2. The Ponape circumferential road must be extended to the site of the new Community College of Micronesia, before new facilities there can be developed. Present road scheduling will delay the Congress of Micronesia's project two years.

3. On Moen Island, Truk District, the circumferential road needs completion on the south side of the island to provide access to villages there and to permit development of an important agricultural area. This will be funded partially in FY 1972. Fefan Island needs reconstruction of its farm-to-market road.

4. Yap (proper) needs an extensive road construction and improvement program to link villages and agricultural areas with the district center.

5. Rota has needs similar to Yap.

These needs are well-known but need updating in the schedule to permit greater mobility of people and increased marketing of produce. Hopefully, this will expand the Micronesian labor force, open educational, health, and marketing facilities to more people and create more cohesion among the municipalities. Most important is the need to relieve the strain on district center facilities by

by allowing more people to commute to, instead of living in the district center. This would permit a more concentrated attack on problems associated with the district center such as blight from the temporary structures; health dangers from the overcrowded and unsanitary living conditions and from the over-burdened utilities; and, social and crime problems from the disorientation of new cultural values and lack of constructive and time-consuming family projects normally found in village life.

Sea

Sea transportation depends on docks and port facilities, on adequate channels, and on ships and an organization to operate them. Micronesia requires two distinct types of shipping services: internal or inter-island, and external or interocean. These have been developed as two entirely separate and distinct operations.

Micronesian Interocean Lines, Incorporated, (MILI) was organized to provide all interocean services on a monopoly basis. The intent was that it be a Micronesian company, in ten years, with majority ownership and control in the hands of Micronesians. It had to depend largely on external financing and management at the start. To secure the financing, 250,000 shares of Class B Stock, \$1. par value, were authorized and sold to Americans, including 210,000 to Marine Chartering Company, who was contracted

to operate MILI. In addition, 250,000 shares of Class A stock, same par value, were authorized. Of this, 185,603 shares were bought by Micronesians, and 64,397 by Marine Chartering.

Details of the default on the part of Marine Chartering are well known. Under its management MILI in effect went bankrupt -- its liabilities far exceeded its assets. In order to protect the stock investment of Micronesians, and the Micronesian creditors (about \$500,000), Marine Chartering agreed to withdraw completely and a Micronesian Board of Directors was established to operate MILI. This arrangement is too recent to evaluate, but the Congress should keep itself informed of progress since interocean shipping is essential to Micronesia, and the financial interests in MILI are important to the economy.

In the agreement with Marine Chartering, that company's Class A stock was put in trust with the United Micronesia Development Association, and is available for sale, at par value. (Its book value at the present time is substantially negative). The Committee feels that this block of stock, large enough to provide effective control of MILI, should be dispersed through sale to individual Micronesians. The Congress should consider means to effect this sale even to the extent of purchasing these shares by appropriation.

At the present time, the Executive Branch (which for all

practical purposes is the Administering Authority) is in a position to effect considerable control over the operations of MILI. The Committee has been advised by an extremely reliable source that, although the management committee is to oversee the operations of MILI, only one man is actually in charge and totally dominates the MILI operation. In reality, the management committee is a paper organization. The Committee is aware of the possibility of the government abusing its position, particularly in seeking priorities for shipping government supplies and equipment at the expense of space for precedent private cargo. This should be avoided except in a real emergency, and in such cases, the shipment or its decision should be made public.

Some discussion was heard about the possibility and advisability of expanding the MILI operation to include transpacific shipping. It has so far carried only cargo destined for or originating from Micronesia, principally from and to the United States and Japan. If or when cargo capacity permits, transpacific shipping could increase the efficiency in the use of the ships which is a critical factor in attempting to solve the company's financial problems. A study should be made of the possibility. To undertake it would require an amendment to MILI's charter.

Interisland transportation is carried out by a mixed fleet of about ten ships, owned variously by the government and private

businesses. A few are leased at times, to augment the capacity or replace ships under repair or in dry dock. The ships are assigned to the various districts according to population to be served and distances to the outer islands. The intent is that every inhabited island be visited at least every 30 days. When schedules are interrupted for repairs or other reasons, this goal is not attained. Some islands, however, like Ebeye and Kusaie get almost weekly service. The ships are operated on behalf of the government by privately-owned shipping and trading companies, and most operations are partially subsidized.

These ships are too few and are too old. Most were built during World War II and are subject to frequent breakdowns. Major repairs and dry-docking are done outside the Trust Territory. This adds extensively to costs and to time out of service. Conditions of many of the ships are unsatisfactory for deck passengers, who are the majority of all passengers, who are usually outer-island residents, and who have no other means of interisland travel.

One solution is to upgrade the ships by replacing them with new ones. A ship has been designed specifically for interisland service, and the prototype is scheduled for construction in the near future. The present plan is to get a new one every year until the fleet is complete. Long range costs would be considerably less

if all the rest could be contracted at one time, after the prototype is thoroughly tested in use and design problems corrected. The Committee recommends that the first ship be completed and put in service as soon as possible.

Another problem is the quality of officers and crew, and the need to retain qualified men in the trade. Few Micronesians want to sacrifice island living for sea voyage employment. New ships will provide greatly improved living and working conditions aboard ships, but problems of being away from home much of the time remain. A means of rotating crew members between sea and shore based assignment is included in a plan now before the Executive Branch and the Congress of Micronesia which was prepared by the Department of Transportation. It is called the Sea Transport Home Base Plan, and need not be reviewed here.

Currently, legislation is pending before the Congress that will permit registration and chartering of marine vessels in Micronesia. Accompanying this legislation is the need to provide facilities for the required inspection. The Administration has proposed development of port and dry-docking facilities in Peleliu under the Sea Transport Home Base Plan. The Committee endorses this proposal for a number of reasons. One, a good deal of revenue from registration and

inspection fees can be injected into the Micronesian economy. Two, more vessels can be attracted to Micronesia which can result in increased services through new shipping routes and cargo and through new opportunities for Micronesian employment. Three, interisland ships can be serviced and repaired in Micronesia. Four, Micronesia is located strategically on several important shipping lanes and this position should be taken advantage of.

Shipping costs and freight handling and storage must be more closely monitored. Pilferage, damage, and costs of shipped and warehoused merchandise remains a problem, although use of containerized cargo has helped. It is hoped that by separating stevedoring and warehousing operations from shipping companies there can be more control exerted over and more monitoring of these areas.

At the district centers of Koror, Saipan, Moen, and Majuro the docks were adequate, though crowded, and channels and dockside water deep enough for the ships. At Colonia in Yap and Kolonia in Ponape, the facilities were clearly inadequate. At both places the ship-side pier was a steel barge tied to an old dock -- the dock in Yap threatens to collapse because the retaining piling has corroded through. New docking facilities are scheduled for Ponape and are planned for Yap. At the subdistrict center at Kusaie, an entire port facility is scheduled for immediate construction. This must be

done before any other major CIP projects can be undertaken on the island. Rota badly needs a channel cut through the reef, some bridging, and a larger dock. At present, cargo is handled between ship and shore on barges, which is expensive. Cargo is often damaged in the process.

On the outer islands the situation ranges from fair to no facilities, not even a pier. The situation is usually the latter. In these cases, small boats and outriggers ferry copra to and goods from the ships. This practice is dangerous from two standpoints. One, high seas have and continue to threaten the small boats. Two, older men are responsible for the entire operation (the young men and boys are in the district centers in employment or in school) and they are physically unable to handle the boats and cargo under these conditions. Occasionally, the operation has been improved by blasting a small channel through the reef to permit field trip ships to enter the calmer waters of the lagoons. Improvements of outer-island facilities is a continuing program, but a great number of islands need facilities now.

Even less adequate than the docks and piers themselves are warehouses and bunkers for chilled and frozen cargo. These are primarily government-owned and leased to private concerns for operation. Not one port visited had adequate facilities to store

all merchandise inside, or room to effectively segregate and deliver cargo. The Committee witnessed two ships arriving in close succession that created serious stevedoring and storage problems on the docks. The situation is further complicated by shortages of warehousing space owned by private merchants and businesses receiving cargo. This is particularly true of frozen foods. Merchants will pay demurrage if necessary to avoid spoilage. However, the general problem with demurrage was the failure to receive shipping papers in time to arrange payment and release of cargo. This is especially pressing with demurrage charges beginning seven calendar days after goods enter the warehouse. The regulation actually specifies seven days after receipt of the Bill of Lading, and so, should be clarified and applied uniformly. The Committee also recommends that the Economic Development Office and Transportation Division develop guidelines to assist merchants in ordering and handling legal documents. This should reduce mistakes and delays in receiving necessary documents, and thus reduce demurrage charges.

Air

Air transportation is the only fast means of interisland travel in Micronesia. Landing fields and airport facilities are limiting factors, however, at this time. Fields at Kwajalein, Majuro, Ponape,

Truk, Guam, and Saipan are adequate for operation of 727 jet service from Hawaii through the above points. Only Kwajalein and Guam, completely U.S. developments, have first-class facilities. The remaining airfields are marginal coral strips. They lack lighting -- limiting air service to daylight hours -- they are short and only Ponape has an adequate terminal. Yap and Palau are limited to DC-6 planes, which are slower and smaller, and unreliable because of age and obsolescence.

Major construction to provide modern fields with lighted runways and with capacity for jet planes at each district center is scheduled over the next five years, with a new field in progress at Majuro. When these are completed, the major air transportation problem will be resolved. The new terminals should be planned to provide adequate cargo handling space, especially for increasing quantities of chilled and frozen commodities. Growing demand and expanded routes will also require more planes, hence increased capitalization of Air Micronesia. As to expanded routes, the Administering Authority is considering a direct flight between Saipan and Japan. The Civil Aeronautics Board is expected to make a decision shortly as to which air carrier will provide services. Other new air routes should also be considered. Commercial potential exists for routes through and from Micronesia to the Philippines, Indonesia, Malaysia,

New Guinea and Australia. Okinawa and the Gilbert and Ellice Islands and American Samoa were recently added to Air Micronesia's Pacific routes almost doubling the airline's air mileage in this area. The Committee recommends that no future decisions be made by the United States without consulting the recommendations of the Congress. The Japan route decision is a major one involving foreign affairs and Micronesia has yet to be consulted. The Committee also recommends that the secretarial order be amended to provide for consultation of and final approval by the Congress on all matters involving foreign affairs. The Committee is especially concerned with the influence these foreign affairs arrangements will have on our economy.

Air facilities also lend themselves to a systems approach in construction. The development at Majuro is an outstanding case of a coordinated project. The airfield is being constructed as a water catchment, with supplemental open storage between the landing and taxi strips. The construction program includes the complete water storage and distribution system, the sewage system, and paving the seven miles between the district center and the airport. The efficiency of mobilization of a single contractor to do the job is obvious. However, it is highly dependent upon alien labor.

Rota is currently served by the DC-6 plane as an intermediate stop on certain flights between Guam and Saipan. It will need a

jet field by the time the Yap and Palau facilities are complete and a DC-6 is no longer needed in the system.

Kusaie is a rapidly developing area, needing air service to transport people and the fruits and vegetables it is producing in a rapidly increasing volume. With scheduled construction of port facilities, a new hospital, some primary road needs, and water and sewage, airport construction could follow the same system as Majuro in a massive coordinated project. However, the people of Kusaie want to maximize their own participation although this will extend the process and will sacrifice efficiency. To this end, they propose two or three stage construction of the airfield, at first adequate only for a DC-3, a plane which is not now in use in the area. Planners project a profitable operation for a DC-3 to Majuro and possibly Kwajalein in one direction and Ponape in the other. The alternative of a jet field at the start would probably lead to including Kusaie on the Hawaii-Saipan route, or the anticipated Majuro-Saipan turnaround flight (now Saipan-Ponape because flights are limited to daylight hours).

The Committee recommends the jet field option, but at the same time respects the wishes of the people.

A small plane serves Tinian on a schedule between Saipan and Guam, and on charter to Palau. Air taxi service is also available

out of Majuro for emergency and special requirements in the Marshalls. Otherwise, the Marshall outer islands do not have air service, except special mobilization of sea planes and helicopters in serious emergencies. There are a number of American and Japanese airfields scattered throughout the outer islands of Micronesia that should be reconditioned, if at all possible. These could provide supplemental assistance to economic development and to emergency health evacuations. At present, seaplane operations are not possible to all outer islands. In some cases, landings may be made only if a protected reef is available. Currently, expensive air and sea medical operations provide a large source of emergency health assistance to the outer islands.

Communications

Recent completion of a radio-telephone system linking all district centers through Saipan, and a commercial system out of Saipan, has solved the basic communication problem. Actually, the Koror link is only temporary pending completion of new facilities. The district centers have radio communications with most inhabited outer islands. At present, over 95 percent of the district centers' populations are estimated to have some access to the system. It is paradoxical

that while district center residents can contact New York by picking up a phone, some of their outer-island relatives can only communicate with them by radio during certain hours of the day. The Committee was unable to ascertain if all inhabited outer islands had radios, or if those that did, had radios in good repair and sufficient quantities of fuel to enable the residents to operate their generators. It has been said that there have been problems in these areas in the past. Notably, most radios were provided for the first time in many cases by the Peace Corps which stationed volunteers on these remote islands.

Local telephone systems have been practically nonexistent, except in Saipan. They have been badly needed, and their usefulness is expanded by the inter-district system. Telephone systems for the district centers are now in the planning stage. The Committee believes that the demand for them will be very strong, and in a rather short time. A system of 200 or 300 phones in a district center will be no more than a beginning. The original design should provide for expansion. A lesson can be learned from the problem of expanding power distribution systems.

Water and Sewers

Water supplies throughout much of Micronesia have usually been by water catchments from the roof of every house. Water shortages

prevail in the dry season and have sometimes been severe. Catchment areas have been increased by the construction of schools, dispensaries or hospitals, and other infrastructure, relieving the situation somewhat. Water reservoir and distribution systems are now being developed in every district and sub-district center, enlarging supplies and providing distribution systems to commercial and residential areas. Some are in process, others in the planning stage. As pointed out earlier, road improvement is delayed until these and sewer projects are completed.

Sewage has long been a serious health problem. Sewage systems and treatment plants are now in process at the same locations. The Committee discovered, as mentioned earlier, that designs for the water and sewage projects failed to include, to the fullest extent possible, stubs and tap-ins on the water and sewer mains to connect residential units. Consequently, most paving would be delayed or would be dug up to make these connections. All designs should be sent to district Planning Commissions or legislatures for careful review to see that this feature is provided for.

Water and sewage systems have impact upon two areas -- human and commercial development. The first is obvious and needs little comment here except to say that this aspect should be given more emphasis by the Administration. Initially, most water and sewage

systems served only administrative offices and apartment complexes, ignoring Micronesians. Some of this is being corrected. Education programs should be undertaken now to enable Micronesians to properly use and maintain these facilities. As to the second area, the Administration emphasizes that adequate water and sewage systems are absolutely essential to the development of tourism. The Committee agrees but believes that this has received too much emphasis. More of the reasoning is discussed in depth later in the Report, but essentially, the extremely high costs of installation and maintenance and repair should not be weighted solely in terms of what benefits it will have for foreigners and will have for an area of the economy that is at present too much in the control of outside interests.

Also, urban development has been emphasized at the expense of rural development. As noted previously in road infrastructure, continued imbalance between these priorities will only create more urban problems and will continue to overburden service facilities because people will continue to be attracted from rural areas. There should be a more balanced approach between urban and rural development. The funds that have been spent in rural development programs have come almost entirely from the district legislatures and from Office of Economic Opportunity (OEO) grants.

As to the outer islands, water problems can become very acute. The Committee recommends that ways be explored of tapping the thin water tables underlying these islands. At the least, emphasis should be given to expanding water catchment, storage and distribution on each inhabited outer island.

Another cause for concern were the locations of the sewage outfalls. In discussions, the objective was always sanitation, with little attention given to ecological factors. The outfall locations at Saipan, Truk, and Majuro appear to dispose of the effluent of treated sewage with minimum potential for serious ecological disturbance. The site of the treatment plant at Koror has changed plans for the locale from residential to commercial. The primary treatment plants will create and emit a high grade fertilizer and the effluent is expected to support algae in a shallow-water bay, after discharge in a channel. If flushing of the channel is not adequate, the whole ecology of part of the rock islands will suffer. The importance of reef fish and reef ecology is discussed later in the Report, but sewage and subsistence in Micronesia are not far removed from one another. The Committee believes the more costly alternative should have been chosen -- changes after the fact are extremely difficult.

The site indicated in the design for Yap will seriously downgrade an important small recreational site. It could possibly alter the entire ecology of a large bay. This needs further study, by ecologists.

At Kolonia in Ponape, the situation is very clear to all. The ecologically ideal site for the outfall is into the ship channel beyond the airfield. This would require an immediately expensive investment in about one and one-half miles of additional main, following a causeway and crossing an island. The only alternatives were the bay-like estuary of a modest river, and the other a closed bay surrounded by residential sites. The latter has been selected as least damaging, but undoubtedly the result will be unpleasant in the extreme. Again, this is a long-term investment, and the decision should be reevaluated.

Problems of sanitation persist throughout Micronesia, only on a lesser scale. Most of these have been examined in an excellent report, "The Murky Waters of Micronesia." The problem of waste disposal will require continuing investment to provide adequate sanitation in all population centers and to reduce the contamination of the environment to an acceptable level.

The Committee found that in no instance had the Division of Marine Resources been requested to make an ecological impact study of or a recommendation on sewage outfall areas despite the impact

on ecology by these outfalls and the available expertise of the Division. It recommends that the Division be consulted more often on the problems of pollution and conservation discussed later.

