

PH No. 4

PUBLIC HEARING HELD JULY 9TH July 11, 1985

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DELEGATE PROPOSAL NO./TITLE

- 150-85: To amend Section 12 of Article III of the NMI Constitution to conform with a proposed amendment to Section 6 of Article XII of the same.
- 162-85: To amend Section 5 and Section 6 of Article XII of the NMI Constitution to prevent corruption in corporations registered as persons of Northern Marianas descent.

To: COMMITTEE ON LOCAL GOVERNMENT/DELEGATE MEMBERS

Attn:

Mr. Paul A. Manglona, Chairman

Mr. William S. Torres, Vice Chairman

Thank you for inviting me to appear as a witness to the public hearing July 9th regarding proposals 160-85 and 162-85.

As indicated by the discussion and rationale presented during the hearing, definite measures should be adopted to protect the interests of NMI residents in landholdings and business involvement with foreign investors. Land leases should be of longer duration in order to make leaseholds as attractive and lucrative as ownership. Land owners should be encouraged to lease their property vice giving up ownership. In this way, they will always reap benefits from their property, as well as their heirs.

To best accomplish this, there should be three classes of corporations: (1) Domestic 51% NMI descent ownership of voting stock -- for CNMI property ownership; (2) NMI/Foreign corporation whereby at least 20% voting stock is owned by persons of NMI descent -- for CNMI property leasehold only, but cannot own NMI property; and (3) Foreign Corporations whereby 100% stock owned by foreign nationals -- for CNMI property leasehold only, but cannot own NMI property.

I. DOMESTIC NMI CORPORATIONS - Must be at least 51% ownership by persons of NMI descent. The only corporation which can hold ownership titles to property in CNMI. Proxies or Powers of Attorney should not be allowed to transfer voting rights of persons of NMI descent to give the foreign national investor stockholders of this corporation full powers and decisions. If proxies or powers of attorney are given by the NMI residents, the corporation no longer qualifies for land title ownership and the land titles of ownership held by the corporation must be ordered transferred into the names of persons of NMI descent holding stock in the corporation. This would eliminate foreign investors enticing NMI residents into signing away their rights to control the corporation. This type of corporation could engage in any legal type of business enterprise in the CNMI.

II. NMI/FOREIGN CORPORATION - Must be at least 20% ownership by persons of NMI descent. This corporation cannot hold ownership titles to CNMI property, but can hold leases to CNMI property. This type of corporation could engage in nearly all legal business enterprises in the CNMI, excluding certain cultural or other business enterprises reserved exclusively for 51% NMI owned ventures, such as locally made handicrafts, real estate brokerage, school feeding contracts, florists, bakeries, charcoal manufacturers, etc. This type of corporation would encourage foreign investors to donate or contribute the 20% financial equity to persons of NMI descent just to have this type of corporation. By having 20% stock in all these type of business operations, the NMI residents share in long term dividends or returns. Many of these type of businesses would be such as hotels, tour agencies, construction companies, etc.

AIR LINES, DUTY FREE, ETC.

III. FOREIGN CORPORATIONS - 100% foreign owned. These type of corporations should be limited or restricted to only certain type of business enterprises which would be of no interest to persons of NMI descent. The corporation may lease land but not own land in CNMI. They must comply with laws for Foreign Corporations.

DURATIONS OF LEASES: In order to encourage leasehold vice ownership of land by corporations with foreign investors, leases of land for private or commercial uses should be authorized for a minimum of 50 years - this includes government land. Long term leases give the investor better odds of investment returns and better financial assistance from lending institutions. It would also possibly eliminate the present practice of foreigners leasing property for 40 years with the clause that at such time the law allows, the property automatically becomes the property of that foreigner. Many Japanese investors presently lease property with this clause and at some time in the future, the greater percentage of CNMI land could possibly be owned by Japanese vice NMI descent.

SUMMARY:

To better protect persons of NMI descent, from losing ownership of their land to pass on to their heirs, long term leases of at least 50 years should be permitted.

Domestic NMI 51% ownership corporations should be prohibited from proxies or powers of attorney signing over stock, dividend, and voting rights of persons of NMI descent (in essence only buying their name on paper). If persons of NMI descent sign proxies or powers of attorney relinquishing their rights and control, the corporation becomes a Foreign Corporation and no longer entitled to hold ownership title to CNMI land and the land reverts to the NMI "paper" stockholders. This would discourage foreign investors from circumventing the laws.

A NMI/Foreign Corporation requiring at least 20% NMI descent ownership would insure NMI residents a piece of the action of every type business enterprise in the CNMI and the foreign investors would have complete control over their investment. It would in essence be as though paying a commission to NMI descent to do business in the CNMI. I discussed this with many Japanese investors and they stated that this type of corporation would definitely encourage greater investment in the CNMI, such as hotels, airlines, tour agencies. The NMI residents would get 20% for doing nothing and the foreign investors could control the business and legally make all the decisions without having to circumvent CNMI laws regarding corporations. With long term leases, there would be no need to hold ownership to the land. Many Japanese interviewed liked this type of corporation (probably Mr. Antonio Guerrero of Chamarro Village would probably appreciate this type of corporation for his business venture with the Sheraton Hotel investment group -- because, there is probably no way the Sheraton Hotel investors would legally give him 51% control over the hotel operations. The Japan Airlines hotel group would probably also appreciate this type of corporation, because they could legally make the decisions to protect their multi-million dollars investment. This type of corporation would encourage and attract greater foreign investment in the CNMI. (Also Duty Free would like this type)

Thank you , Gentlemen, for allowing me to comment on your proposals. Keep up the good work. "BUILDING A BETTER BUSINESS ENVIRONMENT IN THE COMMONWEALTH"

Respectfully submitted,


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