Power

The power supplies and distribution systems emanate from initial installations at the district centers. As with water and sewage, they are originally designed to serve government facilities and housing, and little else. Expansion of power supplies followed the development of infrastructure, the commercial center, and in some cases extended to the general public. At present power is confined to the district center -- urban areas. Generating capacity and distribution systems tend to be inadequate and unreliable. Most facilities are being expanded, but so much time elapses between planning and the actual installation, that anticipated new equipment will just catch up with current demand. Obviously, these new facilities do not adequately provide for needed expansion into the rural areas.

The increasing level of incomes has created an effective demand for electricity that can be met only with great expansion of plants. This is another area competing for priority in the CIP. With present

funding levels and scheduling it will be several years before adequate power will be available in most district centers. In this situation, decisions on which residence is tied into the power system and which is not, are very controversial. A decision must be made as to how residential tie-ins can be expedited and some method agreed upon to assist in financing the costs involved in these tie-ins. It should be decided whether the resident should bear the full costs or whether the Congress or district legislatures assist in or assume the costs. Also, modern merchandising requires electricity just for refrigeration. Many businesses have had to install their own generating plants, or at least emergency facilities to meet power failures and increased demands. Reliable metering systems should be installed as soon as possible for both residential and commercial users. At present, there is little or no reliable metering system; government housing is provided with free, unmetered electricity. It is extremely difficult to determine power needs or uses because of this factor.

- Also, this in turn requires that most power plants operate inefficiently, thus consuming unnecessary fuel. The Micronesian area of power usage is quite different. Some users are undercharged -- others overcharged. Also, more voltage must be generated as more residential areas (because of more electrical appliances put into use) and more commercial businesses (because of reefer and of other commercial

needs for electrical power) tie-in to the system.

It should also be noted that the operation and maintenance problem is complicated by the fact that many generating units have been secured as surplus, at low cost. Not only were they old and subject to breakdowns, but had varying degrees of obsolescence, so repair parts are hard to find. Even worse, they include a great variety of makes and sizes, with very little interchangeability of parts. Therefore, maintenance of supplies of repair parts has not been feasible. An attempt has been made to standardize on one make of new equipment, with as few different sizes as possible, but it appears some deviations may have occurred recently. The Committee strongly supports that a policy of standardization be rigidly adhered to.

The Committee feels that many inequities exist that should be corrected immediately, and some very marked deficiencies be given higher priority in CIP. Extension of power systems to or an availability of power in the rural areas of the islands should be initiated. The Committee recognizes that electrical power will have a tremendous effect upon the culture and life styles of people in the rural area and that availability of electrical appliances will have secondary effects on merchandising, supply, warehousing, and

shipping. However, all districts expressed the desire for expanded electrical power. The Committee supports their desire but suggests to the Administration that the secondary effects be studied very closely and proper planning be made for them in the respective areas of the budget.

Fuel

A key element in economic development in Micronesia is the ready supply of quality fuel. Nothing can be undertaken without it. Fuel is needed by the equipment used to build the infrastructure, the utility facilities, and the users of the transportation facilities (ships, boats, airplanes, and automobiles). The need for fuel in quantity and quality is steadily increasing. Micronesia is currently served by one source -- Mobil Oil Micronesia. The company has storage and distribution facilities in each of the districts and expansion of them is planned. The Committee believes that the Administration should give due consideration to the impact of CIP upon the demand for fuel from the government and private sectors. In this regard, the Defense Department has repeatedly refused requests to enlarge the storage facilities on Saipan although new air routes to Japan cannot be undertaken without this expansion.

The Committee requests that duplicate records of the company be kept in the district offices. At present, all records are sent to and maintained in Guam. The Congress derives a large portion of its revenues from fuel taxes and some means should be provided for review of records at the district level. The Committee also notes that storage areas are public lands leased to the company. Revenues from the leases are deposited into the General Fund of the Congress. The Congress should consider a thorough review of all public land leased to outside concerns. The leases should be examined as to length of the lease, renewal options, amount of the lease as related to land value with consideration given to the services offered Micronesia, and other specific obligations. The Committee received reports of wide discrepancies between leases of public land to Micronesians and to foreign companies, favoring the latter. This should also be reviewed.

As to local distribution, gasoline pumps should be checked periodically to insure that measurements and charges to the public are accurate. If possible, distributorships should be more geographically disbursed. More provision should be made to insure quality control. There were many complaints about water and contaminants in fuel sold to the general public. Safety features of gasoline stations and storage areas should be periodically

checked. Pollution problems are discussed later.

Education and Training

Education deserves comment because we are concerned also with the development of human resources -- skilled and trained personnel to assume the responsibilities of participating, to the fullest extent possible, in the development of Micronesia. Education, like all other development activities in Micronesia, is expanding rapidly with increasing appropriations. The physical plant has tended to outgrow the supply of teachers. As a result, the staffing at all levels -- primary, secondary, and higher education, and administration -- includes a substantial proportion of aliens. Peace Corps Volunteers are widely distributed in the school system. Far too few Micronesians are available with training adequate to teach courses required as the basis for participation in a society that is rapidly being modernized.

A high proportion of school age children now have access to primary schools on the major islands and on the outer islands. The problem of providing adequate facilities is now as acute in the rapidly growing district centers as elsewhere. The Committee supports as number one priority providing an opportunity for primary education to every Micronesian child.

A concomitant problem has been the shortage of teaching materials -- texts and library books. Those that have been available have not been adapted to the local needs; rather, they have been borrowed largely from U.S. sources and have very little local relevance. Some progress is being made both in increasing the supply and quality of materials, but the needs are far from being filled. The Committee recommends that the Congress further investigate education curricula and methods.

Primary education has been conventional in scope, addressed to the fundamentals of reading, writing, and arithmetic. The feeling now is that because this level of education is terminal for so many, some vocational or practical elements should be introduced quite early. This is directed more at creating a capacity to comprehend technology than at vocational training itself.

Secondary education is much more of a problem. It is available only in the district centers and in two subdistrict centers. Great support and sacrifice on the part of parents and the undergoing of considerable hardship on the part of the pupils is usually necessary for children from the outer islands to go to secondary schools. In such cases, members of extended families who have moved to the district centers assist in opening their homes to the children and otherwise helping. In the Marshalls, less than 20 percent of

eligible students have access to secondary education. To remedy this, a crash program has been instituted. The facilities at Majuro are being expanded, including construction of dormitories for outer-island pupils, and a secondary school is being constructed on another island in the district. In one other district an outer-island high school is under construction. Still the problem will be only partially solved. To improve the educational opportunities for youth will require continued development of the secondary school system.

Technical training is receiving increasing emphasis at the secondary level, and is necessary to meet the needs of the economy at the present time. It is also in the best interests of the students, many of whom will be unable to hold white or blue collar type positions because opportunities are available to so few for higher education. Properly directed technical training can fit students to the more immediate needs of the economy. For instance, the Agriculture Division needs agriculturally trained people from secondary schools to utilize as field extension agents. The division also feels that this training opportunity is needed to provide people to develop and operate commercial farms.

Educational opportunities in Micronesia beyond the secondary level are very scarce. The Micronesia Occupational Center at Koror

is intermediate, not requiring full secondary training for entry. It provides a wide spectrum of technical training oriented to preparing individuals for occupations. It emphasizes learning by doing, supported by solid classroom work, e.g., students in food services work in the kitchen in various aspects of food preparation as well as in the dining room learning customer service. Students in the construction trades actually build new structures for MOC, each one given experience in the full gamut of construction skills. The trainees come from all districts. The Committee has received a number of complaints about the high costs and use of highly technical equipment in the MOC training programs. It is argued that such equipment is not available now or in the foreseeable future in Micronesia. While this may be true, the Committee feels that some training on this sophisticated equipment is desirable so long as it is not the only training. Micronesians should be prepared to immediately enter the labor market and should not be required to receive additional and time and cost consuming training. Micronesians should be trained to cope with the present and foreseeable technical situations existing in Micronesia.

The Community College of Micronesia at Ponape is the major teacher training school. It, too, is relatively new in its present role. It is small, fewer than 200 capacity, and not able to meet the

need. A new site has been selected to develop a much larger and more adequate facility, but construction will be delayed until an access road is built, a high priority project. This institution can fill a very important need in the infrastructure of the Micronesian economy, and its construction should be facilitated. All college and university level training must be secured outside the Trust Territory. The universities of Guam and Hawaii are convenient and most commonly used. For medical training, including dentistry, students are sent to Fiji. A large number of students also go to various U.S. mainland universities. Financial support for this training is provided from various sources, including scholarships (Trust Territory, Congress, and district legislature) and some private financing. The number of college graduates is too few to supply the number of highly trained Micronesians needed in government and in the private sector.

The public education system is supplemented by a significant number of private schools, mostly church supported. They are an important augmentation of the public school system, and they contribute materially to development. The Ponape Agricultural Training School, a Catholic institution, will be mentioned individually because it is the only school in Micronesia offering technical training in agriculture. Because it is the only institution

capable of undertaking the work, the Congress of Micronesia has funded some training projects the school is carrying out. It is doing some interesting adaptive research as part of its training program and supplying the school with food items. Also, as will be mentioned, some graduates are starting significant agricultural projects in the area.

Training implies improving capabilities and skills outside of formal education. It usually is associated with circumstances where employees are provided with opportunities to learn and develop with the view of advancement to positions of greater responsibilities. It can take several forms. Training on the job is most widely used. It can be supplemented with special seminars and study materials. It can be extended by sending employees to special short courses, or even formal academic training requiring several years. The Committee generally supports "in district" and "on the job" training programs. However, there is little follow-up to present training programs to examine their success. Programs conducted outside the Trust Territory have had relatively little overall success. This is true for a number of reasons. One, the programs are not monitored to insure that trainees are able or will attend class. Most Micronesians on outside training programs are left entirely on their own, in strange, new lands and circumstances. Two, almost all classes are given in English and

conceptualization of the problems discussed in class are difficult for Micronesians who are not extremely fluent in English and who have had no living experience outside of Micronesia. Three, there is always a problem of placing individuals in a strange culture and living circumstances and expecting them to immediately adjust. And four, Micronesian trainees have not been told of what is expected of them; consequently, most feel little or no obligation to achieve high marks or even attend class consistently.

The Committee recommends that training programs outside the Trust Territory receive more scrutiny both as to demands upon and performances of students. The Government should also provide more assistance to Micronesians outside the Trust Territory to insure that they can be successful in their programs.

In government, the ultimate objective is an entirely Micronesian staff. A part of the responsibility of every American in an administrative position is to be continually training a Micronesian to take over his job, or, if in an advisory position, to advance the capabilities of Micronesians to the point that his advisory services will no longer be necessary. While this may be a difficult task, we see considerable progress. Several key administrative positions are held by Micronesians, and an increasing proportion of the Americans are in advisory positions. The Committee urges constant monitoring

of progress and individual performance towards accomplishing this objective.

Most of the alien employees in the private sector (except those augmenting labor supplies on major CIP contracts) are in a parallel position. They have work permits because qualified Micronesians are not available as hotel managers and clerks, accountants, bookkeepers, restaurant managers, tuna fishermen, and other skilled workers. They and their employers are expected to train Micronesians to take over their positions. If training seems to lag, it is even less surprising than in government -- what alien wants to work himself out of a job, especially if alternatives are limited in his home country? Some solutions are discussed later in this Report.

Health Services

Health Services provide essential contributions for maintaining the development of human resources. It is receiving continued emphasis both in needed services and facilities. Dispensaries in the outer islands and villages away from the district centers are being built but should proceed at faster rates. Hospitals at Yap, Ebeye, and Kusaie are badly needed. The hospital at Ebeye is at the early construction stage. The Yap hospital is scheduled for the near future (although originally scheduled as early as FY 69). At Kusaie

construction is also scheduled and is expected to start as soon as the docking facilities are available. The Micronesia School of Nursing at Saipan is expected to help alleviate the shortage of trained nurses, although the numbers available will fall short of needs for some time. There is still a problem with laboratory work. Although skilled surgeons are now available, not enough doctors and dentists are being trained to keep up with the increased demand for health services created by rising incomes and awareness of health problems. Micronesia must continue to seek skilled staffing and training for its own professionals outside, and increase public support for the purpose.

Finance and Credit

As Micronesia develops, there is an increasing dependence on sound and adequate financial institutions, and credit becomes more and more an essential part of the economic system. There are three basic sources of credit to Micronesians: banks operating in Micronesia; government grants through EDLF; and, foreign capital.

Generally, financial transactions require a level of sophistication and reliability that only modern banking institutions can provide. Educational programs for local businessmen should be initiated to upgrade merchandising and financing capabilities.

Enlarged and increased contact with outside firms will demand an ever increasing skill to handle sophisticated and complex legal papers required in these transactions. These skills are almost totally lacking in new business ventures, especially if the businessman is entirely new to the business world. Banks can lend some assistance in the training but other functions are more important at this time.

Banks have multiple functions. They are depositories for funds not required for the moment, in two forms -- checking accounts, which are subject to withdrawal without notice simply by writing a check, and time accounts which have some limitations on withdrawal and in turn draw interest on the amount of deposit. While all deposits are subject to withdrawal, the probability of massive withdrawal at any one time is slight and a margin of protection is provided by maintaining a working supply of cash and a ready reserve. After the operating cash and reserves are provided for, the balance of the deposits are available for lending, the interest providing the bank's primary source of income. Most of the lending by any given bank, or banking system, is in two broad classes -- personal loans to individuals for consumer purchases, and commercial loans to businesses to consummate business transactions. The interest must be adequate to cover cost of the funds, e.g., 4.5 percent on savings accounts, provide a margin to cover operating costs and profit to the

bank, and cover risks against loans in default. Banks, as custodians of the funds of depositors, protect against default through taking security on loans -- real property and chattel mortgages, co-signers on notes, and the like. They also seek low-risk areas in which to loan.

Banking services in Micronesia are provided through a branch facility of either, or both, the Bank of America and the Bank of Hawaii, in each district center. As branch banks, the local units have additional characteristics. One is limited authority in approving loans. All those over a set level require main branch approval. Also, where an individual bank has its own responsibility for keeping its loan fund committed and earning interest, the branch has only to report its position to a headquarters branch where the ultimate responsibility rests. Surplus funds from some branches create a pool on which others with desirable lending opportunities can draw. But the entire system dictates the overall policy, which includes inevitably channelling funds into low-risk areas. Individual banks have this opportunity also through correspondent banks in financial centers, but they (individual banks) tend to have close local ties and responsibilities.

One feature of Micronesian law materially affects banking practice. Only Micronesians can own real estate in Micronesia, thus

real estate mortgages are not valid security for these outside banks. As a consequence lending to local businessmen and others is seriously limited. There has been some discussion among Micronesians that non-Micronesians should be permitted to purchase and own land in Micronesia. There appear to be two bases for this reasoning: one, foreigners will pay more, thus raising land prices throughout Micronesia and facilitating a land market system; and two, foreigners will establish businesses to provide additional jobs for Micronesians and additional revenue to the general funds of the Congress and the district legislatures. The Committee believes this is valid, but can have only short run benefits to Micronesia. The Committee also notes that most of this line of persuasion comes from those who have no land to sell and who want jobs, or who have small plots and cannot enter into commercial agriculture. In some areas of Micronesia, the distribution and ownership of land is disproportionate; in other areas, land is evenly apportioned. An examination of land problems may be in order, but any such study should consider traditional values and customs as well as desirable goals. For the present study, land is important in its relation to capital, and general lending practices.

Past lending experience in Micronesia has established this area as a high-risk area. Because of these two factors the deposits in

district bank branches tend to contribute their loan funds to a pool for lending outside the Trust Territory.

For example, one bank branch at a given time had over \$1,000,000 in checking and savings deposits. At the same time its personal and business loans were each about \$150,000. This left a balance of over \$700,000 for cash and reserve requirements and for the branch pool. Allowing for the former requirements, possibly as much as half the internal capital in custody of the branch bank was available for use outside the Trust Territory. A review of the situation would certainly show all of the branches in Micronesia contributing to the pools rather than drawing on them for use in Micronesia.

The problem then is to make this capital available within Micronesia. One solution would be to permit lending institutions to obtain rights (equitable title) in real estate. Upon default the institution could recover its loan by leasing the property. In essence, the owner of property would be pledging lease rights as security to the lending institution in lieu of legal title. Adequate provisions would be required for protection of homesteads and clan rights, lease periods, protection against alienation, and other matters. It would require congressional action, but appears to be feasible. Also, loan authority at the branch level should be increased substantially. It is now below a meaningful level in most business transactions and is limited to only minor personal needs.

Another alternative, which the Committee favors, would be the establishment of a Bank of Micronesia. It would be able to accept

real estate as security, and, more importantly, its policy would be directed to using capital generated within Micronesia to support internal development, trade, and commerce.

The Congress should also consider establishing a set of banking laws. At present, banking activity is governed generally by U.S. laws and regulations and by administrative decisions within the Department of Resources and Development. Actually, Micronesia has no control over it, and the banking system is not responsive to local needs.

The EDLF is the governmental source of capital funding in Micronesia, designed to channel funds into new or expanding private enterprise. It has had numerous operating problems, the most fundamental of which is that loans are in no way related to economic development priorities. This is reflected in both the amounts of the loans and in the enterprises which receive funds. Far too many successful businessmen and established businesses receive EDLF support. Some are justified, some clearly are not. Also, more emphasis needs to be given to the preparation of proposed business ventures which are to receive EDLF funding. The Committee found a definite need to examine proposed schemes in relation to whether needed infrastructure facilities were available. Some projects needing electricity and water were funded although none of these utilities would be available to the applicant by the time his venture would be constructed and ready to begin operations. Likewise,

there is a need for a uniform attempt to have appropriate divisions within the Administration examine proposals and lend technical assistance to insure that sufficient planning and funding was called for. In this, Truk was an example that should be followed more closely by other districts. Continued supervision of the project is needed to insure that the EDLF funds lent are actually spent in accordance with the proposal and that sufficient technical expertise is available. This has not occurred with regularity.

Economic development and other technical personnel must make more effort to reach EDLF recipients at their places of business. The Committee received numerous complaints from businessmen that these personnel never left their Administration offices. This situation must be corrected. Most Micronesian businesses have made mistakes that could have been prevented by simple business advice. The Committee recommends that business assistance be extended to aid Micronesian businessmen in complying with the new income tax laws and to improve management skills. Bookkeeping skills are urgently needed.

Of the \$600,000 capital augmentation appropriated by the Congress of Micronesia for FY 1972, \$40,000 has been allocated to each district for local administration and for single loans not in excess of \$5,000. The remaining \$360,000 is under administrative control at Headquarters

for loans in excess of \$5,000 that have been approved at the district level and forwarded to Headquarters for further review and funding. In FY 1972, applications total \$3,000,000 and available funds are little more than the \$600,000. Many legitimate and urgent needs are not going to be met.

Major responsibility for managing the program rests with the district EDLF Boards. The Committee recommends that the District Administrator not be a member of the Board, but should only release local funds or forward recommendations to Headquarters as the Board decides. Another recommendation is that the district Economic Development Officer should be, ex officio, a member of the Board. Thus, local EDLF Boards will have more autonomy in setting prerogatives and in establishing how and what economic development problems should be attacked, and their recommendations will more clearly reflect district level views.

Often, action on EDLF matters is interminably delayed by lack of a quorum at Board meetings. In all cases, at district and Headquarters level, the member's deputy, or, if no deputy position exists, the next subordinate officer should be designated as alternate member.

The EDLF Boards should draw on all possible advisory talent available in evaluating EDLF loan applications, e.g., the business advisers being established in each district can provide very effective analytical advice.

Foreign sources have also been sought out to assist Micronesians capitalize their business ventures. At present, capital funds come into Micronesia legally from the United States and illegally from other foreign sources. While all legal foreign investment is regulated under the provisions of Title 33 of the Trust Territory Code, illegal foreign investment is not regulated. Illegal investment usually occurs in Micronesia when private sources of capital are unavailable and when public funds are not accessible to potential businessmen. The Committee believes that the 'most favored nations' clause unduly limits sources of capital funds to Micronesians by restricting foreign investment only to American sources. This clause should be modified -- preferably abandoned. The recent American-Japanese agreements on landing rights on Saipan from Japan and on access and use rights to Japanese fishing fleets at the ports of Palau and Truk have been interpreted as opening Micronesia to all nations. The Committee believes that the United Nations Trusteeship Council should examine this matter and provide more clarity. The Committee prefers to have open foreign investment that can be regulated, to foreign investment which is hidden behind a myriad of devices to avoid regulation.

Foreign investment has caused numerous frustrations in Micronesia. At present, the district foreign investment boards do not have the expertise to properly evaluate applications for business permits from

companies having foreign investment. District Economic Development Officers and Headquarters personnel are required to give technical assistance to the boards to enable them to make their own decisions. Instead, these people have attempted in some instances to interject their own views to overly influence and direct the decisions of the boards. This must be corrected. The boards should be able to evaluate applications on the basis of informed and unbiased information. One solution would be to require firms to supply far more detailed information than is now required under present provisions of the Code. This would require business firms to undertake considerably more study in a district, but the Committee believes that this is in the best interest of the company and of the district that must live with the success or failure of the venture. Another solution is to also provide more technical assistance to the boards than is now being given.

After these firms have received their business permits, they enjoy almost unlimited freedom of action. District foreign investment boards do not have sufficient manpower to undertake proper monitoring functions, and once undertaken they have no power to insure that revocation, suspension, or modification recommendations will be followed. Local boards can only hope that the High Commissioner will uphold their initial judgments. Solutions have not always

proven satisfactory to the local boards, however.

An aspect that has caused considerable concern to Micronesians is the ownership aspect of companies. Many feel that by owning a majority interest in the company there is little to fear from foreign investment. However, ownership and control are very distinct and separate concepts in the world of finance. Thus, although Micronesians may own a majority interest, a company may still be controlled by foreign investors. This occurs because of a number of factors. One, the foreign investor usually owns a fairly large number or block of shares; these shares can be voted to reflect a single purpose or position by the foreign investor. Two, shares owned by Micronesians are usually spread throughout Micronesia and throughout many, many different owners; because these shares are widely distributed and are owned by many different people having many different views, it is very difficult to vote all the Micronesian shares in one unit to support one single purpose or position. Three, because the shares held by Micronesians are scattered throughout Micronesia, many fail to vote, because they cannot attend shareholder meetings. Four, the large distances and difficulty in communication between the Micronesian shareholders prevent unified policies from being prepared before a shareholders meeting at which a vote is taken. Thus, foreign shares can be voted as one single unit to outvote the widely diverse

Micronesian positions and votes. This dilution of power should not be underestimated; it is found in many Micronesian companies having foreign investment. Another major problem associated with foreign investment and Micronesian ownership and control is that it is often difficult to insure that ownership of foreign investments will be extended to Micronesians. Not all foreign firms maintain adequate records in the Trust Territory, despite explicit Code regulations, therefore detailed examples are difficult to establish other than through public testimony. Public hearings indicated that stock sales to Micronesians have been discouraged in some instances and discontinued in others. To purchase stock, when available, Micronesians are often required to travel or correspond outside of the Trust Territory, to locate corporate officials who are often unavailable, and to meet minimum purchase requirements (usually \$100) that are difficult for Micronesians to satisfy. Another method is for the company having dominant foreign investment to initially incorporate with low price par value stock to persuade local foreign investment boards that stock will be made available to Micronesians. After a short time, however, the company reevaluates this stock considerably. This may be good for the foreign investor, but works hardships on Micronesians who have little cash for investment purposes. A more simple and satisfactory arrangement would be to require all businesses to sell stock to

Micronesians at their places of business in the Trust Territory, to prohibit reevaluation of stock within the first five (5) years after incorporation, to prohibit the establishment of stock purchase requirements that are unreasonable and unrelated to issuance costs, and to permit Micronesian employees of the business to participate in stock purchase programs through payroll deductions.

Noncitizen residents have also been able to use Micronesian spouses and have adopted Micronesian children as devices to establish themselves in business in Micronesia. Some marriages and adoptions have come about legitimately, others are questionable. The usual technique is for the noncitizen resident to use the name of the spouse or child to secure the business permits and meet such other legal requirements as are necessary, to purchase land, to obtain public funding or local capitalization as may be had, and to establish the company name. The company is legally in the name of a Micronesian, but it is controlled by the noncitizen resident who is spouse or parent to a Micronesian. This technique enables the noncitizen spouse to avoid foreign tax law, use the advantages of Micronesian law for lower taxes and less business regulation, and to use the restriction against ownership of land to his advantage by being able to evade business creditors and foreclosure sales for indebtedness.

At the same time, the noncitizen resident is able to attract large and consistent capital funding from outside foreign sources which are unable to enter Micronesia legally, on their own terms, or which also wish to avoid detection and regulation. The noncitizen resident businessman can also hold distinct competitive advantages by being able to reach foreign sources of supply and markets for local products not readily available to Micronesians. These highly questionable practices must be regulated, but the only effective method is to reach the noncitizen spouse or father and permit only limited involvement in business undertakings. This area is highly technical and no ready or effective solution is available in the near future.

Other problems associated with foreign investment are associated with the areas of merchandising and exploitation of natural resources. In the latter, all such firms should be required to develop programs or participate in government established programs designed to develop the natural resource which is being exploited and which is in danger of depletion. Exploitation and exploration taxes may be one method to control potential business ventures in this area, with more definite guidelines for development participation applied at later stages of the business enterprise. Tax incentives and subsidies may also be applied to encourage the exploiter to undertake specific and general programs for economic development for Micronesia. In short,

some method must be examined to induce foreign investors to undertake and to participate in programs that will protect and develop Micronesia, and to encourage them to undertake profit-taking ventures that can be beneficial to both the foreign investor and to Micronesia. The Committee is generally concerned about the number and size of these foreign firms and that apparently most officials are intimidated by their power, so that a great many compromises with the foreign investor appear to be made at the expense of Micronesia. A more positive approach must be made, as well as a more stringent application of the laws, regulations, and rules regarding foreign investment. Paper compliance with Micronesian laws is no compliance at all if charter provisions and business permit conditions are violated, and laws are bent to the will of the foreign investor.

Conservation

The Committee supports the recent action establishing a conservation office in the Department of Resources and Development. The intended scope of the office should be clarified and staff increased. Hopefully it will be quite broad in its application to the entire environment. It should protect and conserve the natural, archeological, and historical resources that can be so important to the future of Micronesia. Specific and broader powers and responsibilities must

be assigned it.

To be fully effective in carrying out the kind of a program that is overdue, several further actions are suggested. First, the office, perhaps with division status, should be located at Headquarters. Second, a conservation officer should be established in each district, to develop and implement a local program, with advisory and technical support services from Headquarters. Officers in the districts should be invested with strong authority for enforcement, supported by necessary legislation. There are increasing dangers of destroying the precious few game fowl and animals through uncontrolled uses of dogs, night and out-of-season hunts, and improper equipment. The dangers to the delicate marine ecology of Micronesia from pollution of all kinds -- solid wastes, fuel, and soil -- cannot be exaggerated. An example is the recent wreck of the M/V Solar Trader on West Fayu Atoll in Yap District. Fayu is one of the major island breeding grounds of turtles for Micronesia and is one of the eight breeding grounds for green turtles in the entire Pacific Ocean. The dangers to this atoll and valuable marine resource came from sailors marauding the beaches and from possibilities of oil and gasoline spillage. Physical damage to the reef caused by the wreck itself was unmeasurable. The Administration did take steps to

salvage the cargo. However, no notice was given to the Division of Marine Resources, or the Conservation Officer, of the potential ecological disaster. The Chief of Marine Resources was contacted only by the Yap delegation to the Congress. It was the Yap congressional delegation that recommended a conservationist or a marine biologist be placed in charge of the operations, and to survey existing damage. It was also recommended that steps be taken to insure that further damage be prevented and to insure that the ship owners pay for all ecological damage to the island. As of the writing of this Report, no information has been received on the final outcome of this matter. The Committee notes that this example, although unusual, is not an exceptional state of affairs. The Committee also notes that new legislation must be enacted in this area and that, most importantly, means must be provided to insure its enforcement. The U.S. Navy provides occasional patrolling of Micronesian waters; however, increasing numbers of foreign fishing fleets are violating our territorial limits.

The Committee further believes that the current three mile territorial limit should be extended to at least twelve miles to protect our marine resources. This should be accompanied by a resolution declaring that such legislation in no way should be interpreted as forfeiting Micronesia's right to the area within

this entire region of the Pacific under long established traditional use rights.

Also, the Committee has discussed alternatives for the present entomology laboratory in Koror. It is an excellent facility, with a very valuable collection. If entomology research is still required at that location, it should be so used. One alternative is to turn it over to the museum, now using some space in the building and in the process of expanding its facilities. One purpose of a museum is to preserve and expand collections such as the insect collection. A third alternative, and perhaps potentially the most productive, would be to turn it over to MOC as a facility for classroom and laboratory teaching of biology. The collection would be useful for instructional purposes, and its augmentation an effective training device.

Infrastructure -- Related measures before Congress:

<u>House and No.</u>	<u>Subject</u>	<u>Action</u>	<u>Location</u>
H.B. 14	Establishing Environmental Quality Council	Pending	House-W&M
51	Establishing Planning Commissions	Pending	Senate-J&GO
69	Creating a Bank of Micronesia	Pending	House Floor
80	Warehouses for Storage of Import Goods	Pending	House-W&M
96	Admiralty and Maritime Laws	Pending	House-R&D
101	Environmental Protection	Pending	House-R&D
112	Admiralty and Maritime Laws	Pending	House-R&D
H.J.R. 10	Better Outer Island Field Trip Service	Pending	Senate-R&D
23	Inclusion of TT in Rural Elec. Act	Pending	Senate-W&M
29	Re: Airfield Construction on Kusaie	Pending	Senate-R&D
S.B. 2	Imposing a Real Estate Transfer Tax	Pending	Senate-J&GO
55	Establishing Micronesian Development Authority	Pending	House-App.
102	Establishing Extension Training Program in Districts	Pending	Senate-W&M
S.J.R. 5	Requesting \$5 million from U.S. Congress (EDLF)	Pending	House-App.
24	Requesting funds for Farmer Loans	Pending	Senate-R&D
42	Requesting additional Civic Action Teams	Pending	Senate-W&M
54	Joint Venture Bank of Micronesia	Deferred	House

Proposed measures:

An act to permit financial and lending institutions to hold equitable title to land, and to lease and sell land taken as collateral for loans where there has been default.

An act establishing more stringent conservation laws over the exploitation of marine resources.

An act amending provisions of the code relating to the return of fuel tax revenues to the districts to require 50 percent of these returned revenues to be used only for road improvement and construction.

An act requiring each Department and each Division to submit annual reports to the Congress on programs and policies and how these relate to specific goals set by these government departments and agencies (by district).

An act to increase the powers of the Foreign Investment Board.

A resolution requesting reorganization of the Department of Public Works relative to CIP and Congress-funded projects.

A resolution requesting the Attorney General's office to permit proposed contracts for Trust Territory-funded CIP to be reviewed by the district legislatures of the district in which the project is to be undertaken.

V. AGRICULTURE

Agriculture is important as a development potential in Micronesia because much of the land suitable for crops and livestock is undeveloped -- largely unused -- and because such a strong demand exists for the commodities this land is capable of producing. To develop a viable agriculture will require concerted efforts on several fronts. Otherwise, even the best efforts will fail, or development will be slow. The interdependence between agriculture and other aspects of development are very important.

In developing agriculture, unless a systems, or "package" approach is followed, the probability of failure is high, or the returns realized will be much less than anticipated. The systems approach in this context means that a development project in agriculture requires that every step in the entire sequence be planned in advance, with assurance that each requirement can be met in a timely fashion. If the existence of a demand for a given output is located, and a potential source of supply -- a farm, a group of farms, or an area in which production could be developed -- and a project decided upon, a production and marketing system must be planned, and assurance established that all of the elements be in place at the proper time. Nothing can be left to chance; one small slippage can lead to failure.

Demand

One indicator of the internal market demand in Micronesia, for agricultural products is the level at which they are imported, about \$7 million worth of food items in 1969. The demand for imported food falls into two categories. The first is to supplement a lack of traditional food -- especially in the burgeoning district center areas. The second is to satisfy newly acquired tastes -- several foods have become established in Micronesian diets but are not produced in Micronesia. An example of an acquired taste is rice, which is a staple item in the diet -- the main commercial starchy food and an important supplement to subsistence diets. Rice could be grown in Ponape, and was during Japanese times, but its production has not been redeveloped. Large scale rice production should be examined in terms of what alternative uses the land could be put to, costs of production, and competing supplies from foreign sources.

Another of this group is sugar, universally a staple item. Under the Japanese, it was the major crop, occupying most of the suitable land and attracting major investments in mills. Reestablishment of this industry has little economic potential at this time for the following reasons: a viable sugar industry requires large amounts of cheap labor; modern processing mills require extensive acreages of cane; and, the world sugar price is too low to encourage inefficient and costly

production.

All of Micronesia's cooking oils and fats must be imported. The important copra industry is not large enough to support an extraction and refining operation. Extensive studies show that such operations require extremely complex and sophisticated shipping techniques to avoid spoilage and are not available in Micronesia. Dairy products are also imported, and have become established in the diets of many, especially butter, and to some extent, cheese. Dried and evaporated milk also are important, with various uses. There are extensive potential pasture areas which conceivably could be developed as a basis for efficient dairies. However, because of fragmentation of land holdings, lack of dairy management experience, high investment costs, and uncertainty of success (dairying is especially difficult in tropical climates), prospects are negative in the foreseeable future.

Wheat products are established in the diets of many, but bread tends to be a luxury, consumed principally by high-income groups and expatriate employees. The list could be extended almost indefinitely -- potatoes, bulb onions, condiments, spices, and so on.

The potential for import substitution is very large, significantly so in starchy foods (including breadfruit, taro, yams, sweet potatoes, cassava or tapioca, and rice), fresh fruits and vegetables in great variety; and such protein foods as eggs, poultry meat, pork and beef,

to say nothing of fish, which will be discussed in the next chapter. Goats are a possible source of milk and meat, to make use of the variety of vegetation on unused crop land and hilly land. However, to avoid causing soil erosion, their numbers and grazing must be carefully controlled.

The internal demand for agricultural products is not necessarily local. Some islands or districts are capable of producing certain commodities for the commercial market that others lack. The Marshall Islands -- besides copra -- apparently has little potential beyond subsistence crops. Some experimenting and testing are getting started that may demonstrate potential greater than expected. But, with the activity in Kwajalein Atoll, a large district center and other activities such as construction in Majuro, the demand is large and concentrated. This district could be an important market for Kusaie and Ponape, both potentially able to produce large quantities of fruits and vegetables. Favorable environments exist somewhere in Micronesia for most of the spice crops, but their production and marketing is highly specialized.

A major internal demand for agricultural products is generated by the tourist industry. One of the commodities the usual tourist expects to be able to spend his money for at the hotels and restaurants is the local foods. This includes fruits, meats, fish and vegetables, prepared

in local ways and often served as typical meals. In order to provide this, the restaurant needs a regular and reliable supply of specific products from agriculture. The reliability of supply is emphasized because they must be offered on printed menus, and be available for a new set of tourists every day. Because local agriculture produce is not available, hotels are importing large amounts of food from Guam and Hawaii where large discounts can be had on bulk purchases. If 50,000 tourists in a year spend an average of three days each in the territory and eat three meals a day, this is 450,000 meals where local foods could be offered, and would often be selected. Ingredients of their own familiar diets -- eggs, meats, certain vegetables and fruits, and the like, can also be supplied from local sources.

A viable external demand also exists for agricultural products that can be produced in Micronesia. Of greatest interest at the present time is the market in Guam. Rota, and Tinian to some extent, are supplying various fresh fruits, vegetables, and melons and Ponape ships one to one and a half tons of bananas per week. Yet the market could absorb much more. The Guam market is accessible to Truk, Yap, and Palau, too. The present supply of bananas from near Kolonia, in Net and Sokehs in Ponape, is expanding, and a new project sponsored by PATS expects to be offering five tons or more per week within a year. This latter supply has the alternative of going to Kwajalein if the

Guam market becomes saturated.

The many Guamanians who are Micronesian in origin and Guam's very large tourist industry also provide a potential market for the other traditional foods -- most notably the starchy group. Beef, pork and fish also find a ready market in Guam.

In the longer run, it is easily conceivable that Micronesian agriculture could expand to the point that it would look farther afield than its internal markets and Guam. The two most likely outlets could be Japan and Hawaii. This appears to be so far in the future that at the present it seems hardly worth considering, except possibly some high-value, specialty products not yet identified. That is, unless agriculture in Micronesia really "takes off."

Supply

Agricultural production in Micronesia is, for the most part, in transition between a traditional subsistence type and development of a modernized commercial agriculture. The strong commercial demand is of recent origin; its growth has been rapid; and it will persist and increase over time. Agriculture has hardly begun to organize to respond to that demand.

Generally, subsistence agriculture relies on hand methods and traditional technology. Not much land is required and it can be in

small plots. Even if these are scattered, it is not a particular problem. It is often desirable to have land of different qualities and in various situations: areas for taro patches, good soil for vegetables and root crops, and a few breadfruit trees and coconuts in rougher and poorer areas. Chickens and hogs are left to scavenge. High levels of productivity from the land, livestock, or labor are not required. The head of the family can help when he is not fishing for subsistence or working at a regular job, but the family can take care of most of the work. Even this type of agriculture will usually produce some surplus for small local markets, but now that is not enough.

The present need is to establish full-time farmers who will supply the commercial market. There are very few of them now and much of the commercial farming is a part-time occupation of people regularly employed. The population movement is from the rural areas and the outer islands to the district center. This movement is mostly on the part of young and vigorous people, leaving older people, the infirm and those resistant to change. Thus, the farm labor force is weakened. People move to seek opportunity, where the pay is good, where they can develop and advance, and where they are productive.

Productivity of labor and management in agriculture must be

comparable with the rest of the economy. A common comment is that people just do not want to be farmers. The Committee believes that there are people who do want to farm. They will not, however, unless they can earn incomes adequate to maintain levels of living and the amenities comparable with the opportunities available in other careers. They want to have good homes and furnishings; they want to educate their children; they do not want to face a life of toil and drudgery for themselves and their families. This is not a problem unique to Micronesia; it is worldwide. The degree of labor shortage and alternative opportunities here is not common, however, so solutions tend to be somewhat easier elsewhere.

The Committee strongly believes that far too much money and time have been allocated to experimental and demonstration farms. District agriculture efforts to work with and lend technical assistance to farmers have been very poor; and district agriculture extension agents need upgraded training, increased supervision and support, and more supplies of seeds and fertilizer. Agriculture chiefs must institute a program to work with and among the farmers on a more frequent basis. These factors may account to some extent for the very small number of commercial farmers in Micronesia. Rota has set an example that should be used as a model in Micronesia.

It has no experiment stations and all agriculture personnel are continually in the field lending expertise to farmers.

Also, labor can be made productive in agriculture by combining it with relatively large amounts of land and capital. The capital would, of course, be in forms that would represent modern technology. It would lead to high yields from the land, high productivity on the part of the farmer and other labor, and replace much of the drudgery. Of course, farming will always require diligence and a certain amount of physical labor, but with this type of organization, farming can attract those who want to farm, and commercial agriculture can become a reality.

Some agricultural enterprises are not land consuming, such as egg and poultry plants, or piggeries. But most are, in varying degrees. Commercial agriculture with modern technology imposes some requirements on the character of the land holdings that are in conflict with the present pattern, individually owned or allocations of clan or family land, prevalent in Micronesia. Total land available to a farmer must be large enough to meet the income requirements suggested above, for whatever enterprises he plans to establish. Individual fields must be large enough to permit economical use of appropriate equipment and application of other aspects of technology. Areas of land suitable for specific uses

must be large enough to permit considerable specialization, at the minimum, enough to produce marketable quantities of any one commodity. On the other hand, some diversification spreads risks and hazards attendant on any one product, and complementarity is important.

These problems could be partially solved if there were an active land market in Micronesia, which does not exist at present. A land rental system could accomplish much the same ends, especially after experience has established appropriate rents. This requires, of course, persistent efforts towards completing the land registration projects that were hoped to have been completed within at least eight (8) years. The time now required to complete the project is projected at 20 to 30 years, not including outer island registration. One particular barrier is the requirement that the survey and registration proceed geographically from one area throughout the island rather than permitting registration on a "piecemeal" basis. Land owners still have grave suspicions about the purposes behind the program and those that consent to participate don't follow geographical patterns. Another problem is the emphasis upon urban development, mentioned earlier. To facilitate urban projects the Division of Lands and Surveys is used to register urban tracts -- for infrastructure CIP and for potential commercial development. Until more teams are available or until some solution

is forthcoming to register rural areas, Micronesia will have little or no land market to facilitate an expanded agricultural system.

Agricultural homesteading of public lands, after suitable soil surveying is one solution to the land market problem. Another is that clan or family land could be reallocated in the interests of development, although in many cases present allocations have become institutionalized and have many of the attributes of ownership. Yet another very realistic possibility under some circumstances is cooperative farming ventures joining several tracts of land together. The PATS sponsored banana project is of this nature, wherein six young farmers have a seven-acre field of bananas. They are also establishing a smaller field of papaya, it, too, aimed at the Guam market. Land problems are discussed more in depth at the end of this chapter.

The capital requirements for establishing commercial agriculture are substantial, and a large part of it must be available as loans. Little or no capital is accumulated under subsistence agriculture, so its availability is a necessary part of the transition process. Capital is used in three forms -- long term, intermediate term, and short term or production loans.

The first type applies to land purchase and permanent improvements that are expected to last through or beyond the planning horizon of

the individual. Buildings and fencing, land clearing, terracing, water supplies, and the establishment of long-lived trees, such as breadfruit and coconut, are in this category. This requires long repayment periods, low interest, and often a grace period before repayment begins. It is secured by mortgage on the property, or the equivalent.

Intermediate term capital is used for those investments that last through a series of production cycles, but are expected to be replaced several times during an individual farmer's active life. Breeding livestock, intermediate-lived trees and plants, and equipment and machinery fall in this category. The interest rate on this capital is higher, the repayment period shorter than the life of the investment, and usually no grace period is provided. It is generally secured by mortgage on the chattel being financed.

Short run or production capital is used to finance the inputs required in a production cycle, usually not in excess of one year. It can cover the costs of land preparation and all field operations, seeds and plant materials, fertilizers, pest control, harvesting, and marketing. Even costs of family living during the production period are often included. It is also used to finance livestock operations. It normally carries even higher interest than intermediate credit and is secured by a lien on the expected output.

Constantly recurring operation costs such as feed for poultry are often financed by longer term loans. These are akin to certain EDLF loans, where the indicated purpose is "operating capital." Another method of providing capital to agriculture and to induce people into commercial farming is through tax advantages and direct subsidy programs.

Means of meeting the special requirements of credit for agriculture is discussed in the chapter on infrastructure, of which the entire financial and credit structure is a part. It must be noted, however, that EDLF requirements that land be surveyed and registered before it can be used as collateral is a heavy burden to Micronesian farmers. Lack of registration teams for rural areas and heavy work backlogs delay meeting such requirements almost indefinitely. In some districts this policy has been changed, but not in all.

Marketing

Marketing in Micronesia is also a major problem. Marketing generally is the process of transferring the product from the point of production to the ultimate consumer. It may be as simple as sale or barter of an item by a farmer to his neighbor. Or it may be very complex, including washing, grading, and packing at or near the point of production, transportation over long distances by a succession of carriers, undergoing extensive processing, and finally

reaching the ultimate consumer as part of a meal in a restaurant. Several changes of ownership might occur in the process. The point is that the systems approach requires not only that the demand exist, but that all of the services and facilities are in place between the producer and the consumer.

This might only require a road from the producing area to the district center and a farmers' market, or establishing a direct producer-buyer relationship between a farmer and a retail store or restaurant. The complexity builds up from there. If bananas are to be shipped to Guam, cargo space must be available on the airplane. But this involves two-way responsibility -- if space is made available, the commodity must be there to occupy it. This is one example of the importance of the reliability of supply, a point that cannot be emphasized enough. Usually after production is established in response to a viable demand, marketing can move into an established channel rather early in the process. For instance, bananas might be consigned to a produce dealer in Guam, who assumes responsibility on arrival. The transportation, storage, and grading problems in marketing are one thing. Finding and moving the produce into particular markets is another. Because of these complexities, it is recommended that someone with marketing expertise be sought to render assistance at the Headquarters level for all aspects of

Micronesia's exports.

Quality Control

Subsistence agriculture is quite tolerant in respect to quality factors of agricultural products. This tolerance declines in commercial channels, although it persists somewhat in farmers' markets. But a retail store wants to offer items that are clean, sound, of uniform appearance, and at the proper stage of maturity for immediate consumption. The distance products must be transported and time lapse between production and consumption put further demands on the quality factor. Establishing the concept of quality standards becomes an important part of the transition process. Very often grades must be established as a guide to quality. One that is easily recognized and readily accepted is sizing of eggs.

Quality control is a function of both production and marketing. It begins in the planning stage of the production process, continues in the care given during it, is dependent on decisions on maturity and the handling during harvest. At least a minimum of sorting and cleaning is done on the farm. It continues through packing and other phases of marketing. Top quality commands top prices at every point.

Copra

Copra, the principal product of the coconut palm, is critical to the existence and well-being of so large a proportion of the people of Micronesia, that it is given separate treatment here. To most of the inhabitants of the outer islands it is the only available source of cash income with which to supplement subsistence foods, to buy trade goods, to upgrade standards of living, and to participate in the general economy. Even on the major islands -- the district centers, many people are still largely or partially dependent on copra. However, on some of these latter islands, only a small part of the coconuts are harvested; the rest are wasted. The scale of the industry is represented by annual exports averaging 12,000 tons, for which producers were receiving in late 1971, a guaranteed price of \$120 per ton for first grade copra on the outer islands -- \$12.50 more at the district centers -- \$1,440,000 for 12,000 tons, if it were all top quality. If about half the population were involved, this would be less than \$35 per capita. (Second grade brings \$110 and third, \$100 per ton.)

The copra industry in Micronesia is in trouble on three fronts. First, the world price is low and has recently dropped by \$10 a ton in Micronesia. At one time a major source of vegetable oils in world trade, it enjoyed a strong and steady demand. As soybeans, sunflowers,

oil palm, ground nuts, and other sources developed, the demand kept pace and all vegetable oils enjoyed good prices in world markets.

But rather suddenly, the supply has caught up with demand and vegetable oils are in surplus, depressing prices severely.

Most of the coconut plantings in Micronesia are old, and yields are low. They are well beyond the prime productive life of the palm. They are mostly unselected plantings, with missing plants; and so tall that harvesting is difficult. Neglect of a replacement program, with selected stock, is reflected in declining production.

Making copra is hard work, and the labor required is relatively unproductive, compared to opportunities in the district centers, and other agricultural opportunities on some of the islands more favored than the drier and outlying islands. The district centers are attracting the stronger members of the labor force, leaving the older and weaker people to the hard labor of copra making. Copra making is further complicated by the fact that it can be done only over the course of a few days in advance of the arrival of a field trip ship because it spoils quickly without proper storage facilities. Thus, the work is very concentrated periodically.

Finally, while copra is the only product derived from the coconut in Micronesia, the other major potential, coir fiber derivable from the husk, is wasted. The shells are used for charcoal in some areas,

and there are other minor products that might be developed.

To assist in the marketing and provide stable prices to producers, the Copra Stabilization Board (CSB) was established. Its purpose is to provide a marketing system that prevents exploitation of producers through excessive and capricious margins, and yields them stable prices. At the same time, it uses established marketing channels in so far as possible, allows specified margins that cover costs, and assembles shipments large enough to interest buyers in the major markets. During its first few years of operation when prices were high, it accumulated a surplus on reserve. In late 1971, price maintenance was costing \$30 per ton. For 12,000 tons, this would total \$360,000. Actually, the subsidy is greater to the extent that the general subsidy for field trip ship operations partially covers costs of shipping copra to the district centers.

UMDA (United Micronesia Development Assn.) manages the marketing system for the CSB, which reimburses UMDA for the difference between allowed costs and the price received. The Committee reviewed these and does not find them excessive. They are, per ton: \$2.50 for the buying agent who travels on the field trip ship and weighs and grades, and pays the producer; \$10 freight; \$10 to the buying agency at the district center for handling and storage prior to shipping; \$2.40 to UMDA to cover management overhead; \$16 freight to Japan, plus

insurance, bank charges, and other; 2 percent of gross sales price at destination as brokerage to UMDA; and 7 percent shrinkage loss, costing about \$10 per ton. Thus, marketing costs are around \$55 per ton, or \$175 total delivered in Japan. The CSB is making up \$30 of this. UMDA receives about \$5 per ton for its services, a total of \$60,000 for marketing 12,000 tons, equivalent to a little over 4 percent of the amount the producers receive.

The Committee questions two practices in marketing. First, a bag as sold by the producer must weigh 105 pounds, containing 103 to 104 pounds of copra, depending on how oily and dirty the bag is. Second, the agent will not accept a part-bag; any overrun is often wasted unless the producer can find others to combine enough to fill even bags. Combining could easily be done by the buying agency at the district center.

A large part of the budget of the Agricultural Division is devoted to the coconut rehabilitation program. It involves replanting the old plantations with young palms started from seed of selected strains, and killing and eventually removing the old ones. However, progress in relation to the need is woefully slow. In the first place, a palm requires about 8 years to come into bearing, so only part of a producer's palms can be replaced in a given cycle -- he needs what income he can get. And replanting is very hard work,

especially for the present weakened labor force. A hole must be dug to provide an opportunity for the young plant to establish its root system. And most of the coconuts are planted in coral that is aggregated, to some degree at best. The older people are not much interested in putting forth the effort to plant trees that will not yield a return for 8 years -- when they themselves may no longer be able to make copra. The current rate of migration of the young people leaves in doubt for whom the new plantings might be made.

If Micronesia is to continue its traditional and important copra production, it may be necessary to arrange for machine digging for new plantings. This is one of the many steps that could be taken to increase productivity in agriculture.

The coir needs to be saved. Recovery has been tried in Truk, by the government. Equipment was purchased, and satisfactory fiber produced. Some processing equipment was also used, and demonstrated the possibility of producing end products of various kinds. However, as operated, it was not profitable and work stopped. Some items of equipment were dispersed but the basic machines and installation are still there. This should be made available to some private individual who might be interested in further development of the potential. An important market for finished products of coir could be the tourist industry. The need for local handicrafts to supply the tourist trade

is discussed later in this Report.

At another location in Micronesia a company with diverse interests has analyzed the possibility in detail, and is seriously considering establishment of a plant to produce coir fiber for export. This, too, should be encouraged. Any possible additional income from coconuts is badly needed on the outer islands.

Clearly, production of copra is done by traditional methods that have changed little in many years. Is this true everywhere copra is produced? Or in geographically concentrated areas, are mechanical methods used, where coconuts can be assembled in large quantities? If so, might it be possible to assemble Micronesian coconuts at a central point, in the husk, where the coir could be processed, the copra extracted and readied for market, and perhaps even the shells salvaged? Such possibilities need to be studied. One thorough analysis concludes that Micronesian production is inadequate to justify an oil extracting plant.

Problems and Recommendations

Against this background, the basic problem areas of land, labor, capital, and management are apparent in agricultural production. Land problems include uncertainty of ownership through delayed registration, definition of boundaries, possible conflicting claims to ownership

of the "public lands," size and fragmentation of holdings, lack of land use capability determinations and mapping, and limited soil testing done.

Commercial farming usually requires far more permanent or long-term investment on the land than does subsistence farming. The farmer using his own capital is reluctant to invest unless he has clear title to a specific land area, and seldom can capital be borrowed for the purpose otherwise. The need for speeded up land surveying and land titling is thus emphasized. As noted earlier, it also indicates high priority for areas where agriculture should be developed, spotlights the problem of public lands, and emphasizes the need for opening for agricultural homesteading those that are suited. Suitability is determined by land use capability surveys, which should be undertaken by those who have had broad experience with tropical soils. Much of this was probably done by the Japanese, if their maps are available. Maps from German as well as Japanese times should be used fully to speed up land survey as well. The program of the Land and Surveys Division recognizes these goals, the need to speed up its output and is looking for means to do so. The Committee is not in agreement with the priorities imposed, especially the frequent diversions to problems arising from land requirements of CIP. Alternative solutions should be studied.

The small size and fragmentation of holdings is an obvious deterrent to development and it is difficult to deal with. It is a worldwide problem, to a large extent unsolved. A viable land market and rental system can be helpful. Government supported consolidation schemes have helped after the owners themselves feel the need, but they can be very costly to effect. Although commercial agriculture is often not harmonious with extended family, clan, or village ownership of land, it does have the potential of helping to resolve the problem of fragmentation through revised allocation. Homestead allocations should carefully recognize the size requirements for efficient use of labor and modern technology.

The labor problem is largely one of productivity. It will not be solved without adequate proportions of land and capital, as discussed earlier.

Capital in agriculture is very complex, as the vehicle through which technology enters the industry. The broad categories of capital requirements -- long, intermediate, and short-term are outlined above. At the present stage of development considerable capital is needed in a form of infrastructure, particularly heavy equipment for clearing and developing land, and intermediate sized for land preparation. The latter is a long-time need because farms are not large enough to warrant individual ownership. This is being

provided fairly effectively in the Marianas, with its cost heavily subsidized. If agriculture develops successfully, the land preparation function should in time, revert to private enterprise, either as a service made available by individuals or through farmers' cooperatives. The need now is general availability of these services in all developing agricultural areas.

Individual farmers need capital in all three categories. The EDLF is a potential source, and has helped establish a number of viable enterprises. Most notable are projects like piggeries and poultry plants -- neat packages of investment and operating costs. In this area EDLF does very well -- with the cooperation of the Extension as business adviser. However, it is not enough. The problems related to land registration and EDLF have been discussed earlier. Also, EDLF, in relation to its total lending, diverts rather little capital to agriculture, far less than the needs for the rate of development needed. It responds very slowly to applications, mostly because it does not have enough funds. Often an enthusiasm, or opportunity, is gone before financing can be secured.

The Committee recommends a separate and distinct loan fund for agriculture. It could be handled in one of several ways. One would take advantage of the present organization, with a part of an expanded

EDLF set aside for loans to agriculture. A second would be a fund for agriculture to be administered through the Agriculture Division. A third possibility is raised by reports of discussions in the United States on extending the program of the Farmers Home Administration (FHA) to certain possessions and territories not yet served, including the Trust Territory. Depending upon the terms of the decision, this might bring with it basic staff and a loan fund.

The model created by the FHA, and used throughout most of the developing world, should be considered whichever of the three above courses might be followed. The fundamental feature of it is that the loan program is integrated with supervision and management training. It provides access to technology and directions on how to use it. Under this kind of a program, lending is based on a farm plan, worked out by the farmer and a technician. A schedule of loan disbursements is prepared, and each is preceded by a review of progress by the technician. The effectiveness of the program is attested by its widespread success. This is dependent upon the soundness of the plan, the performance of the farmer, the quality of the technician and the stability of the economy within which they operate.

The Committee recommends that before any major decision is made in the field of agricultural credit, a technician with experience

in program operation and technical assistance in developing areas be consulted. He should be asked to review the needs of Micronesia and recommend a suitable organization and operating program. He would estimate the initial funding level requirements, the staffing requirements, and staff training and technical support required.

On the marketing side, the needs of agriculture have already been discussed. The urgent needs are roads, adequate land, sea, and air transportation, and storage and handling facilities at all points. In connection with perishable products, both agricultural and marine, not enough emphasis can be put on chill and freeze accommodations in storage and transport facilities. Some products require special facilities, such as slaughterhouses for livestock; sanitary, quality, and pest control inspection; specialized processing, and irrigation where feasible. This again emphasizes the "systems" approach -- the full potential cannot be realized unless the system is complete.

Again, the objectives and programs of the Division of Agriculture are in full agreement. Obviously, much financial and other support is needed to carry them out. One of the major problems is attracting, training, and keeping adequately qualified staff. Another is finding and attracting people who want to farm. Certainly, the growing level of appropriations from the U.S. Congress, plus growth of the internal economy, has led to planning and starting many of the foundations for agricultural development.

Agriculture -- Related measures before Congress:

<u>House and No.</u>	<u>Subject</u>	<u>Action</u>	<u>Location</u>
H.B. 40	Public Market, Yap	Pending	House-App.
49	Re: Determination of Title by Land Officer	Pending	Senate-R&D
77	Establishing Copra Development Fund	Pending	House-W&M
100	Certificate of Title as proof of Ownership of Land after two years	Pending	House-R&D
H.J.R. 11	Establishing Copra Processing Industry	Pending	Senate-R&D
S.B. 27	Appeal Deadline on Land Comm. Decisions	Deferred	House Floor
56	Establishing Joint Comm. on Public Land	Pending	Senate-R&D
87	Re: Homestead Lands on Rota	Pending	Senate-R&D
S.J.R. 15	Tropical Crops	Pending	Senate-R&D
24	Funds Available for Farmer Loans	Pending	Senate-R&D

Proposed measures:

An act amending the income tax act to exempt all incomes received by farmers and small businessmen.

A resolution requesting land use capability studies and mapping for each of the districts.

A resolution requesting special technical assistance from "ECAFE," a United Nations agency lending highly experienced technical assistance to developing countries.

A resolution requesting the U.S. Department of Agriculture to send survey teams to the Trust Territory to review agriculture credit needs.

VI. MARINE RESOURCES

Generally, marine resources is an area that has one of the brightest potentials for economic development. However, at the present time, the Department of Resources and Development appears to have no specific development goals for Micronesia or for each of the several districts. Does the department believe that small individual proprietorships or cooperatives or joint ventures are best? Or, should this valuable resource be developed on a large commercial scale by such expertise as is not now available in Micronesia? From public pronouncements, it appears that the latter approach will be followed for development of marine resources. As experience suggests, foreign commercial fishing ventures do provide token employment, but they retain the far greater share of profits.

The Committee recognizes that Micronesia is, as in agriculture, in the midst of a change-over from subsistence fishing to commercial fishing and that values and working habits so necessary for successful commercial fishing ventures are not in abundance. However, the Committee believes that these factors should not be used as an excuse to forfeit Micronesian rights to their own natural resources to foreign commercial ventures that are interested solely in exploitation and not in the overall development of Micronesia. The Committee believes instead that these cultural restrictions of

Micronesians on commercial development of this resource should be attacked by specific programs established by the Administration. One possible solution would be to emphasize cooperative fishing ventures, or at the most, joint ventures with foreign capital assistance. Another approach would be training programs and specific financing. Boats and equipment and skills to use them require large amounts of capital and expenditures of time for training that cannot be compensated. Notably, some districts are interested neither in developing marine resources themselves nor having them developed through foreign capital or foreign ventures, but they do not oppose the commercial exploitation of waters outside their reefs or atolls (in the case of the outer islands). In these situations, it is suggested that shore-based operations might bring needed employment to the residents of these districts.

The Committee must note the discouraging lack of emphasis given to marine resource development by the Administration. The annual budget for marine resource is only one tenth of the budget for the Department of Resources and Development, one third that of the Division of Agriculture and only one fourth that of the Division of Lands and Surveys. In relation to the entire Trust Territory budget, it is very poor. There are no business advisors (none with a background in economics or business) on its staff to

assist in the economic development aspect of marine resources; and although many scientific studies are constantly being undertaken, the Committee believes that a decision must be made by the Administration as to just how it will utilize this division. Will the division continue to be underfinanced and required to expend its efforts over a wide area, or will it receive additional emphasis by the Administration? If the latter, will the efforts be directed at research or at development?

The Committee recommends that, whatever the choice, outside assistance be sought from agencies of the United Nations, the South Pacific Commission, and the United States. Such assistance may take the form of research or of development. With outside pressures continuing to build for permission to enter the territory and to exploit this valuable resource, greatly augmented assistance must be forthcoming if Micronesian interests are to be protected. Just as notable is the fact that Micronesia, long a self-sufficient society for marine resources, is increasingly being transformed into a society that depends upon imported, processed marine products. The annual losses to the Micronesian economy in terms of money that leaves the Trust Territory and could well be spent on other productive areas are important to examine. Also, the amounts of money lost to the economy through marine products exploited here and taken

elsewhere for processing and sale is considerable. Both problems must be solved. The Committee recommends that one possible solution is to require all foreign commercial ventures to establish canneries in Micronesia. Another solution would be to have the Congress fund a canneries project and require all foreign commercial fishing ventures to use them. Both approaches have the advantage of providing processed marine products for sale within Micronesia, of providing needed employment to Micronesians, of retaining some funds derived from the exploitation of marine resources within Micronesia, and of extending some controls over foreign commercial fishing and over the exploitation of this valuable natural resource. It must be remembered that marine resources are to some degree a depletable resource, especially if over exploited. Other countries are not requesting fishing permission solely because their marine resources have merely migrated elsewhere. Control over all commercial fishing operations and conservation of our marine resources should be a basic policy for Micronesia.

Extensive marine resources are natural to Micronesia. Coral reefs defining the atolls and islands divide the marine environment into two distinct habitats: the open sea, referred to as the outside or offshore habitat, and the reef areas and associated lagoons, referred to as reef, inshore or lagoon habitats. Outside are

principally extensive and valuable resources of yellowfin tuna, skipjack and mackerel as well as gamefish like marlin, wahoo and dolphin -- and also shark. Associated with inshore environment are reef fish in great variety, shellfish, crustaceans, turtles and other edible and valuable marine life.

Much of what has been said about agricultural development in the preceding chapter applies in principle to development of marine resources. The "systems" approach is entirely applicable, and other similarities are apparent.

Demand

The demand for fish arises from the same sources as for agriculture. People have concentrated in the district centers, away from the traditional and often remote subsistence sources of supply. As noted, they rely more and more on commercial channels. They want fish in quantity since it has long been the primary protein food. Yet they have turned to using more eggs, poultry, pork, beef, and even imported canned fish, but the appetite for fresh, local fish is unsatisfied.

The demand created by tourism for marine products is part of tourists' general interest in local customs and culture. In this environment they are justified in expecting it. Yet local fish is a rare item on the menus of hotels and restaurants in Micronesia.

The usual sea foods are frozen fish and shrimp imported from areas where marine industries are established.

The Guam market will absorb marine products as it will agricultural products. At present a local operation in Palau is marketing in Guam, in relatively small quantities. Beyond Guam are the larger markets. Tuna from Palau, for example, now goes to American Samoa and other U.S. canneries and then to the continental markets. The Japanese developed important tuna fisheries in Micronesia. The present efforts are only a beginning.

Supply

Traditional fishing has largely been carried on in the reef-lagoon environment, where the catch tended to be consumed immediately. The requirements were not large and excess supplies were of no value. Now what is needed parallels the need in agriculture -- full-time fishermen equipped well enough so that they regularly produce a commercial supply for the district center markets.

The old fishing methods are inadequate for both internal demands and commercial export. It is likely that the technology has not yet been developed for commercial reef fishing. One specific requirement to increase commercial fishing supplies is refrigeration. Icing facilities are needed on the boats, shore refrigeration may be necessary, and again refrigeration is required during delivery to district

centers or other markets. Fish caught one day may be kept in ice for one or two days and still be delivered to market in excellent condition. If the time is extended much, however, freezing facilities may be required. An ice plant is expensive in itself and it requires constant and extensive supplies of water and power. At present, only two areas readily supply ice to preserve fish. In Truk, ice is made available in small quantities through the Truk Fishing Cooperative, thanks largely to the fine efforts of the Jesuit Fathers. In Palau, Van Camp sells ice to local fishermen as required under the terms of its contract with the government. To make fishing more viable, water and power projects must be expanded to make more ice plants and reefers available.

Offshore fishing was never important in the subsistence concept, although it has been successfully carried on in Micronesia. Several points need reiteration. An offshore fishing venture requires heavy investment in fishing boats and shore facilities, especially if the operation ranges far from the operating base and a mother ship is required, and if canning facilities are included on shore. Few, if any, individuals or groups of Micronesians have had an opportunity to accumulate the capital to undertake such an operation. EDFL and private funding is insufficient at present. The dangers of illegal foreign investment are very high. Financing problems have generally

been discussed elsewhere. Some valid foreign investment is being undertaken and some is proposed, although Micronesian participation and involvement varies. And again, no canning plants have been established; consequently fish catches are for foreign markets and the direct benefits to Micronesia are minimal.

Because major offshore fishing was not a traditional undertaking, Micronesians require training on commercial fishing boats. Commercial fishing is a demanding trade, requiring long hours each day when fish are in the area, and extended absences from port and home in case of mother-ship operations. It leaves little time with families and for other activities. As noted in the sea infrastructure section, this is a particular problem at this time in Micronesia. Yet, when fishing is good, it is very lucrative. This in itself also creates a problem, because after a certain amount is earned, other values assume priority and the crew may excuse themselves from work for some time. Successful tuna fishing depends upon fully manned crews, and an esprit de corps that makes an effective team.

The present technology of offshore fishing requires a substantial and reliable supply of bait fish, specifically a small anchovy found in the lagoon. About 35 pounds of bait fish have been used by Van Camp per ton of tuna caught. Rights by Van Camp to bait collection in the lagoon areas are provided by contract with the

government. Presently, supplies of bait fish appear to be in much smaller quantities than anticipated. Until this problem is resolved, or new catching techniques developed, this may limit the development of the tuna industry.

A word should be stated about the government contract with Van Camp in Koror. It provides for a lease payment of \$3.13 per short ton of tuna exported, for deposit in the General Fund. This amounted to about \$19,500 in FY 1971. Its primary contribution to the district economy is employment opportunity and purchase of goods and services. Van Camp has undertaken training of Micronesians for employment on the fishing boats as fishermen and in other capacities, with limited success for reasons as previously explained. It has encouraged local investment in ownership of the boats, and some vessels are now owned by local businessmen. The Committee initiated an intensive review of Van Camp operations; the results are the subject of a special report, a summary of which is at the end of this Report. Van Camp serves as an excellent example of what Micronesia could expect from foreign commercial fishing ventures, and this formed the basis for directing a more detailed review. But while the Report does review its situation, it does not discuss the competitive aspects foreign commercial ventures have with local Micronesian enterprises. This factor should not be overlooked. Foreign ventures have large

sources of capital assets and funds as well as marketing outlets and skilled expertise in all phases of business. Needless to say, Micronesian businesses cannot compete against such formidable corporations.

As to positive contributions to Micronesia, Van Camp's is the only offshore fisheries operation providing revenues to the General Fund. Another operates under a permit issued by a municipality in Truk District, providing anchorage for a mother-ship operation and access to bait fish in the lagoon, in return for 10 percent of the catch. As much of this 10 percent share as possible is sold locally -- apparently none gets to the district center, because the municipality has no reefer or ice facilities -- the unsold ten percent share is sold back to the fishing enterprise. This is the full extent of local benefits derived from the project. Two other projects have been arranged by individuals, including bait rights, but the local benefits are not known. None of these last three have shore-based installations.

Marketing

Again, marketing problems associated with marine resources parallel those of agriculture. Although water transportation dominates, air transportation is involved for access to the Guam

market. This is an important part of the "systems" approach. We have already mentioned the refrigeration requirement throughout the handling of commercial marine products, but at this point it should be noted that reefer facilities to store refrigerated trucks to transport marine products should be explored as supplemental facilities to the air terminals. These should complement shipping and dockside reefer services as well as the transportation network linking these two aspects.

A good illustration of a local marketing "system" is found on the west side of Babelthuap Island. The reef is well out, providing a large and productive fishing area. The people of Ngeremlengui village wanted to engage in commercial reef fishing, but in addition to their own boats for actual fishing, they needed a larger one with ice bunkers and a supply of ice. A subsidy was provided by Marine Resources through lending them a suitable craft, capable of traveling to a fish cooperative (or the tuna fishery installation) to buy ice and make it available to the fishermen of that and some nearby subsidiary villages. It could also receive the fish and transport them to a point where they could be transferred to a truck, thence by air to Guam. This was sufficiently successful so they were soon able to buy their own boat, an investment of about \$15,000.

But the most efficient use of that boat is in support of fishing, per se, and transporting fish. The time consuming, costly trip for

expensive ice interferes, and the scale of the operations really requires shore based storage. So, an ice machine and bunker facilities are needed at the dock, plus augmentation of the village's already inadequate power plant -- cost, another \$15,000. (These are crude estimates.) But more water is required, above the village's already overtaxed supply -- yet another \$20,000. Thus, additional investment of \$35,000 is required to maximize the returns to the original \$15,000 investment by the villagers. Roads must also be installed to link the shoreside operations with air transportation services to the outside markets; or, at least some interlocking marketing service must be provided. If there are no roads, then existing reefers owned by the government must be used or new reefers near the airfield must be built, as well as some means to transport the products from these reefers to the airplanes.

Ngeremlengui serves as an excellent example of what could be done to develop Marine Resources on a local level without attracting foreign commercial ventures. Within a year (after receiving the boat from the government, the Ngeremlengui fishing cooperative was averaging \$2000 gross profits per month. It was then able, with the EDLF grant, to purchase a boat of its own. Its success has served to stimulate the growth of other fishing cooperatives in Palau. This cooperative has been chosen to be the vehicle for a high risk venture called "aquiculture", scientific farming of fish and marine

products. If successful, it will hold considerable promise for Micronesia's development. The various infrastructure requirements necessary for this project will also have some spin-off contributions for the community. The community will have power (a constant source), water, new docks, roads, and numerous appliances that will contribute to the basis for other projects and to the well-being of the residents of that community. The income that can be generated to the local economy is, of course, only speculative at this point, but has significant impact. The project also avoids the problems of having Micronesians spend considerable time away from home and of having shortages of bait or competing with other fishing fleets or the elements.

VIOLATIONS OF TERRITORIAL WATERS:

A major problem now confronting Micronesia and posing significant dangers to its natural resources, is the unauthorized intrusion of foreign fishing fleets into the territorial waters of Micronesia. Having no Navy of its own to patrol these widespread territorial areas, Micronesia cannot enforce its territorial integrity. Numerous examples range from Russian warships in the outer islands of Yap and the Marshalls to Japanese "mothership" fishing fleets. Mother-ship operations involve a larger ship carrying bait, supplies, and equipment which services several smaller ships that are responsible for

catching the marine products. Once caught, the products are taken to the mothership where they are frozen and put into storage, thus freeing the smaller ships for more fishing. It is of particular concern to Micronesia, because the larger, slower mothership anchors just outside the territorial waters while its smaller ships slip inside the limits to exploit her resources. An increasing number of these operations are occurring each month. So much so, that new regulations have been issued by the High Commissioner to cope with this problem. Some recommendations are made later in this section. The major thrust of the present regulations, however, is to induce mother-ship operations to come into the Trust Territory legally so they may be monitored and regulated. The Committee questions whether fishing ventures will be induced to have themselves regulated when they can escape the consequences of present violations so easily. The one positive factor is that it reduces the inducement to foreign firms to enter into illegal Micronesian "front company" situations, at least as to mother-ship operations.

As mentioned earlier, marine resources are natural to Micronesia. Some elements are often migratory, such as turtles and tuna, but there is always a rich abundance here. The question to be asked is, will this always be so? Efforts should be started now to develop rather than just exploit this resource. To this end, the Committee believes

that one approach might be to establish an exploration and exploitation tax for commercial fishing ventures just as most countries have for the protection of their mineral resources. The funds derived from these taxes could be put back into programs to enlarge and expand this natural resource and to protect it from being over exploited. Micronesia will not be the only nation to suffer if this resource is destroyed; other nations whose citizens must depend on outside sources for protein diets will also feel the consequences. It might also be desirable to have commercial fishing ventures make direct contributions to the development and conservation of this resource by permitting them tax credits for actual contributions made. Legislation is being proposed to accomplish these concepts.

Pollution problems have generally been discussed elsewhere in this Report. However, the Committee must again emphasize that this problem is a danger not only to our people but also to the conservation of our marine resources. It is impossible to measure the oil and other pollutants dumped into the waters just outside our territorial limits by ships on the major sea routes. Eventually, these waters, as they are carried by tidal and current actions into our waters, will affect the ecology near and possibly on our islands. The Committee is unable to make specific recommendations at this time, but would ask the Administering Authority to consider these problems in

any discussions with other nations about use of the high seas. Pollution problems in and around our lagoons are extremely serious and already have had serious consequences upon our marine environment and ecology. Sewage treatment may or may not be the answer. Oil spillage from tankers and smaller vessels may reach serious proportions. Unfortunately, enforcement capabilities (including available manpower) to attack these and other pollution problems are lacking at this time.

Other Recommendations

The Division of Marine Resources is with the government's Department of Resources and Development. The office of the Chief, however, is located in Koror, Palau. The program of the Division includes offshore fisheries, inshore fisheries, research, starfish control, and technical and operating assistance to the local boatyard. Present evidences of the program are the presence of Van Camp in Koror, and three other independent tuna projects in Micronesia that are not part of the Marine Resources Program; the aquiculture and village project in Ngeremlengui described earlier and a fishing cooperative in Koror; the beginning of an inshore fisheries program in Truk, with one boat for transport-in-ice, an ice plant and dockside market (much of it developed independently of Marine Resources);

a newly established program in Ponape; a well-equipped and financed starfish control project, apparently gaining satisfactory control; and an improved boatyard in Koror, not yet financially sound.

Unfortunately, after about ten years of operation, three of the six districts do not yet have organized fisheries programs. The budgetary and general staff limitations have been discussed earlier.

To facilitate rapid development of a vigorous marine resources program, the Committee recommends a complete reorganization of the Marine Resources Division in the Department of Resources and Development, according to the following plan:

1. Station the Chief of the Division at Headquarters with duties relative to the responsibilities of the Division paralleling those of Chiefs of other Divisions in the Department, such as Agriculture. His immediate priority would be to promote inshore fisheries in all districts.

2. Establish a Starfish Control Branch with a Chief, to relieve the Division Chief of operating responsibility.

3. If it is determined that the research programs should be continued, a Branch or Office could be established in Palau to carry on the most promising activities. Since this is a territorywide program, it should remain within the Division. Ideally, considering the unique suitability of Palau for marine research for Oceania, a

foundation should be induced to establish and carry on an autonomous major research program in Palau. The Chief of Marine Resources would have a consultative relationship with the establishment.

4. Responsibility for the Palau boatyard should be transferred to the district, and supported by the Economic Development Office until its final disposition is determined. While it is potentially an important industry to the territory, it is a local operation. The possibility of establishing another boat building facility in Ponape using skilled Mokilese boatbuilders might also be explored.

5. Establish a marine resources, or fisheries, office in each district. This would complete the organizational structure within which the Marine Resources Division could provide consultative services and technical support in the establishment and operation of fisheries programs in the districts.

6. Overall development of offshore fisheries should be a responsibility of the Marine Resources Division, and decisions on related official decisions and actions should be based on its reviews and recommendations.

7. Greatly augment funding and staffing to reflect its proper priority.

An effort, on a priority basis, should be made to facilitate the installations and infrastructure required at Ngeremlengui to make

its fishing project fully effective. The ice plant, supporting reefers and, possibly, the cost of the power system, could be financed by EDLF or the reefers and power system could be CIP projects. The water and transportation system may properly be a CIP project, probably installed by Civic Action Teams. This would complete the system, but it would involve coordination among offices and services at the district level.

The Committee further recommends that the policy and regulations recently established (1) to permit basing of mother-ship operations and other offshore fishing, either by foreign owners or other operators, in territorial waters, and (2) to permit access to bait fish to be strengthened, should possibly be extended to include individual fishing boats as well. These regulations should protect the public interests and rights in these resources and should provide a means as to how the public can share in the economic returns from this part of the marine resources. This is a complex situation involving potential problems of foreign business and investment "fronts" for foreign businesses, alien labor, depletion of valuable natural resources, and undefined property rights.

Marine Resources -- Related measures before Congress:

<u>House and No.</u>	<u>Subject</u>	<u>Action</u>	<u>Location</u>
H.B. 20	Fishing with Explosives and other Subjects	Pending	Senate-R&D
S.B. 16	Twelve-mile Territorial Limit	Deferred	House Floor
81	Export Tax on Fish	Pending	Senate-R&D
111	Re: Fund for Fishing, Canning, and Processing	Pending	Senate-W&M
S.J.R. 12	Development of Tuna Fishery	Pending	Senate-R&D

Proposed Measures:

An act to establish a royalty tax on the exploration for and exploitation of natural resources in Micronesia, (in addition to the present requirements for business permits) based as follows: 1. Exploration tax: set fee; 2. Exploitation tax: a percentage of tonnage or value of the resource exploited.

An act to establish stringent conservation laws on the exploitation of marine resources.

An act granting tax credits to commercial businesses that allocate at least two percent of their gross profits to programs that develop the natural resources of Micronesia.

An act extending the territorial limits of the Trust Territory to twelve (12) miles. (New, based on State Department requests)

A joint resolution establishing the territorial claim to the area surrounding Micronesia in accordance with established and historical uses of these waters, and to delimit the purposes for adoption of a twelve-mile territorial limit.

VII. TOURISM

Micronesia has many attributes that are attractive to tourists. They are discovering this, and coming in ever-increasing numbers from an ever-increasing variety of countries. In economic terms, its potential is only beginning to be developed. The potential for increasing the economic impact of those who are coming now is exploited only in a very modest degree. However, tourism brings with it certain problems, which, if anticipated in the development process, can be avoided, or at least attenuated. Tourism, too, can be analyzed in terms of demand, supply and marketing, as were agriculture and marine resources in preceding chapters.

Demand

Demand in the context of tourism is the number of people in search of places to go that will satisfy their interests. Tourism is one of the fastest growing industries in the world, reflecting rising per capita incomes, more leisure time, and expanding horizons of people as the rest of the world becomes better known, and modern transportation makes more places accessible. Tourism can be localized in terms of assets Micronesia has that appeal to segments of the total number of tourists who are able to afford extended travel by air.

The impact a tourist makes on the economy is through the facilities, services, and commodities he wants to pay for. The tourist generally requires several items. First, he wants satisfactory transportation to and from the area, and availability of transportation after he gets there. He requires a place to stay and palatable food -- the interest in local foods has been discussed earlier. Then, he wants something to do that is different from anywhere else. He wants either to be entertained or to be able to entertain himself. Of general interest to tourists are scenic areas, historical and archeological sites, and unique geographic and geological occurrences. They want to use beaches and lagoons, and buy local handicrafts and mementos, and clothing and accessories with local flavor. Many tourists wish to indulge in special hobbies such as scuba diving, sport fishing, golf, hiking, photography, and collecting local specimens of shells, insects, rocks, plants, and the like. Often, tour groups are organized around some special scientific or other common interest.

Tourists do not all want the same things or the same quality. Some expect luxury and comfort in all its aspects, and they expect to pay for it. Others, by necessity or choice, are on very limited budgets and demand only simple accommodations. They want to be closer to the local people and explore the unusual tourist routes. There are all stages between.

Supply

In light of the foregoing, Micronesia has in abundance many of the items tourists want, and the ability and resources to develop and supply most of the rest of them. Micronesia is readily accessible by air, although the schedules are often not convenient, and the facilities to Yap and Koror are limited. Car rental businesses are well established, and tour services and guides are available. Tour agencies have distinct advantages in Micronesia. They retain, or should retain, control over their clients and accompany them on prearranged tours that have, or should have, secured the permission of the local people. They act as a buffer between the tourist and the Micronesian and have made prearrangements for travel through and use of certain areas with considerable care. There are also a number of disadvantages. Few have undertaken tourist surveys to discover what tourists want or expect, prepared the tourists for new cultural values and traditions that should be respected, or conformed to the desires and policies of local tourist commissions. At present, tourist commissions have too little power and control over the areas in which they have responsibility. Legislation is being proposed to correct this situation. Tourist agencies need more than control; local agencies must receive more technical assistance if they are to be able to compete with larger, outside firms. It is even more urgent

when it is realized that local tour agencies have no contact with the outside tourist market and are forced to compete for the tourist who arrives without making prior arrangements. This is not a satisfactory arrangement at present for wholly-owned Micronesian tour agencies.

Hotel capacity is the determining factor locally in the scale of the tourist industry. The number of tourists at a given location at any one time cannot exceed the total room accommodations available. The hotel industry also requires a constant high level of occupancy to make a profit. In addition the volume of all other tourist related services depends on hotel space -- transportation to and from the area, local tour and guide services, handicraft trade, and the like. Thus, when hotel capacity is established, the scale of local tourism through all other related activities is determined. Most districts have hotels of adequate quality, ranging from luxury hotels in several districts to quite limited facilities in Yap.

A major problem is beginning to arise in that the most scenic and spectacular sites available for tourist development have already been leased by major foreign concerns. The leasing of choice sites to foreign firms coupled with their multi-million dollar investments make competition difficult to initiate. Some of the land is public and will not become available to Micronesians again for over thirty (30) years. As to private land leases, land owners must receive more

legal assistance before legal documents are executed. The Continental lease arrangement prepared in Truk is an excellent model and is being followed throughout Micronesia and the Pacific area, although problems arose from misunderstandings as to its terms and consequences at a later date.

The luxury hotel is an undertaking that few Micronesians can afford. They are spacious, grandiose affairs that do not blend in with a traditional Micronesian structure. The construction and furnishing costs are enormous. Also it should be noted, there are few Micronesians who want to undertake to build and manage these hotels. Thus, basic judgements must be made at this early point. Should the desires of tourists dictate hotel and tourist development or should Micronesian views on tourism prevail so that only select kinds of tourists are attracted and serve in Micronesia? Public hearings strongly supports the latter approach. These hearings attempted to view the so called "invisible" export as it stood in Micronesia. At present, it is not a pretty picture. Although tourists were credited with spending \$2.4 million in Micronesia, far, far, less remained in the economy. Almost all of this money was spent for transportation, accommodations, meals, and tours. Nearly all of these at present are controlled by foreign investors. Consequently, the profits from these expenditures went to the main offices of these companies. Fur-

thermore, most expenses were directed to places outside Micronesia, i.e., food sources in Guam. The airline that sells the tickets also makes reservations for accommodations and tours at its hotels. Few tourists are directed to Micronesian-owned hotels or to Micronesian-owned tours. Admittedly, there is some (but very, very little) Micronesian participation in the ownership of these businesses. Few Micronesians have management skills, so most employment in the tourist hotel sector is common labor. Also, few foreign hotels appear to be willing to establish Micronesians in bona fide management (positions of authority and power) level positions. Micronesians, generally, would prefer smaller, less imposing hotel facility construction. They prefer that these facilities be Micronesian-owned and operated, and if in joint venture schemes that management be evenly represented with Micronesians to influence basic policy decision making. Likewise, lease of public land to Micronesian ventures should be given first priority and selected, choice sites set aside for Micronesian development, or for development by firms having considerable Micronesian ownership and management. Extended and expanded capital financing will be required as will considerable assistance from the tourist advisor in the Office of Economic Development.

As to existing Headquarters services, the tourist office is expanding its programs and policies. The Committee believes that if

this area of the economy is to continue to receive emphasis, then the tourist office must be enlarged, tourist questionnaires and booklets on Micronesian customs and traditions be issued, health and immigration and customs services be expanded. More on the tourist office is discussed later.

The scenery is outstanding, each district having a distinct beauty of its own. The geography and geology is variable, representing all types of islands and atolls in various stages in their evolution. Beaches are numerous, but many are not public and those that are public are often not conveniently accessible. The problem of pollution is also becoming widespread. Various archeological sites from earlier cultures can be seen, as can historical sites from Spanish and German times; however, some are inaccessible and all need maintenance and preservation programs. Furthermore, these are overshadowed in quantity by structures of the Japanese period and the military sites and relics of the battles of World War II. Opportunities are available to indulge most special interests -- diving, sport fishing, photography or collecting. The handicrafts are unique and generally of high quality. Stores in most districts are well stocked and interesting places to shop, but the supply would not support much expansion.

A notable deficiency is in sea shells available to the casual

buyer, not to mention the sophisticated collector. This is surprising in an area so rich in marine life. Supplying shells would be an ideal activity for the outer islands, already the source of some very good handicrafts. While these are discussed here in relation to the tourist industry, handicrafts have outlets also to curio stores and gift shops in distant places, a demand that is certainly not being met.

Marketing

In the tourist industry, marketing is a matter of advertising through mass media, in publications devoted to specific interest, and through tourist agencies of various kinds. Some activities of these kinds have already been undertaken in the form of brochures, articles in specialty magazines and films, to interest tour organizations and tourists alike. Groups of travel agents have toured Micronesia to evaluate its potential and establish background for selling tours. Touring in Micronesia is easy to sell at this time.

The Problem

Development of tourism in Micronesia is fraught with hazards. The potential impact on the environment and on other characteristics that now make Micronesia attractive to tourists, is serious. The effect of tourism on Micronesians and their culture is even more serious.

Not many years ago Hawaii was in the same position -- exotic and unspoiled, with an identifiable and vigorous native culture that was in itself an attraction. In a few short years an uncontrolled tourism boom changed the attractive and modest hotel section into a jungle of multistory luxury hotels and a hodgepodge of peripheral stores and shops, restaurants, and honky-tonks, with all the attendant unpleasant aspects -- anything to get a slice of the tourist dollar. The famed Waikiki Beach has become a Coney Island and the hotel area environment can be found in any downtown large city in the continental United States. From the tourist point of view the authentic native culture disappeared, although facsimiles of it are sold.

The tourist industry there is now in trouble. The most telling measure, hotel occupancy is low -- levels of 50 percent are common. These problems cannot be all explained away by economic problems in the U.S., from where most tourists come. Hawaii is now becoming a transient stop where airplanes refuel and service enroute to more attractive places. Most tourists consider Hawaii a place to stay overnight between flights, or to sample a day or two en route. Principally, the unequalled surfing remains. Guam is on the threshold of the same kind of development. It is the next stop for tourists beyond Hawaii and is accessible for Japanese. It is still relatively unspoiled, although it has much less to offer of interest to tourists than Hawaii

did, or Micronesia has now. Its facilities are frequently over-taxed and building projects are increasing rapidly -- everybody wants to participate -- get what he can out of it. Much of the development in Guam is foreign -- Japanese, Chinese, Philippine -- and relatively few Guamanians have major investments. Is Micronesia next?

The Committee found many responsible Micronesians aware of the problems, and worried about it. Some districts seem already committed to rapid development of tourism, and others are extremely cautious or quite resistant to involvement, notably Yap. A program for orderly development of tourism is only now evolving.

Recommendations

The basic organization is already in place -- a Tourism Branch in the Resources and Development Division, in a position to serve in an advisory capacity, and a Tourist Commission in each district, established by the legislatures. In the districts, the tourism agency is responsible to an elected legislative body, rather than a government headed by an appointed District Administrator.

In view of the diversity among the districts in their attitudes towards tourism, the approach to planning and programming must be the responsibility of each individual district. No one at the level of Headquarters or the general government should presume to act on

behalf of the districts individually or collectively, in the area of tourism.

At present, several people have indicated in discussions or by their actions the assumption that tourism is to be promoted as an unqualified benefit. Witness the promotion of scuba diving in Palau and Truk, without previous consultation and planning with the local people, and in Truk certainly without even local permission. In the latter case, a boat operating in support of the local fishing project was arbitrarily diverted for use by what was, to all intents and purposes, a commercial venture. This was, in many aspects, a business activity carried out without a foreign business permit.

The approach to tourism by the government must be reviewed. The Tourism Office should function in support of and as technical advisor to the responsible district level entities in formulating and carrying out the kinds of programs the districts want. Any overall promotional or other programs undertaken at the government level should be explicitly approved by all districts. At the same time, the Tourism Officer should coordinate with other offices in governments in developing and assisting as needed in district projects related to tourism.

This also clarifies the duties and responsibilities of the districts, as represented by the district tourist commissions. They should determine how tourism will be allowed to develop, and the means

of control. Theirs will be the responsibility for promotion and management. It will be their program. However, they will have access to and should make use of technical advice and support from the government. As noted earlier, district tourist commissions have relatively little power in comparison with their duties and have been under funded to carry out their responsibilities. One answer to funding is through the taxing powers of the districts. These provide opportunities for the district legislatures to finance tourist development projects. They should be explored, and made use of, e.g., hotel taxes can extract revenue directly from tourists themselves to support the industry. Such revenues should be earmarked for specific uses as recommended by the commissions -- providing access to and maintaining sites of interest and other general use facilities. Presently this is not always being done.

The Committee realizes that within the districts the struggle will be severe between those who want immediate, rapid and uncontrolled growth of tourism and those representing the broader public interest and with concern for the long term effects. But the decision must be in the districts.

The stated goals and objectives of the Tourism Branch are in harmony with these concepts. They imply programs for effectively carrying them out, and provide estimates of funding requirements.

Now is a critical point in time in relation to planning the long term development of tourism in Micronesia. The program of the Branch should be given maximum support.

The Ponape Legislature, in its recent session, passed a resolution opposing the construction of a Travelodge in the district. The purpose was to reserve the hotel industry for construction and operation by local business. That this can be done successfully has already been demonstrated. The Committee believes that renegotiation of this provision of the contract with Continental Airlines should be undertaken by the Attorney General. Any similar actions by the legislatures of other districts should be similarly honored. This is in keeping with the goals and objectives of developing Micronesia according to the desires of Micronesians.

Tourism -- Related measures before Congress:

<u>House and No.</u>	<u>Subject</u>	<u>Action</u>	<u>Location</u>
S.B. 3	Hotel Tax	Pending	Senate-R&D
31	Duty Free Stores	Pending	House-R&D
114	Fund for Hotel Construction	Pending	Senate-W&M

Proposed Measures:

An act requiring that certain amounts of the net profits of joint venture operations be put towards developing the areas in which the venture is operating.

An act requiring tourist agencies operating in the Trust Territory to obtain permits for their operations from local tourist commissions and to operate under the guidelines set by these commissions; and to invest certain powers in district tourist commissions.

VIII. THE PRIVATE SECTOR

The subject of this chapter is the private business that develops on the basis of the opportunity and economic activity generated by primary industries -- e.g., agriculture, fisheries and tourism -- and government. It ranges from retail and wholesale trade to contract construction, and includes the many service activities such as restaurants and hotels. The term "private sector" will be used for convenience. In concept, it includes farming, fishing, and supporting tourism -- these activities are each aggregates of many private enterprises.

This chapter will treat these collectively, rather than attempting to describe and analyze each subgroup in detail. Some attempt has already been made to deal specifically with the problems of private business in each of the subgroups. The demand and supply factors have been at least implicitly covered in foregoing sections of this Report, and in some detail for agriculture, marine resources, and tourism. Common characteristics and general interdependence are apparent. The problems generated in the private sector have wide applicability and the discussion will be in general terms; however, specific categories of businesses and even individual cases will be cited where appropriate.

Problems

Growth and operations in the private sector require capital -- investment is one measure of its scale of growth. The three common sources of capital are: one, direct investment of individual or partnership savings in a private venture; two, offering for sale stock and bonds in a public corporation (the entrepreneur's investment is then also in stock shares), and three, credit (banks or government loans). A corporation can be public or closed, the latter with stock sales limited to selected investors, and this can be modified by opening sales to others for specified periods of time. The source of capital is in large part determined by the scale of investment and operating capital required to establish and run the business, and the availability of capital from the various sources. The smaller businesses tend to be financed from savings of individuals and partners, supplemented by credit.

Capital available in Micronesia for financing the private sector is scarce in relation to the needs. Several provisions have been made to augment the supply. The Bank of Hawaii and the Bank of America have been encouraged to establish branches in the various district and subdistrict centers. Other large private U.S. financial interests have extended offers of assistance. However, if all foreign

capital sources are given free and unregulated opportunity to operate, Micronesia may well find itself owed by outsiders through debts and interests due on loans and capital funding. Through checking and time deposits, business and private funds can be accumulated as a basis for credit to be extended as commercial and personal loans. The deposit side has been satisfactory, but the credit side leaves much to be desired, already discussed under "infrastructure."

A source of credit has been made available through grants from U.S. Congress appropriations establishing and augmenting the EDLF -- the latest increase being \$600,000 appropriated by the Congress of Micronesia. The EDLF has been practically entirely committed and the additional \$600,000 is all that is available in the face of over \$3 million in current applications. The EDLF can effectively use greatly augmented capitalization in support of development of the private sector.

The Foreign Investors Business Permit Act (PL 3C-50) was promulgated to attract and permit Foreign investment in Micronesia. This act created a Foreign Investment Board, located at the district level, to review for approval or disapproval applications by foreign investors to conduct businesses in the district. The objective was to make capital available for large enterprises, and to provide for the level of management required. At the same time it provides for

Micronesian participation through agreements to offer a predetermined share of the original stock issue to Micronesians, with the intent of eventual full Micronesian control and management. Some large enterprises which received their charters at the Headquarters level before promulgation of the act include: Air Micronesia and two Continental Travelodges, Micronesian Interocean Lines, Inc. (MILI), and Mobil of Micronesia. Since approval of the act and formation of the district Foreign Investment Boards, several small foreign interests have been approved and established. Larger firms are now applying for permission to enter into the territory, most notably in the area of fisheries. In the course of the Committee's hearings in one district, it learned that a company whose application was pending district approval, upon meeting "certain conditions," had bypassed the district and had already been issued a charter to operate by Headquarters.

In view of this kind of inconsistency, the Committee recommends that the district legislatures make all appointments to the board, that no administration employee be a voting member, and that the Economic Development Officer be an ex officio member of the board to act as a liaison between Headquarters and the district. These changes should eliminate any inadvertent disregard of the proper power of the district Foreign Investment Board.

The Foreign Investors Act attempts to regulate foreign commercial ventures in Micronesia by reviewing proposals and determining who is eligible to establish businesses in Micronesia, and under what conditions. The demand for capital is intense on the part of individual Micronesians who want to take advantage of economic opportunities. Foreign firms are sources of this capital and they also want to enter Micronesia to take advantage of business opportunities. This has led to apparent subterfuges as mentioned earlier, where, in effect, a Micronesia establishes his own business with apparently little or no visible source of capital. In actually he may be "fronting" for a foreign firm. All agreements, formal and otherwise are hidden, and possibly recorded in a foreign country. Business operations appear no different from other companies. However, the "hidden" foreign company is able to place its management and other top level employees in the Micronesian firm by using the Protection of Resident Workers Act (PL 3C-44), which permits hiring of aliens for certain positions for which qualified Micronesians are not available, presumably until Micronesians can be trained. The Micronesia "front" may receive a direct payment in return for facilitating the arrangement.

The alien labor law is abused because management and such skills as accounting and bookkeeping are scarce in Micronesia. One abuse

is pointed out above. Another is failure to effect the provision that aliens hired under its provisions and their employers should train Micronesians to take over their positions. The result is continual annual renewal of permits. A third is to request admission of aliens for positions for which qualified Micronesians are not available, and then assign them to less skilled work for which Micronesians are available. Further, aliens in Micronesia under tourist visas are employed in violation of their status, over a wide range of occupations and the level of skills required.

The practice of consignment on account, of goods for resale, is a standard trade practice worldwide. As a means of financing business and promoting sales it is entirely legitimate. If, however, goods are not intended for resale but for construction of facilities for a "fronting" operation, it is probably in violation of the Foreign Investment Act. Another doubtful practice is consignment of goods not formally ordered or in excess of the amount specified in a legitimate order, which is frequently used by foreign firms to dump "unwanted" merchandise on Micronesia.

Recommendations

To reiterate, the EDLF should be augmented to a level more commensurate with needs. The current backlog of EDLF applications

does not reflect the many numbers of Micronesians who do not apply because they know that funds are unavailable for lending, so substantially so, that more than the \$3 million would be quickly assimilated if all potential borrowers applied. The growth stimulus at the present time does not fully reflect the level of the U.S. Congress 1970 and 1971 appropriations, let alone the current level of \$60 million. Any substantial increase would facilitate economic growth and reduce, but not eliminate, the legitimate and surreptitious search for capital from outside sources. Also, no government officer at or above the level of deputy chief should be permitted to engage in private business. A clear choice must be made by these people -- government employment or private business, not both.

The problem of fronting for outside firms is difficult to resolve. It might be feasible to require applicants for business permits to demonstrate financial capability, or report sources of capital, as a part of the application -- a deterrent to the "front." Or, another approach could be to deny individual responsibility for foreign debts that arise in violation of Micronesian law. Monitoring the use of construction materials received on consignment would be difficult but the cases where it would be necessary would be few.

The problem of consignment of goods not ordered (or overshipments of goods) could be solved by an educational program on good business

practices and consignees' rights in such cases, such as has been suggested in previous sections.

The Labor Division in the Department of Resources and Development has responsibility for protecting the rights of Micronesians in cases involving alien labor permits. The approval of alien worker permits and monitoring performance in developing skills of Micronesians are within the province of this office. Controlling entry is properly a Headquarters function, but the current number of alien workers with permits dispersed in all the districts dictates that local offices be more effective. Appropriate staffing must be arranged, and the intent of the act strictly enforced. Any request for a renewal should be thoroughly and competently investigated, and a limit established on the number of renewals issuable to any given individual -- either a general limit, or as justified on the application -- and evaluated by responsible officials, before the permit is issued. Monitoring the activities of alien workers after permits have been issued is almost an impossible task. But more investigation must be done. Upon discovery of violations of conditions imposed on work permits, action should be initiated at the local level to revoke the permit, with review by and appeal to the Director of Resources and Development.

The Immigration Officer in the Office of the Attorney General and district Immigration Officers have the responsibility for controlling immigration and enforcing immigration laws and regulations. The local Immigration Officers monitor arrivals both by planes and ships. They feel that the system works well with arrivals, and records are complete. But in checking files, arranged by permit expiration dates, they occasionally discover that individuals have departed without the office being notified and the fact being noted and the entry record having been pulled. The recording system needs to be improved. This will permit departure check-in and manifest records to be more complete, accurate, and properly handled. It is recommended that tourist entry permits be issued for six months. This would reduce the temptation and the need to seek employment by the tourist turned worker. The potential value to the employer would also be reduced. Renewal would be no problem for a valid tourist and the number of tourists who would be affected, in relation to the total, would be small indeed. Even then, a certain amount of monitoring would be required to see that tourists on extended visits are not in fact gainfully employed.

The Committee has noted a few cases of communicable diseases, such as two rather advanced cases of tuberculosis, appearing among

alien workers. This suggests that the required medical examinations completed before entry can be woefully inadequate, or records falsified. A review of such cases is suggested, and instituting medical examination -- at least chest X-ray -- upon entry may be necessary.

The general problem areas of the private sector have been discussed earlier in the Report; because these are so closely associated with other particular areas no attempt has been made to elaborate upon them again. The major problems are: lack of capital funding; competition by and involvement with foreign investors; competition with the public sector for trained manpower; lack of technical assistance and positive business training programs by the government; marketing and supply problems from limitations of transportation infrastructure; and alien labor.

Other areas which need greater study are: multiplier effects of government and private expenditures upon and among local businesses; inflation problems; effects of foreign economic actions; the effects of interruptions of transportation and supply upon the private and government sectors of the economy; and cultural adaptations of foreign technology and expectations of the people. The Committee unfortunately could spend only a limited time in each district, and therefore was not able to examine the above problems in depth. It

felt that a cursory comment should be avoided because of the complexity of these subjects and the need for in depth reviews and analytical study. In this regard, the Committee recommends that the United Nations agencies established to assist developing countries be asked to assist the Congress and the Administration. Notably, "ECAFE" (a United Nations economic assistance unit for the Far East) should be invited into Micronesia. Costs are minimal, salaries being paid by the United Nations. Other groups such as the South Pacific Commission and select agencies from the United States should also be invited.

The present situation calls for greater clarity of policies and more realistic programs, for unity of purpose, and for more involvement with specialized agencies of the United Nations and United States. It calls for strengthening of local government organizations, boards and commissions, for greater assistance to local businessmen, for protection and planned development of natural resources. Micronesia should be developed for Micronesians, with foreign investors limited to those who wish to join in the tasks of building a better Micronesian future.

Private Sector -- Related measures before Congress:

<u>House and No.</u>	<u>Subject</u>	<u>Action</u>	<u>Location</u>
H.B.	21 Foreign Investors Business Permits	Pending	Senate-W&M
	59 Security Regulations	Pending	House Floor
	73 Create a Low Cost Housing Fund	Pending	House-App.
	87 Noncitizen Corp. to form T.T. Corp.	Pending	House-R&D
	95 Re: Partnership Laws	Pending	House-R&D
S.B.	31 Duty Free Stores	Pending	House-R&D
	36 Re: Definition of Nonresident and Resident Workers	Pending	House-ESM
	48 Limited Partnership Act	Pending	Senate-R&D
	59 Security Regulations for Stock Sales	Pending	Senate-J&GO
	69 Establishing District Board of Immigration	Pending	Senate-J&GO
	71 Establishing Warehouses for Imported Goods	Pending	Senate-R&D
	76 Protection of Trade Marks	Pending	Senate-R&D
	94 Business Corporation Act	Pending	Senate-J&GO
	97 Re: Physical Examination of Foreign Workers	Pending	Senate-ESA
	99 Re: Nonresident Workers	Pending	Senate-J&GO
	105 Re: Certificate of Title to Land	Pending	Senate-R&D
	111 Re: Fund for Fishing, Canning and Processing	Pending	Senate-W&M
	114 Workmen's Safety Act	Pending	Senate-H
	115 Re: Cooperative Associations	Pending	Senate-R&D

<u>House and No.</u>	<u>Subject</u>	<u>Action</u>	<u>Location</u>
S.J.R. 16	Re: Loan Ceilings	Pending	Senate-R&D -J&GO
46	"Most Favored Nation" Clause	Pending	Senate-J&GO
S.R. 4	Better Information on Shipping Schedule	Pending	Senate-R&D

Proposed Measures:

An act to prohibit the reevaluation of stock authorized to be issued and sold by corporate ventures with foreign business involvement during first five years of the venture.

An act to regulate leases of public lands to non-Micronesian citizens and business ventures and to joint ventures involving foreign businesses.

An act to require foreign joint ventures to establish stock purchase programs for their employees.

An act to require certain information be submitted to Foreign Investment Boards by applicants seeking business permits (i.e., detailed plans for stock issuance, impact on local economy in terms of employment, competition with local businesses, direct and indirect benefits to district in terms of total income into the local economy, development of the resource which the firm will be exploiting and development of other areas of the economy such as parks. Also, total financing, where capital is to come from, how Micronesians are to participate on corporate boards, etc.).

An act to increase the power of the Foreign Investment Boards to monitor the activities of foreign investors and propose cancellation of business permits with appeal by the foreign investor to the Director of the Department of Resources and Development.

An act establishing a "royalty" tax on the exploration for and exploitation of natural resources in Micronesia (in addition to present requirements for business permits) based as follows:
 1. Exploration tax: a set fee; 2. Exploitation tax: a percentage of the value of the resource exploited.

An act amending the TT Code to permit the District Administrator to revoke alien worker permits, subject to review by the Chief of the Labor Division.

An act granting tax credits for all investments or contributions to programs designed to develop and conserve the natural resources of Micronesia, provided that at least two percent of the gross profits are invested.

November 15, 1971

Roi Namur is a miniature Kwajalein at the northern tip of Kwajalein Atoll which is the site of a U. S. installation of the Defense Department's Resources and Development program and is managed by Global Associates. Ennebuir, a nearby island, is the home of Micronesians displaced from Roi Namur. The able-bodied are employed, or could be, at relatively high wages on Roi Namur. Like Ebeye, the population is very dense, limiting the land use almost entirely to residential. The population is essentially one large extended family. The size of the "family" fluctuates by movement of relatives among islands, including Ebeye, but is roughly between 150 and 200, and a few bachelor Micronesians live on Roi Namur. No U. S. families live there, but a few Global employees have families on Kwajalein.

From inception of the installation at Roi Namur and transfer of the residents to Ennebuir in 1958, support by either the Trust Territory Government or Department of Defense has been almost zero. Officially, Global has no responsibility in this matter, nor has the military -- it is basically a Trust Territory matter. However, Global has unofficially supplied essential support, due to the leadership, interest, compassion, and energy of one individual, the generous personal and financial support of the staff of

technicians, use of some equipment at times, ingenious use of scrap materials and outmoded equipment, and modest purchases of new materials.

Ennebuir was without a school for several years so, in 1965, Global personnel together with the residents rehabilitated the communications room of a Japanese command post, pouring a new floor and repairing bomb and other damages. It is dark and damp, but it is a school. School was taught the first year in off-duty hours by Global personnel. Teachers have since been supplied by the Trust Territory but they were reluctant to stay. In the past year adequate quarters for two teachers have been constructed by the Global-Islander team. The school at Ennebuir extends through the 6th grade, but no specific provisions are made for further education. However, the people are conscientious and interested in the future of their children. Many (or most) are able to place their children with relatives in Ebeye during the school term, where they can continue schooling through the 8th grade. We assume that these students are absorbed in this school at no extra direct cost to Ennebuir. We have no information about youth that might get to Majuro for secondary education, or to technical schools.

The central water supply is a rehabilitated Japanese tank, now roofed over to prevent contamination, with water collected from

the roofs of the chapel, part of the command post (asphalted), and of the tank itself. Water is available only at the tank.

Sewage disposal has been traditional benjos, but recently some relatively sanitary privies as an extension of a Trust Territory program were introduced.

The needs of the island in terms of water and sewage are:

1. A saltwater intake at the south end of the island, pump, elevated tank, and a series of flush toilets, communal or attached to houses, the length of the island.
2. A parallel sewer line beginning at the site of the first toilet, with collecting system, and outfall (into the lagoon?) from the north end of the island.
3. A fresh water pressure distribution system with spigots throughout the housing area. The water supply is not adequate to support the higher usage and waste that would result from supply directly to houses.

There is no general supply of electricity on Ennebuir. An emergency generator operates lights and fans in the school room when it is required for emergency shelter during missile range operations. On two occasions small surplus generators have been installed to provide minimal house lighting, but uncontrolled overloading, despite warning, has ruined both of them. The needs (with a static population) are:

1. Minimal -- a 20 KW generator with backup.
2. To meet the real demand, 60 KW capacity with backup. The people have money to buy appliances, and if electricity were available, they would do so.

Global built a small dispensary rather early in the operation. This is very small, as well as being about depreciated. It needs replacing with a modern structure. It is staffed by the Trust Territory with a corpsman from "outside." Without the family ties his predecessor had, he has difficulty finding a place to live. The Trust Territory has the responsibility of providing his housing as well as relocation allowance. (This same responsibility exists for the school teachers.) Medical care is available in Ebeye, with referral to Kwajalein if necessary. The corpsman pointed out that he does not have an opportunity to use his annual leave, and loses it. A backup is needed to allow such absences.

An outstanding characteristic of Ennebuir is the apparent good health of the people, especially apparent among the children. This is generally attributed to their very favorable diets. Unusual in such situations, and only under unofficial operating agreements, they have access to supplies available to the staff of Global on Roi Namur. Thus, they can use part of their incomes to buy foods more commensurate with their wage levels. They get more meats and vegetables than most Micronesians in population centers and the result is in very marked contrast with Ebeye where much of the population has similar incomes and lacks the source of supply. On the other hand, Ebeye has regular field trip ship service and has a

potential source of good foods. Either island would use far more fish than is caught, although the lagoon is rich in marine resources.

At present, food is supplied weekly in response to a combined order, which is distributed to the individual householders by the islanders themselves. Global has been working with an islander to get him a permit to set up a retail outlet on Ennebuir, handling both supplies from Global and variety goods from Ebeye and other sources.

The Committee emphasizes the responsibility of the Trust Territory to the people of Ennebuir. The infrastructure and facilities of the island should be developed immediately, providing long-overdue attention to these people whose pattern of living has been disrupted by evacuation from their traditional home to a crowded little island. According to the best information, the last official visit by an official of the government concerned with their general welfare was in 1969. Little has changed since. While the Committee visited only the residential islands of Ebeye and Ennebuir, Carlos and other islands are in similar situations, and their needs should be reviewed and attended to.

VAN CAMP FISHERIES:

The following material is not intended to replace the detailed report concerning Van Camp operations in the Trust Territory to be issued under separate cover. Due to time limitations and the necessity of maintaining a manageable manuscript, only conclusions and recommendations of the full report are reproduced here.

The full report includes sections on: the nature of fishing; a history of Van Camp's operations in the Trust Territory -- including review of past and present contracts; recruitment and hiring of fishermen -- both Micronesian and Okinawan -- and attendant problems of training and communication; Van Camp's cash flow with catch tonnage tables; premises rental; the Van Camp operation in general; benefits to the local economy in Palau; consideration of Micronesian ownership; Van Camp's wages, salaries and gross revenue tax returns; and a final section on conclusions and recommendations.

The sections detail the company's operations and generally point out that problems the company faces can be divided into two areas: 1. difficulty of specifically fulfilling all the terms of their contract (research, experimentation) because such would endanger the very reason they are in the Trust Territory -- profit.

The company, however, has sufficiently fulfilled the terms of its contract; 2. cultural differences evidenced in language and communication barriers between and among the staff and crews of the Van Camp operation.

Conclusions and Recommendations

It is recognized that the fishing business is extremely technical and that to understand Van Camp's operations would require more extended time and studies than were available. However, the following general conclusions and recommendations are accurate.

In general, the Van Camp Palau operation is contributing to the economic development and welfare of the Trust Territory about as well as can be expected of a corporation which is in business, after all, solely to make a profit. One cannot blame Van Camp for the failings and the faults of the entire capitalist system. While Van Camp has not done as much as might have been done, had, for example, the Trust Territory Government been operating the facility, Van Camp has made substantial effort toward the training of Micronesians and the development of a Micronesian fisheries industry.

This, however, does not detract from the fact that there are areas with considerable room for improvement. In addition to other changes recommended elsewhere in this Report, the author recommends

major changes in the following areas:

1. First and foremost, Estrella Blanca, S.A., a wholly-owned subsidiary of Ralston-Purina Co., which owns the Van Camp operation, should "spin off" the Van Camp Palau facility from its other corporate activities and form a separate corporation out of this facility. This done, a minimum of 49 percent of the stock in this facility should be immediately offered for sale to Micronesian citizens. Within a short period after this 49% has been purchased by Micronesians, an additional 2 percent of the stock should be offered for sale to Micronesian citizens.

2. Immediate steps should be taken toward the elimination of the protective tariff barrier to the entry of canned Micronesian tuna into the United States. This would clear the way for a canning facility on Palau, and ultimately in the other districts of the Trust Territory, substantially increasing employment in the Trust Territory as well as profits locally retained. The big profits in the fisheries industry appear to be in the canning and marketing aspect, and without them, no real economic development in the fisheries area can occur in Micronesia.

3. More effort should be made toward Micronesian ownership of fishing boats. Van Camp should not have to promote sales of boats and does not want to. There is sufficient Micronesian capital for

investment, but few Micronesians, apparently, are willing to invest in the local operation and in what has proved to be a good investment for Micronesia. The Division of Marine Resources could take a more active role in encouraging local investment.

4. Steps must be taken to insure that more Micronesians take up commercial fishing as a career. Age 30 is too late to start -- fishing is a career in which one grows up. Our present educational system is not geared to directing young people toward this career, or to other careers which Micronesia appears to need far more than careers in white-collar jobs. Insofar as this relates to the educational system as a whole, a massive reorientation of our educational priorities seems highly in order.

In connection with this, a change in the social values must also come. The subsistence-level existence line of thinking which has dominated Micronesian life-styles for centuries is not compatible with the development of a commercial fishery. The author is not prepared to recommend that a massive social reorientation be conducted, but only that some desire for commercial fishing as a career be created in the people of Micronesia by the appropriate programs. There is no substitute for early training in commercial fishing, as evidenced by Okinawan fishermen.

5. On a short-term basis, there must be improvement in the training given to Micronesian fishermen. Solutions are not easy or

cheap in this area, and it will take considerable sacrifice on the part of Van Camp as well as the Trust Territory Government to ensure that Micronesians go onto the boats adequately prepared for what they will face there. Perhaps the answer is a boat reserved exclusively for trainees, staffed with salaried personnel. Van Camp should not have to operate this boat exclusively, but should be prepared to assist in its cost, since it will benefit from the training received. Utilization of the Micronesian Occupational Center or the Ponape Agriculture and Trade School in a government-assisted, Van Camp supported training program should also be explored, as well as other means for training Micronesians. It is senseless to require that Okinawans, or any other skilled workers in any field, be replaced by Micronesians without any training whatsoever or with insufficient training; the potential for development of the industry is thereby lost. The solution is, rather, to train Micronesians, at whatever cost, until Micronesians themselves are sufficiently skilled to take over the industry and train other Micronesians to take their places.

6. Van Camp must make some effort to improve relations between the Micronesian and Okinawan fishermen. Whether Van Camp can do this without hurting itself economically is a serious matter to consider, but some effort must be made to ensure adequate communication between the two groups. Requiring a proficiency test in English or Japanese

is one possible answer; complete segregation of Micronesian and Okinawan crews is another possible answer. The author is certain that there are still others. The present situation, however, is difficult for both Micronesians and Okinawans.

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PENDING LEGISLATION
RELATING TO ECONOMIC DEVELOPMENT

HOUSE BILLS AND RESOLUTIONS

	Number	Subject	Action	Location
HB	14	Establishing Environmental Quality Council	Pending	House-IM
	17	Judgments Affecting Land	Pending	Senate-J&GO
	20	Fishing with Explosives and other Subjects	Pending	Senate-R&D
	21	Foreign Investors Business Permits	Pending	Senate-W&M
	34	Road Construction, Net Municipality, Ponape	Pending	House-App.
	36	Jury Trial in Eminent Domain Proceedings	Pending	House-J&GR
	40	Public Market, Yap	Pending	House-App.
	41	Boat for Public Projects, Yap	Pending	House-App.
	42	Slaughterhouse, Yap	Pending	House-App.
	43	Entry Tax of \$3	Pending	House-W&M
	48	Authorizing District Govt. to Levy a Use Tax	Pending	House-W&M
	49	Re: Determination of Title by Land Officer	Pending	Senate-R&D
	50	Agricultural Equipment, Yap	Pending	House-App.
	51	Establishing Planning Commissions	Pending	Senate-J&GO
	58	Construct Terminal Warehouse, Ebeye	Pending	House-App.
	59	Security Regulations	Pending	House Floor
	65	Unauthorized Fires	Pending	Senate-J&GO
	67	Construct Municipal Warehouse, Rota	Pending	House-App.
	69	Creating a Bank of Micronesia	Pending	House Floor
	70	Front-End Loader, Marianas	Pending	House-App.
	73	Create a Low Cost Housing Fund	Pending	House-App.
	77	Establish Copra Development Fund	Pending	House-W&M
	80	Warehouses for Storage of Imported Goods	Pending	House-W&M
	81	Breadfruit Disease Study	Pending	House-App.
	85	Tractor, Tinian	Pending	House-App.
	87	Noncitizen Corp. to Form T.T. Corp.	Pending	House-App.
	91	Outside Employment by Nonresident Workers	Pending	House-R&D
	92	Re: Taking Live Coral from Micronesian Waters	Pending	House-ESM
				House-R&D

Number	Subject	Action	Location
HB 95	Re: Partnership Laws	Pending	House-R&D
96	Admiralty and Maritime Laws	Pending	House-R&D
100	Certificate of Title as Proof of Ownership of Land after 2 years	Pending	House-R&D
101	Re: Export Taxes on Copra and Trochus Shells	Pending	House-W&M
107	Environmental Protection	Pending	House-R&D
108	Channel Improvement, Pakin Atoll	Pending	House-App.
112	Admiralty and Maritime Law	Pending	House-R&D
HJR 9	Expanding In-Service Training Programs	Pending	Senate-ESA
10	Better Outer Island Field Trip Service	Pending	Senate-R&D
11	Establishing a Copra Processing Industry	Pending	Senate-R&D
12	Establishing a Comm. on Govt. Relations and Efficiency	Pending	Senate-R&D
14	Requesting Assistance from World Bank	Pending	House-JGR
21	Low Cost Housing Construction	Pending	House-R&D
23	Inclusion of TT in Rural Electrification Act	Pending	House-App.
28	Re: Waiver of Certain Homestead Restrictions	Pending	Senate-W&M
29	Re: Airfield Construction on Kusaie	Pending	House-R&D
30	Re: Establishing Food Canning Industry	Pending	Senate-R&D
34	Re: Establishing Subcommittee on Urban Planning	Pending	House-JGR
36	Congress to Appropriate U.S. Grant Funds	Pending	House-ESM
37	Re: Policies/Goals of R&D Department	Pending	House-App.
40	Establishing a Joint Committee on Public Lands	Pending	Senate-R&D
HR 9	Requesting Aid Grants	Pending	House-ESM
Comm.			Comm.
SB 2	Imposing a Real Estate Tax	Pending	Senate-J&GO
3	Hotel Tax	Pending	Senate-R&D
11	Establishing Joint Comm. on Economic Dev. Goals	Pending	Senate
16	Twelve-mile Territorial Limit	Pending	House
23	Jury Trial in Eminent Domain Cases	Pending	House-J&GR
Comm.			Comm.

SENATE BILLS AND RESOLUTIONS

Number	Subject	Action	Location
SB 27	Appeal Deadline on Land Commission Decisions	Pending	House
31	Duty Free Stores	Pending	House-R&D
33	Allow Refund of Import Tax	Pending	Senate-W&M
36	Re: Definition of Nonresident & Resident Workers		
47	Re: Agreement for Employing Nonresident Workers	Pending	House-ESM
48	Limited Partnerships Act	Pending	Senate-J&GO
49	Slaughterhouse, Yap	Pending	Senate-R&D
51	Public Market, Yap	Pending	Senate-W&M
53	Agricultural Equipment, Yap	Pending	Senate-W&M
54	Copra Hauling Boats, Yap	Pending	Senate-W&M
55	Establishing Micronesia Development Authority	Pending	House-App.
56	Establishing Joint Comm. on Public Land	Pending	Senate-R&D
59	Security Regulations for Stock Sales	Pending	Senate-J&GO
60	Public Market, Marshalls	Pending	Senate-W&M
69	Establishing District Board of Immigration	Pending	Senate-J&GO
70	Prohibiting Removal of Land Markers	Pending	Senate-J&GO
71	Establishing Warehouses for Imported Goods	Pending	Senate-R&D
76	Protection of Trade Marks	Pending	Senate-R&D
81	Export Tax on Fish	Pending	Senate-R&D
84	Anatahan Island as Agriculture Homestead	Pending	Senate-R&D
87	Re: Homestead Lands on Rota	Pending	Senate-R&D
91	Public Improvement Project, Palau	Pending	Senate-W&M
92	Public Works Authority, Palau	Pending	Senate-W&M
93	Est. Property Assessment Board in each District	Pending	Senate-W&M
94	Business Corporation Act	Pending	Senate-J&GO
95	Land Survey, Saipan	Pending	Senate-J&GO
96	Land Survey, Rota	Pending	Senate-W&M
97	Re: Physical Examination of Foreign Workers	Pending	Senate-W&M
99	Re: Nonresident Workers	Pending	Senate-ESA
102	Est. Extension Training Programs in Districts	Pending	Senate-J&GO
105	Re: Certificates of Title to Land	Pending	Senate-W&M
111	Re: Fund for Fishing, Canning and Processing	Pending	Senate-R&D
112	Fund for Hotel Construction	Pending	Senate-W&M

Number	Subject	Action	Location
SB 113	Public Projects, Ponape	Pending	Senate-W&M Comm.
114	Workmen's Safety Act	Pending	Senate-H Comm.
115	Re: Cooperative Associations	Pending	Senate-R&D Comm.
118	Equipment, Saipan Municipality	Pending	Senate-W&M Comm.
SJR 1	Discussion with Japan re Trade	Deferred	House
5	Requesting \$5 Million from U.S. Congress	Pending	House-App. Comm.
6	Concern of COM over Land Deeds	Pending	Senate-R&D Comm.
12	Development of Tuna Fishery	Pending	Senate-R&D Comm.
15	Tropical Crops	Pending	Senate-R&D Comm.
16	Re: Loan Ceilings	Pending	Senate-R&D Comm.
21	Survey of Rota Channel	Pending	J&GO Comm.
24	Funds Available for Farmer Loans	Pending	Senate Floor
33	Export of Produce to Japan	Pending	Senate-R&D Comm.
34	Extension of Low Cost Housing Programs	Pending	Senate-R&D Comm.
41	Weekly Inspection of Helen Reef, Palau	Pending	Senate-R&D Comm.
42	Requesting Additional Civic Action Teams	Pending	Senate-R&D Comm.
46	"Most Favored Nations" Clause	Pending	Senate-W&M Comm.
53	Reorganization of Land and Surveys	Pending	House-J&GR Comm.
54	Negotiations for Joint Venture Bank of Micronesia	Pending	Senate-J&GO Comm.
		Deferred	House
SR 3	Land Ownership in Yap	Pending	Senate-R&D Comm.
4	Better Information on Shipping Schedule	Pending	Senate-R&D Comm.
7	Maintenance of Dock Facilities, Tinian	Pending	Senate-W&M Comm.
8	Eradication of the Fruit Fly	Pending	Senate-R&D Comm.